Modicare - a big leap towards universal health coverage

Additional Rs. 3.4 lakh Cr. required over FY18-FY25 for healthcare infrastructure and ageing population

Acuité Ratings believes that the government would need to make a significant increase in its investment outlay for healthcare over the next seven years to align our healthcare infrastructure with the major developing nations. Acuité estimates that the National Health Protection Mission (Ayushman Bharat or Modicare) and other key programmes of the government will necessitate an additional investment of over USD 51 billion (Rs. 3.42 lakh Cr) till FY25 to enhance the coverage of government expenditure and meet the needs of the ageing Indian population. While the commitment of the Government towards universal health coverage is clearly seen through the launch of Modicare, a relentless focus on implementation, the adoption of cost effective/technology enabled solutions and the availability of a suitable policy framework for Public Private Partnership (PPP) projects will only ensure healthcare for all in India.

The size of the domestic healthcare industry is estimated at Rs. 10.4 lakh Cr. in CY 2017 and is projected to grow at a CAGR of 23%, reaching a size of Rs. 18.2 lakh Cr. by CY 2020. While the healthcare industry is India has evolved significantly over the years with an increased participation of the private sector, the pace of infrastructure development in the sector has lagged that of socio-economic development and population growth. With the steady ageing of the Indian population and the lack of adequate social security coverage, there is an urgent need, therefore to align our healthcare system with the standards prevalent in some developing countries like Thailand. ***Says Sankar Chakraborti, CEO, Acuité Ratings "Modicare has come in at a time when the reforms of our healthcare system needs to be taken up on an urgent basis. Its vision is to make healthcare accessible and affordable to all sections of our society through innovative and cost effective mechanisms. Such an aspiration can come true provided it remains the sustained focus of both the Central and the State Governments."***

India has witnessed a few positive health outcomes over the last 2 decades; life expectancy has improved to around 67 years in 2016 from 58 years in 1990. The share of communicable, maternal and neonatal related deaths has dropped significantly from 54% in 1990 to 27% in 2016. However, the challenges in the health infrastructure front are daunting with number of hospital beds per 1000 persons estimated at only 1.0 as compared to 2.1 for Thailand and 4.2 for China. There is still a severe 81% shortage of trained doctors in community health centres and the shortfall of nurses is a staggering 177% (Source: 12th Five Year Plan Data). Low coverage under public health schemes has led to a very high out of pocket expenditure (OOPE) of 66% in total health expenditure as compared to a global OOPE average of 18% and 32% for China. Clearly, high OOPE is one of the key factors that translate to financial stress and indebtedness for low and low-middle income households in India. While the Government has steadily increased its budgeted expenditure for healthcare, at 1.3% of nominal GDP it still compares unfavourably with China at 3.1% and Brazil at 4.7%.

Apart from the structural challenges, the emerging challenge for India is the steadily ageing population; the share of population in the greater than 55 years age bracket is set to almost double from 13% in 2017 to 25% in 2037 (National Health Profile 2017). This will lead to a steadily rising per capita expenditure on health and taking further an expected increase in the coverage of government expenditure steadily to 40% from the current level of 28%, will lead to a sharp rise in the public expenditure in healthcare. Acuité estimates the differential in the existing government outlay and the required outlay to meet the above requirements to be Rs. 3.4 lakh Cr over the period FY18-FY25.

Says Suman Chowdhury, President, Acuité Ratings, "Innovative funding mechanisms need to be considered to meet such large requirements. These can be enhancement of minimum CSR spend by corporates and allocating a specific share for healthcare initiatives, introduction of tax-free Aushadhi Bonds for financing asset creation by government in healthcare sector and the levy of an exclusive health cess for high income tax payers for deployment in specific government schemes." PPPs where the investments are assured of financial viability or a minimum rate of return and tax exemption to private players for setting up of healthcare infrastructure at remote locations can be effective mechanisms. The acute lack of healthcare professionals can be addressed by suitable retention and recruitment policies and encouraging investment in medical and nursing colleges. In order to maximise the cost effectiveness of the public investments, extensive use of technology for preventing leakage of the subsidy benefits and centralized purchase mechanisms by designated agencies need to be considered.

About Acuité Ratings & Research:

Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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