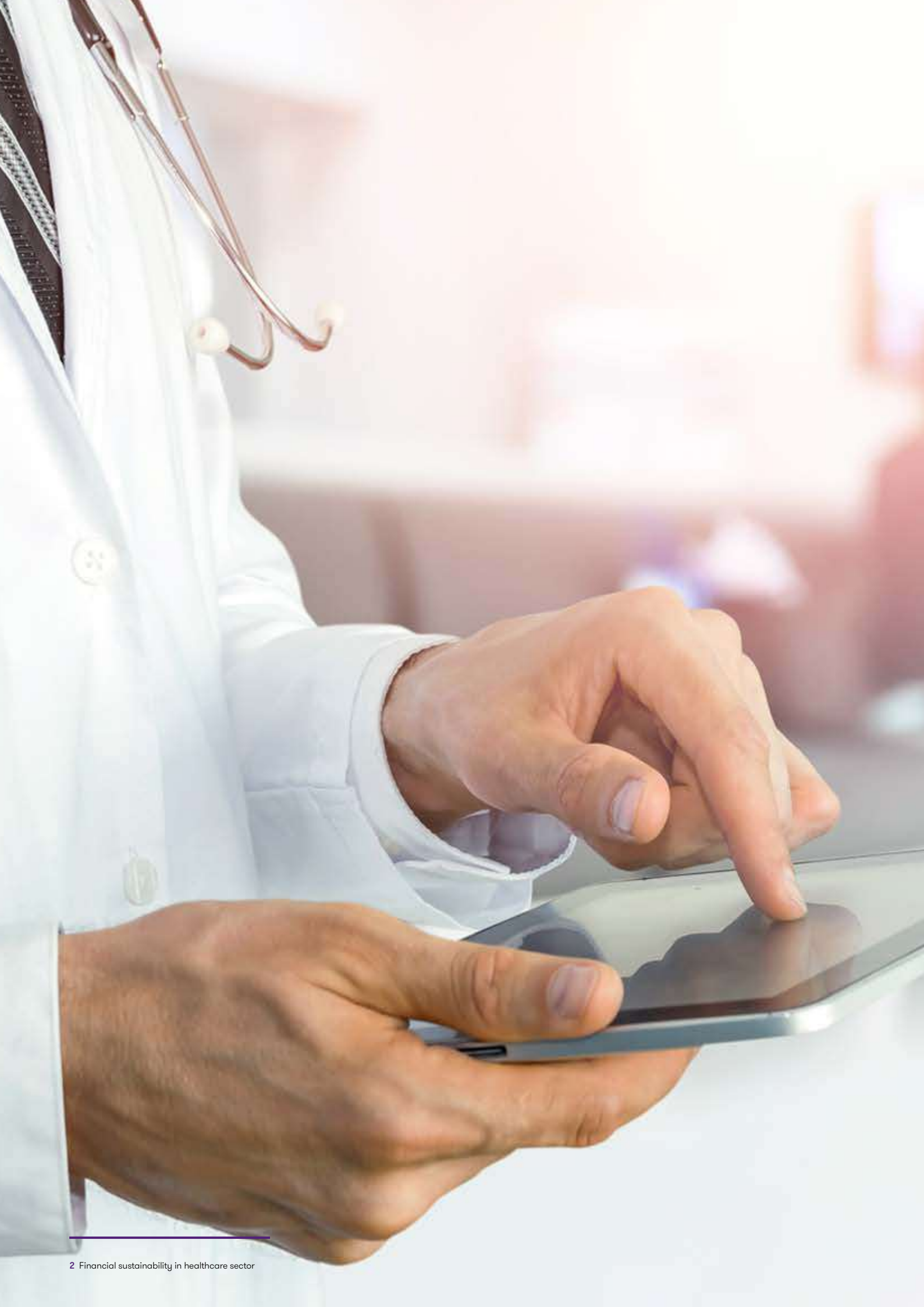
Grant Thornton

ASSOCIATION OF HEALTHCARE PROVIDERS INDIA

Financial sustainability in healthcare sector

February 2024







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Foreword by AHPI

"As we stand at the intersection of technological advancements and the imperative for inclusive healthcare, in the vibrant tapestry of India's healthcare landscape, each challenge is an opportunity to weave a stronger, more inclusive fabric."



Dr. Girdhar J. Gyani
Director General, AHPI

India, with its vast population and diverse geography, boasts a complex healthcare system facing a multitude of challenges while simultaneously witnessing remarkable progress. Significant strides have been made, and the journey towards universal healthcare access and equitable quality remains ongoing.

The healthcare delivery system has demonstrably improved health outcomes. Life expectancy has risen to 70.1 years, infant mortality rate has declined, and communicable diseases are better controlled. Vaccination campaigns and public health initiatives have played a crucial role. Post pandemic, people have become more conscious of leading a healthy lifestyle and prioritizing preventive health.

Despite substantial development in India's healthcare delivery system, challenges persist, such as inadequate infrastructure, a deficit of hospitals, and an imbalance in doctor-patient ratio. Although the upward trajectory of healthcare spending as a percentage of GDP is gaining momentum, it still lags behind other major economies.

As per some reports, over USD 200 billion is likely to be spent on medical infrastructure by the end of 2024. This infrastructure spend will be accompanied by the emergence of telemedicine and government initiatives such as e-Health, along with growing insurance penetration, services, and increasing expenditure by public and private players. With the setting up of 157 new nursing colleges, India's comprehensive investment in medical education will help make quality care accessible to a larger population.

Looking ahead, the demand for healthcare services is expected to increase due to factors such as advancing income levels, an aging population and rising health awareness, coupled with government ambition to increase public health spending to 2.5% of the country's GDP by 2025. Further, private sector entering new geographies, new segments (senior care, wellness, and preventive care), increasing focus on specialty care and promoting digital health are expected to drive growth.

As India continues its journey towards Universal Health Coverage and better health outcomes, the healthcare delivery system is expected to offer numerous opportunities across providers, payers, pharma, and other medical technology segments.

In this report, the Association of Healthcare Providers (India) and Grant Thornton Bharat have tried to analyze the challenges faced by the healthcare system, addressing the growing disease burden, increasing costs, demands for quality healthcare, and emphasizing the importance of cost efficiencies, technology adoption, quality control, leading to enhanced financial sustainability and improved patient care.



Foreword by Grant Thornton Bharat



Saumil Shah
Office Managing Partner, Gujarat,
Grant Thornton Bharat



Bhanu Prakash Kalmath S J
Partner and Healthcare Services Industry Leader,
Grant Thornton Bharat

Healthcare has become one of India's largest sectors, both in terms of revenue and employment. This comprises hospitals, pharmaceuticals, medical devices and equipment, clinical trials, outsourcing, telemedicine, medical tourism and health insurance. The sector is growing at a brisk pace due to its coverage, services, and increasing expenditure by public, as well as private players.

Between 2016–22, the healthcare sector recorded a CAGR of 22.52%. The Indian healthcare market, which was valued at USD 86 billion in 2016, reached USD 367 billion in 2023 and is estimated to reach USD 638 billion by 2025.

For a large and diverse country like India, which is on the growth trajectory, developing accessible and affordable healthcare facilities is creating significant opportunity for private players, along with core challenges to overcome.

Grant Thornton Bharat and AHPI's research on hospitals as financially sustainable entities has unveiled steps that leading hospitals across the country can adopt:

1 Growth/expansion plans into tier 2 & 3 cities
2 Preferred expansion models
3 Improving revenue by adjusting the services mix, considering the demographic and epidemiological trends in the area being served
4 Optimising the payor mix for better cash flow generation
5 Providing value-based pricing/packages to patients, focusing on promotive and preventive care
6 Reducing revenue leakages (disallowances, billing errors, etc.)
7 Improving front line resources efficiency (error rates, readmission rates, complication rates, etc.)
8 Increasing the utilisation of critical resources
9 Better procurement of materials
10 Controlling the overhead costs through technology adoption

Our research has revealed that leading healthcare providers in the country are committed to and supportive of the government's goal of achieving universal health care (UHC) for all its citizens by 2030, which is fundamental to achieving the other committed sustainable development goals.

UHC mandates that the population have access to the full range of quality health services they need (availability), when and where they need them (accessibility) and without significant financial hardship (affordability). Hospitals are aggressively balancing to achieve this trinity and remain financially viable.

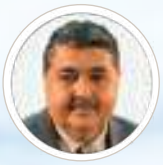


Industry Speaks



Viren Prasad Shetty
Executive Vice Chairman, Narayana Health

"The government has made significant progress in making healthcare accessible to the underserved population, yet we are still a long way away from achieving financial sustainability for universal healthcare access. There is a crucial need for systemic policy reform to continue on the trajectory towards building a truly sustainable healthcare ecosystem. India faces major challenges like shortage of medical specialists, nurses & paramedics, excessive infrastructure requirements for medical and nursing colleges, lack of long-term funding for healthcare infrastructure, low insurance penetration, lack of hospital zoning in cities, among many others. We believe that a collaborative and comprehensive strategy can lead to the establishment of a resilient healthcare system that caters to all segments of the population."



Dr. Parag R Rindani
CEO, Wockhardt Hospitals Ltd

"The Indian healthcare landscape is flourishing, presenting exciting opportunities for hospitals to thrive. While investing in cutting-edge clinical expertise remains the cornerstone of long-term profitability, we must recognize the symphony of value drivers. Navigating this landscape requires a holistic approach, acknowledging the interconnectedness of various aspects. Investing in diagnostics and pharmacy services contributes to a comprehensive patient experience. Embracing innovative models like leasing medical equipment, optimizing costs through regular reviews, and shedding non-essential elements are essential strategies.

Additionally, smaller cities, with lower overheads, offer fertile ground for expansion, catering to underserved populations. It is imperative to capitalize on public policy shifts, tailoring our services to align with beneficial schemes that emphasize preventive care and accessibility, thus fueling marginal profitability for hospitals. Moreover, investing in areas such as preventative care, mental health services, and community outreach is crucial.

With a progressive mindset, we can not only ensure financial sustainability but also contribute to a healthier, more equitable India."



Dr. Gaurav Katyal
COO, Indraprastha Apollo Hospitals

"In India's dynamic healthcare scene, financial sustainability isn't just a number on a spreadsheet, it's the lifeline of quality care. This involves strategic investments in technology to enhance efficiency, fostering collaborations, and empowering clinical teams to judiciously manage resources. Unfortunately, the prevalence of prohibitive out-of-pocket expenses and limited insurance coverage often impedes access to essential services for many. Integrating technologies such as telemedicine and electronic medical records can streamline processes and reduce costs.

The progressive approach entails alleviating pressure on profit margins, enhancing operational efficiency, and leveraging data for informed decision-making. Every rupee saved translates into improved equipment, specialized consultations, and ultimately, healthier communities. Through collaborative efforts, we can ensure that financial sustainability serves as the cornerstone upon which a robust healthcare system is established."

1

Healthcare sector in India



This is an illustrative satellite image

1.1. Sector growth and development in the past decade

The Indian healthcare industry stands as a critical pillar in the nation's socio-economic landscape, encompassing a vast and diverse array of services and stakeholders. A multifaceted landscape, the Indian healthcare industry comprises public and private entities, ranging from government hospitals and primary health centers to a burgeoning network of private healthcare providers.

Main segments in the healthcare industry

Healthcare	
Hospitals	Government hospitals – They include healthcare centres, district hospitals and general hospitals.
	Private hospitals – They include nursing homes and mid-tier and top-tier private hospitals.
Pharmaceuticals	They include manufacturing, research, extraction, processing, purification and packaging of chemical materials for use as medications.
Diagnostics	It comprises businesses and laboratories that offer analytical or diagnostic services, including body fluid analysis.
Medical equipment and supplies	It includes establishments primarily manufacturing medical equipment and supplies, e.g., surgical, dental, orthopaedic, ophthalmologic, laboratory instruments, etc.
Medical insurance	It includes health insurance and medical reimbursement facility, covering an individual's hospitalisation expenses incurred due to sickness.
Healthtech	Healthtech helps in monitoring or maintaining health, anything from smart watches to ways to pay for healthcare or pharmaceuticals to mobile apps that track health needs.
Telemedicine	Telehealth is the distribution of health-related services and information via electronic information and telecommunication technologies.



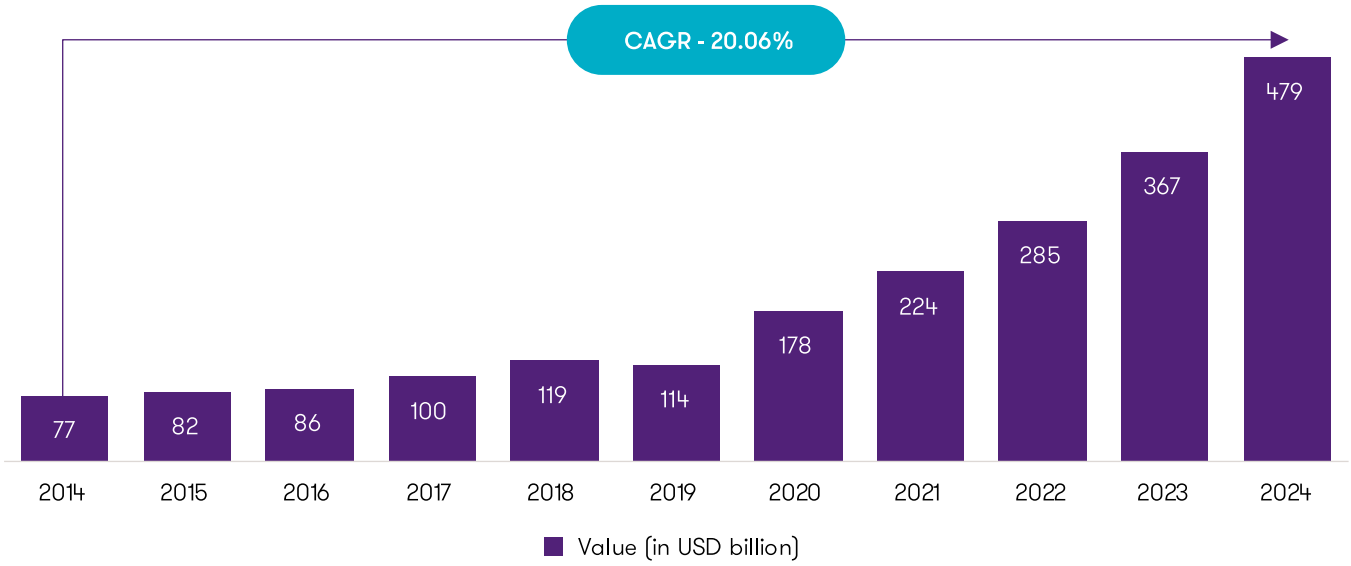
Ramendra Verma
Partner,
Public Sector Consulting,
Grant Thornton Bharat

In the vast and diverse landscape of India's health ecosystem, progress hinges on the establishment of a unified and straightforward platform. A unified platform creates a "health economy" that fosters a win-win scenario for all involved. Citizens benefit from streamlined access to healthcare services, while hospitals and doctors enjoy enhanced operational efficiency. Pharmaceutical companies find a more transparent and efficient channel to distribute their products, and the government gains valuable insights for data-driven decision-making. This common ground not only simplifies the healthcare journey for the average citizen but also nurtures collaboration and innovation within the industry. The shared infrastructure facilitates communication, promotes interoperability, and reduces redundancy, fostering a more agile and responsive health system.

Growth of the Indian healthcare industry

Over the past decade, the Indian healthcare sector has experienced substantial growth, with the market value increasing from USD 77 billion in 2014 to an estimated USD 479 billion in 2024, highlighting its resilience and adaptability in addressing the evolving healthcare needs of the population and contributing significantly to India's economic development. In addition, healthcare has emerged as top priority for PE, VC investors in India*.

Figure 1: Indian healthcare market in past decade (2014-2024)[1]



Key growth drivers

- **Demographic dividend:** India's large and growing population provides a substantial market for healthcare services. As the population increases and ages, there is a rising demand for healthcare, particularly in areas such as geriatric care and chronic disease management.
- **Increasing disease burden:** The prevalence of non-communicable diseases (NCDs), such as diabetes, cardiovascular diseases and respiratory disorders, is on the rise. The new national estimates for diabetes and other NCDs show that 31 million more Indians became diabetic in three years (2019-2021). This trend has led to a higher demand for healthcare services, diagnostic facilities, and specialised treatments.
- **Government initiatives:** Government-led healthcare initiatives, such as Ayushman Bharat and the National Health Mission, aim to improve healthcare accessibility and affordability. These initiatives contribute to increased healthcare spending and infrastructure development.
- **Rising middle class and disposable income:** The expanding middle-class population with increased disposable income is willing to spend on better healthcare services. This trend has fueled the growth of the private healthcare sector, including hospitals, clinics, and diagnostic centers.
- **Technological advancements:** Advances in medical technology, telemedicine and digital health solutions have enhanced the quality of healthcare services. The adoption of innovative technologies not only improves patient outcomes but also attracts investments and promotes research and development.
- **Medical tourism:** India is a top choice for medical tourism due to its cost-effective healthcare, providing high-quality treatments at lower costs. Beyond healthcare, India offers diverse tourism experiences, with streamlined visa processes and well-connected airports for convenience. Traditional medicine options, such as Ayurveda and Yoga, add to the healthcare choices. Further, the Indian healthcare industry earns an average USD 6 billion each year from 2 million international patients visiting the country each year for medical, wellness and IVF treatments.

*Source: Annual Dealtracker 2024 | Insights | Grant Thornton Bharat

[1] India Health Exhibition

1.2. The growth story in healthcare so far

The National Health Accounts 2019 - 20 estimates that India's total healthcare expenditure has been steadily increasing, but is significantly lower, as a large portion of the spending is attributed to out-of-pocket payments by individuals. This emphasises the importance of exploring avenues to reduce the financial burden on individuals and enhance the overall affordability of healthcare services. The government has recognised this challenge and has implemented various schemes and policies to increase public spending on healthcare, aiming to reduce the dependence on out-of-pocket expenses.

The COVID-19 pandemic in 2020 caused a significant economic downturn, with a -5.8% GDP growth contraction — the first recession in decades. Health expenditure rose to 2.96% of GDP in 2020, driven by increased government spending to address the crisis. In response, the government implemented fiscal and monetary measures to stimulate recovery, leading to a strong GDP growth of 9.1% in 2021 and 7.2% in 2022.

Figure 2: GDP growth rate vs health expenditure (2014-2022)[2]

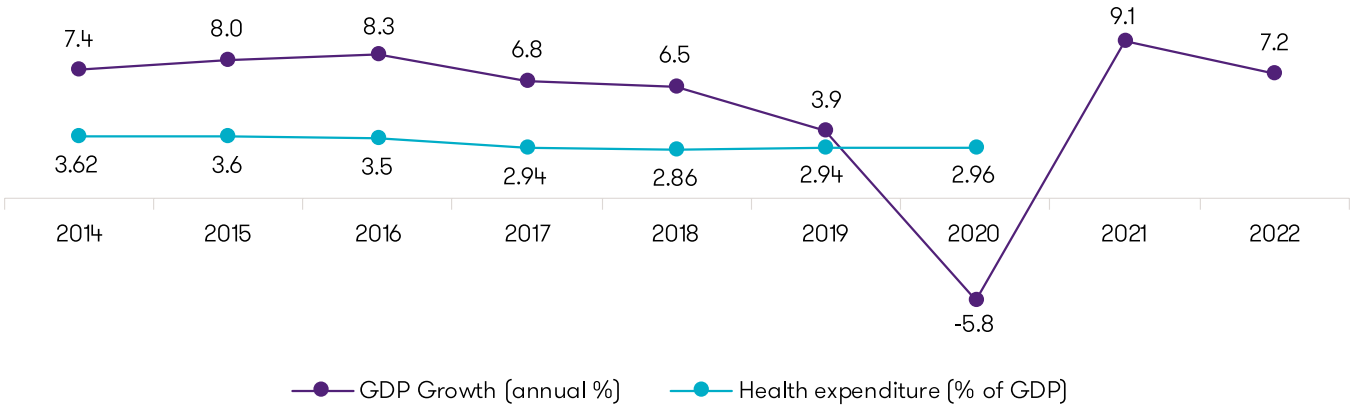
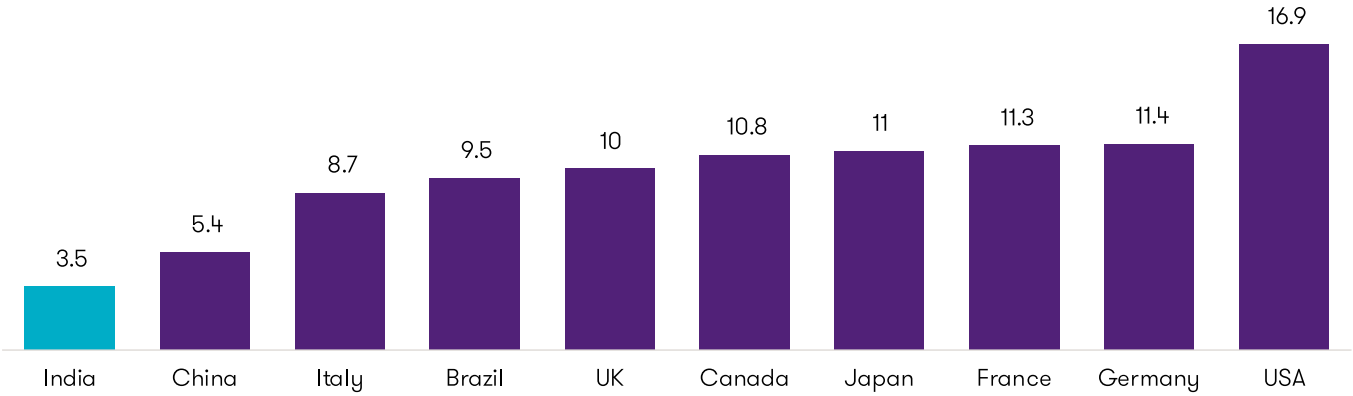


Figure 3: Country-wise expenditure on healthcare Including out of pocket expense as % of GDP (2021)[2]



Further, globally, India is at the lowest end on healthcare parameters. India's lower healthcare expenditure as a percentage of GDP compared to the developed countries is influenced by economic disparities, a vast and diverse population, and a significant reliance on private healthcare. The shortage of beds and healthcare professionals per 1,000 population reflects the difficulties in providing comprehensive healthcare. Insufficient facilities, especially in rural areas, and a lower doctor-patient ratio underscore the need for an expanded healthcare workforce. Despite government efforts to increase spending and improve infrastructure, sustained commitment is required to address the complex challenges within India's healthcare system .

[2] World Bank

Figure 4: Number of doctors per 1000 population (2021)[3]

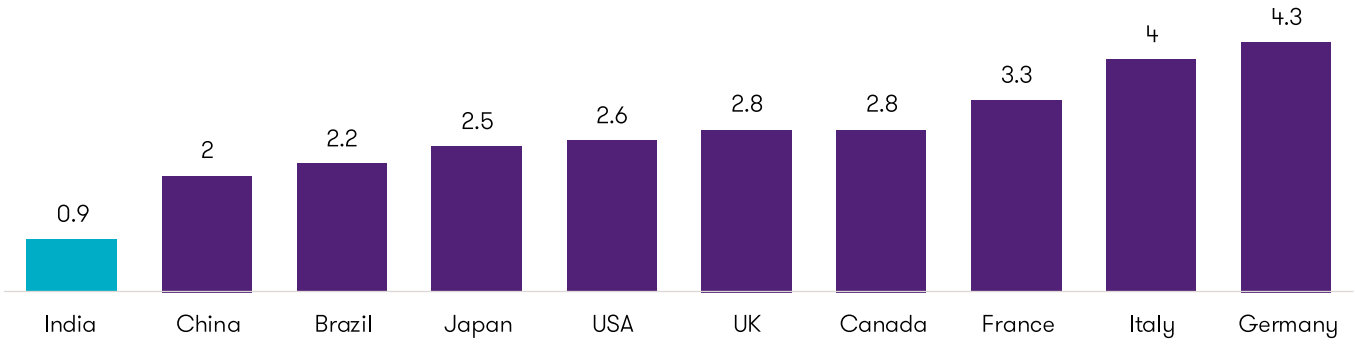
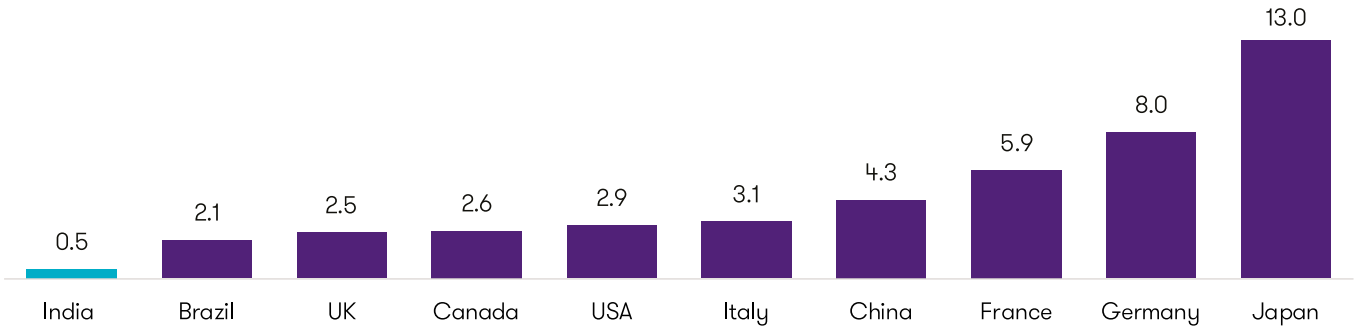


Figure 5: Number of beds per 1000 population (2021)[3]





Dr. Abhinav Akhilesh
Partner,
Public Sector Consulting,
Grant Thornton Bharat

The Indian public health system, despite its enormous strides in recent years, continues to face significant challenges. With a burgeoning population, diverse health needs, and resource constraints, the time is ripe for a strategic overhaul to reshape the landscape of public health in India. For India to truly become Vishwaguru, investment in health education and research is paramount. Additionally, fostering a robust research environment will help in understanding the unique health challenges India faces and in developing localized solutions. Further, deep investments in health research, which has to be a long-term play, has the potential to make India the global hub of healthcare innovation.

[3] State of Indian Healthcare report 2021

1.3. Current state of the healthcare sector

Current scenario

The Indian healthcare sector is navigating a complex landscape marked by a blend of challenges and opportunities. Despite advancements, the sector continues to grapple with persistent challenges. Healthcare disparities across urban and rural areas, gaps in healthcare infrastructure, and a shortage of healthcare professionals remain key concerns. Additionally, addressing the burden of non-communicable diseases (NCDs), such as diabetes and cardiovascular ailments, has become imperative, as they contribute substantially to the overall disease burden.

The private sector continues to be a vital player in the Indian healthcare ecosystem, driving innovations, investments in modern healthcare facilities, and the introduction of advanced medical technologies. However, concerns about the accessibility and affordability of private healthcare persist, necessitating a balanced approach that leverages both public and private resources to achieve equitable healthcare outcomes.

Key facts[4]

44,000
Private hospitals (2022)

3.3 million
Paramedics (2022)

4.7 million
Total employment (2021)

26,000
Public hospitals (2022)

1.3 million
Doctors (2022)

654
Medical colleges (2022)



Saumil Shah
Office Managing Partner, Gujarat
Grant Thornton Bharat

The Indian healthcare sector is at a critical juncture where sustained investments, policy reforms, and technological integration are imperative with the objective of providing equitable and sustainable access to quality healthcare. Initiatives such as Ayushman Bharat and an increased focus on preventive healthcare signal a firm commitment to addressing the sector's challenges. The resilience displayed during the pandemic underscores the sector's potential for growth and transformation, provided there is a concerted effort to address systemic issues and foster collaborative approaches for a more inclusive and resilient healthcare ecosystem.

[4] Indheal, Ministry of health and family welfare, IBEF

Key trends shaping Indian healthcare industry

Emergence of telemedicine

- Telemedicine is a fast-emerging segment in India. Virtual care, constituting tele-consult, telepathology, teleradiology and e-pharmacy, is experiencing a stimulus in India. Major hospitals have adopted telemedicine services and PPPs.
- By January 2023, the Health Ministry's eSanjeevani telemedicine service crossed 10 crore tele consultations. The telemedicine platform has peaked to serve 5,10,702 patients in a day.

Increasing penetration of health insurance

- Around 514 million people across India were covered under health insurance schemes in 2021, which merely covers 37% of the people in the country.
- Gross direct premium income underwritten by health insurance companies grew 21.3% YoY in 2023 to USD 9.7 billion.
- Under AB PM-JAY (world's largest health assurance scheme), over 230 Mn beneficiaries have been provided Ayushman cards, and over 44 Mn hospital admissions have been authorised through a network of 25,969 empanelled healthcare providers, including 11,700 private hospitals as of February 2023.

Technological initiatives

- Digital health knowledge resources, electronic medical record, mobile healthcare, electronic health record, hospital information system, Practo, technology-enabled care, telemedicine and hospital management information systems are some of the technologies gaining wide acceptance in the sector.
- More than 450 Mn ABHA IDs have been created, 2,19,546 Health Facilities have been registered, and around 2,28,794 Healthcare Professionals have been on boarded under ABDM.
- The Unified Health Interface (UHI) is a network of open protocols facilitating health service interoperability. Leveraging existing ABDM building blocks for personal health data exchange and registries, UHI offers a seamless end-to-end user experience. UHI-enabled applications empower patients to discover, book, conduct, and pay for services across various participating providers, all from the application of their choice.



Abhishek Binaykia
Partner, dGTL
Grant Thornton Bharat

New age digital technologies are primed to transform hospital operations and drive significant cost and revenue efficiencies across various functions. AI powered models and systems can not only drive cost reductions by improving inventory management, expediting claims processing, identifying irregularities in billing, but also generate revenue through personalised care. Data analytics and automation can be leveraged to predict equipment failures/downtime, optimise resource allocation and improve operational efficiencies, thereby drastically reducing costs. Telehealth solutions play a key role in expanding patient outreach. The true potential lies in a holistic digital strategy, where technologies collaborate seamlessly to enhance operational efficiency, improve patient care, and, consequently, fortify the financial foundations of healthcare institutions.

2

Challenges in India's healthcare ecosystem



The Indian healthcare industry, which has been making significant strides in recent years, faces a myriad of challenges. The growing disease burden, increasing costs and the demand for quality healthcare services have placed tremendous pressure on healthcare resources, requiring operations and cost efficiencies, embracing technology, building better quality control and thereby leading to improved patient care and outcomes.

The demand for healthcare services is growing, placing substantial pressure on the existing infrastructure. Despite commendable efforts to improve infrastructure and access, issues such as inadequate funding, a shortage of skilled professionals, and disparities in healthcare delivery persist.

Inadequate funding in Indian healthcare sector

Home to over 1.3 billion people, India's public health expenditure hovers around 3.5% of its GDP, far below the global average of 6%, as well as other countries such as the US (16.9%), Germany (11.4%), Japan (11%), the UK (10%), and China (5.4%). This means that significantly less money is available for essential healthcare services, infrastructure development, and manpower.

Further, due to limited public funding, around 47.1% of healthcare expenses in India come from out-of-pocket payments by individuals. Out-of-pocket expenses remain a significant challenge for many Indians seeking healthcare services. The National Sample Survey Office (NSSO) reported that a substantial proportion of healthcare spending was financed through personal savings, making individuals vulnerable to financial hardships. This out-of-pocket burden can deter people from seeking necessary medical attention, especially among lower-income groups, overall impacting the revenue of healthcare facilities.

Key Health Financing Indicators for India: NHA Estimates 2019-20

Sl.No.	Indicator	NHA 2017-18	NHA 2018-19	NHA 2019-20
1	Total Health Expenditure (THE) as a % GDP	3.31	3.16	3.27
2	THE per capita (Rs)	4,297	4,470	4,863
3	Current Health Expenditure (CHE) as a % of THE	88.5	90.6	90.5
4	Capital Health Expenditure as % of THE	11.5	9.4	9.5
	Government Health Expenditure (GHE)			
5	Government Health Expenditures (GHE) as % of THE	40.8	40.6	41.4
6	GHE as % of GDP	1.35	1.28	1.35
7	GHE as % of General Government Expenditure (GGE)	5.12	4.81	5.02
8	Per capita Government Health Expenditure (Rs.)	1,753	1,815	2,014
9	Current Government Health Expenditure (CGHE) as % of GHE	71.9	76.9	77.2
10	Union Government Health Expenditure as % of GHE	40.8	34.3	35.8
11	State Government Health Expenditure as % of GHE	59.2	65.7	64.2
12	Government based Voluntary Health Insurance as % of GHE	4.1	5.2	5.1
	Household Health and Out of Pocket Expenditure (OOPE)			
13	Household Health Expenditure (incl. insurance contributions) as % of THE	54.3	54.4	53.6
14	OOPE as % of THE	48.8	48.2	47.1
15	OOPE as % of GDP	1.62	1.52	1.54
16	Per capita OOPE (Rs.)	2,097	2,155	2,289
	Others			
17	External/Donor funding as a % of THE	0.5	0.4	0.5
18	AYUSH as % of THE	3.6	3.9	3.9
19	Pharmaceutical expenditures as % of CHE	33.4	33.8	35.1

Source: National Health Accounts, Estimates for India 2019-20

Shortage of skilled healthcare professionals

Additionally, there is a persistent shortage of skilled healthcare professionals, including doctors, nurses, and paramedical staff. The inadequate healthcare workforce not only hampers the delivery of quality care but also escalates the operational costs for healthcare providers. Addressing this challenge requires long-term investments in medical education, training programmes, and initiatives to retain healthcare professionals within the country.

For example, according to a report published by the Ministry of Health and Family Welfare in 2022, India has been facing an acute shortage of specialist doctors, with a shortfall of nearly 80% of the required specialists at community health centres (CHCs). CHCs are 30-bed block-level health facilities, which are ideally supposed to provide basic care related to surgery, gynecology, pediatrics and general medicine. As of 2022, there is a shortfall of specialist doctors, including surgeons (83.2%), obstetricians and gynecologists (74.2%), physicians (79.1%) and pediatricians (81.6%) across 6,064 CHCs in India[5].

India has around 3 million registered nurses. When compared to the nation's 1.3 billion population and taking into consideration the rising number of diseases, these nurses are much lower than required. Interestingly, for a population of 1,000 people, the recommendation by the World Health Organization is three nurses. However, the present number in India is 1.7 nurses per 1,000 people. Now to meet WHO's norms, India will require around an additional 4.3 million nurses this year[6].

These shortages were felt acutely when the COVID-19 pandemic hit in 2020, with doctors and nurses being required to monitor vitals, for testing and intensive care, but they were in short supply. Outside hospitals, there was a shortage of community health workers and paramedical staff to conduct surveillance activities, mass testing and contact tracing. There was a severe shortage of other resources as well, such as personal protection equipment, oxygen cylinders and ambulances.

Rising prevalence of non-communicable disease

The rising prevalence of non-communicable diseases, such as diabetes and cardiovascular disorders, adds complexity to the healthcare landscape. The management of chronic conditions requires sustained and affordable healthcare services, placing additional pressure on the financial viability of the healthcare system. Disease burden shifting from communicable diseases (CD) to non-communicable diseases (NCD) (CDs lead to 33% of disability adjusted life years [DALYs] lost), a rising morbidity and mortality cost is now attributable to NCDs (55% of [DALYs] lost).

The new national estimates for diabetes and other non-communicable diseases (NCD) show that 31 million more Indians became diabetic in three years (2019-2021).

As of 2021, India had 101 million people with diabetes and 136 million people with pre-diabetes. Additionally, 315 million people had high blood pressure, 254 million had generalised obesity, and 351 million had abdominal obesity. Around 213 million people had hypercholesterolemia (wherein fat collects in arteries and puts individuals at greater risk of heart attack and strokes) and 185 million had high low-density lipoprotein (LDL) cholesterol[7].

Disparities in healthcare delivery between urban and rural areas

Moreover, the Indian healthcare system grapples with significant disparities in healthcare delivery, with urban areas often having better access to advanced medical facilities than their rural counterparts. Geographical barriers and uneven distribution of healthcare facilities make access to healthcare services challenging for many. Bridging this urban-rural divide is crucial for achieving financial sustainability, as a balanced distribution of healthcare resources can reduce the burden on specific regions and enhance overall efficiency.

[5] Ministry of family and healthcare
[6] A press release by Rajya Sabha and a report by the World Bank
[7] Press release



1. By tackling these challenges head-on, India's healthcare industry can move towards a more financially sustainable future, ensuring quality healthcare for all its citizens.

2. Achieving financial sustainability in healthcare is not just about cost-cutting, but about optimising resource allocation, improving efficiency, and focusing on preventive measures to create a healthier and more resilient population.

3. Only through concerted efforts and strategic investments can India ensure that its healthcare system is not only financially viable but also capable of providing accessible and quality care to all its citizens.

3

Need for financial sustainability



What is financial sustainability?

Financial sustainability in healthcare facilities involves the deployment of financial resources in a manner that supports long-term economic, social, and environmental objectives while ensuring the continued availability and accessibility of healthcare services. This approach to financing recognises the inter-connectedness between financial viability, social well-being, and environmental responsibility. In the context of healthcare facilities, sustainable finance aims to address the unique challenges faced by the sector and contribute to its resilience and effectiveness.

Need for financial sustainability

Financial sustainability is crucial for healthcare facilities for several reasons, as it directly influences their ability to provide quality care, maintain operations, and adapt to changing healthcare needs.

1 Ensuring continuous operations of the healthcare facility: Financial sustainability is essential to ensure the day-to-day operations of healthcare facilities. This includes the payment of salaries to healthcare professionals,

Key components of financial sustainability in healthcare facilities include

Infrastructure investments for growth	Operational efficiency	Public private partnerships	Community engagement and social impact	Innovation and technology	Environmental sustainability
Involves strategic investments in healthcare infrastructure. This includes the construction, renovation, and maintenance of healthcare facilities to ensure they meet current and future healthcare needs. Investments in state-of-the-art medical equipment and technology also fall under this category.	Financial sustainability is closely tied to operational efficiency. Initiatives may focus on optimising resource utilisation, reducing energy consumption, and improving overall operational effectiveness. This not only contributes to cost savings but also minimises the environmental impact of healthcare operations.	Collaborations between public and private sectors can be a crucial component of sustainable finance for healthcare. PPPs can bring in private investment, expertise, and innovation to enhance the quality and efficiency of healthcare services. Well-structured PPPs ensure that the benefits are shared equitably and that the public interest is safeguarded.	Sustainable finance in healthcare facilities goes beyond financial returns. It includes considerations of social impact and community engagement. Investments should align with the healthcare needs of the community, promote inclusivity, and contribute to improving overall public health.	Embracing innovative technologies that improve healthcare delivery and outcomes is a key aspect of financial sustainability. While there may be initial costs associated with adopting new technologies, the long-term benefits in terms of improved efficiency and patient care can contribute to financial sustainability.	Healthcare facilities also consider the environmental impact of operations. This may involve adopting eco-friendly practices, energy-efficient technologies, and waste reduction strategies to minimise the ecological footprint of healthcare facilities.

Overall, financial sustainability in hospitals requires a holistic and forward-looking approach that addresses financial challenges while promoting social and environmental responsibility. By integrating these principles, healthcare facilities in India can strive for long-term viability and contribute to the well-being of both individuals and communities.

maintenance of infrastructure, and the procurement of essential medical supplies. Without a stable financial foundation, healthcare facilities may struggle to meet these basic operational needs, jeopardising the continuity of care.

2 Investment in infrastructure and technology: Healthcare is an evolving field with constant advancements in medical technology and treatment modalities. Financial sustainability allows healthcare facilities to invest in and upgrade their infrastructure, acquire state-of-the-art medical equipment, and implement cutting-edge procedures. This is crucial for providing high-quality healthcare services and staying competitive in the rapidly evolving healthcare landscape.

3 Recruitment and retention of skilled staff: Competent and well-trained healthcare professionals are the backbone of any healthcare facility. Financial sustainability enables facilities to attract, recruit, and retain skilled medical professionals by offering competitive salaries, benefits, and professional development opportunities. A stable financial position enhances the facility's ability to build a strong and motivated healthcare workforce.

4 Ensuring quality patient care: Financial stability directly impacts the quality of care provided to patients. It allows healthcare facilities to maintain stringent safety standards, adhere to regulatory requirements, and invest in continuous quality improvement initiatives. Quality patient care not only contributes to positive health outcomes but also enhances the reputation of the healthcare facility.

5 Capacity building and expansion: Financial sustainability is essential for expanding healthcare facilities and building capacity to meet the growing healthcare needs of the community. This may involve constructing new wings, opening additional clinics, or increasing bed capacity. Adequate funding is crucial for these expansion efforts to ensure that the facility can cater to a larger population.

6 Community outreach and preventive care programmes: Healthcare facilities play a vital role in promoting community health through preventive care initiatives and health education programmes. Financial sustainability allows these facilities to allocate resources for community outreach, disease prevention, and health promotion activities, contributing to the overall well-being of the population.

7 Resilience in times of crisis: Healthcare facilities need financial resilience to withstand unexpected challenges, such as public health crises, natural disasters, or economic downturns. Adequate financial resources provide a buffer that allows facilities to adapt quickly, maintain essential services, and continue providing care even during adverse conditions.





8 Facilitating research and innovation: Financial sustainability supports healthcare facilities in engaging in research and innovation. Investing in research allows facilities to contribute to medical knowledge, develop new treatment modalities, and participate in clinical trials. This fosters a culture of innovation, attracts top talent, and enhances the facility's reputation.

Financial sustainability is not just about the economic well-being of healthcare facilities; it is intricately linked to their ability to fulfill their mission of providing high-quality, accessible, and sustainable healthcare services to the community. Without financial stability, healthcare facilities may struggle to meet the diverse and evolving needs of their patients and the broader healthcare ecosystem.

4

Strategies for attaining financial sustainability in healthcare



In the fast-evolving landscape of Indian healthcare, the need for attaining financial sustainability is predominant for hospitals and healthcare providers. This section delves into the key strategies used by hospitals and healthcare providers in India to navigate through financial challenges in the sector.

Firstly, we explore the strategic necessity of developing new revenue and growth plans, primarily through the addition of beds. As healthcare demands surge, the expansion of bed capacity not only addresses the pressing need for enhanced patient accommodation but also serves as a catalyst for revenue generation, fortifying the economic foundation of healthcare institutions.

Secondly, a critical focus is placed on decreasing the cost of care through a comprehensive approach that targets revenue and cost leakages, as well as judicious management of manpower and overhead costs. By implementing rigorous measures to curb financial inefficiencies, healthcare providers can unlock substantial savings while maintaining the quality and efficacy of patient care.

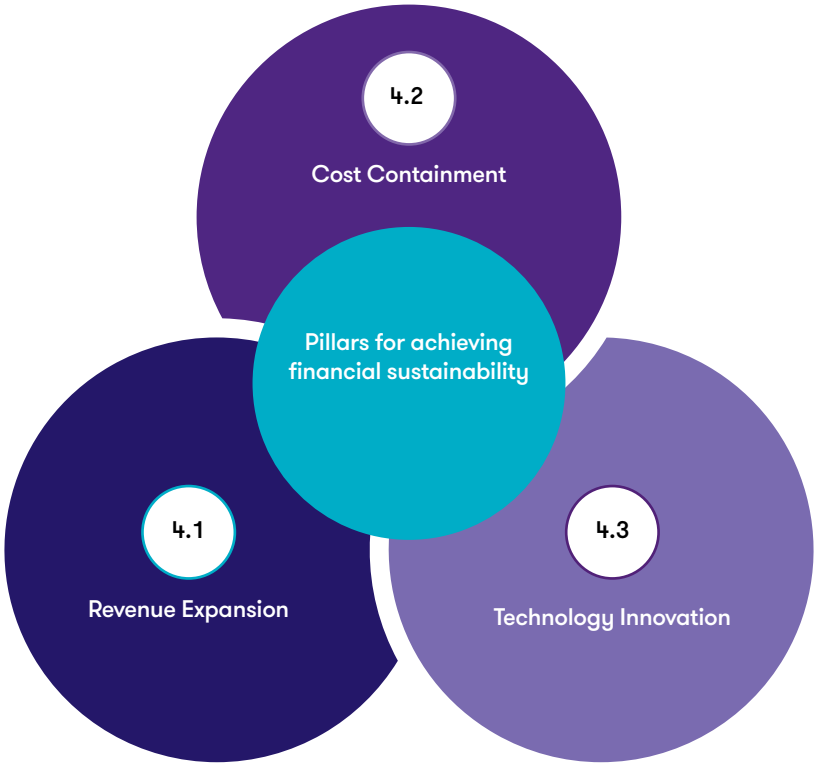
The third strategic pillar centers on elevating the quality of patient experience through digital interventions and enhanced patient care. In an era dominated by technological advancements, the integration of digital solutions not only optimises operational efficiency but also augments the overall patient journey. From telemedicine to health information systems, these interventions not only contribute to improved patient outcomes but also hold the potential to attract and retain a satisfied patient base, thereby fostering long-term financial stability.



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Healthcare organizations have grown organically and inorganically with different culture, policies and procedures in each unit. Disparate healthcare information systems (HIS), accounting packages and other multiple software applications used by hospitals have further complicated the ability to drive efficient practices. Common policies and practices driven through seamless technology platforms are critical to achieve many of these objectives. Integration of EMR with HIS will minimize revenue leakages and optimize procurement. Creating Centers of Excellence for support functions integrated with RPAs and AI enabled automations with early warning systems will bring down the cost of processing transactions.

Achieving financial sustainability in healthcare requires long-term funding support with priority lending, similar to the support given to real estate and infrastructure. This will go a long way in sustainable growth of the healthcare sector.



4.1. Revenue expansion

As patient preferences shift towards value, convenience, and personalised experiences, the healthcare sector is compelled to reevaluate and diversify its revenue and growth plans. Amidst soaring operational costs and the challenge of lagging reimbursement rates, hospitals are increasingly exploring innovative avenues.

4.1.1. Expanding bed strength

India has a severe shortage of hospital beds and an imbalance between rural and urban areas, with the national average standing at a mere 1.4 beds per 1,000 people, significantly below the recommended 2 beds per 1,000 outlined in the National Health Policy (2017). This shortage is acutely felt in public hospitals, where the deficit is even more pronounced. The data reveals an evident need for expansion, both in terms of quantity and geographical distribution. The private healthcare sector, cognizant of this gap, has a unique opportunity to not only address the bed shortage but also strategically position itself for financial sustainability.

Hospital beds scenario in India

Global average
As recommended by WHO

3.2 Beds per 1,000 population

Indian public hospitals

0.5 Beds per 1,000 population

Indian private + Public hospitals

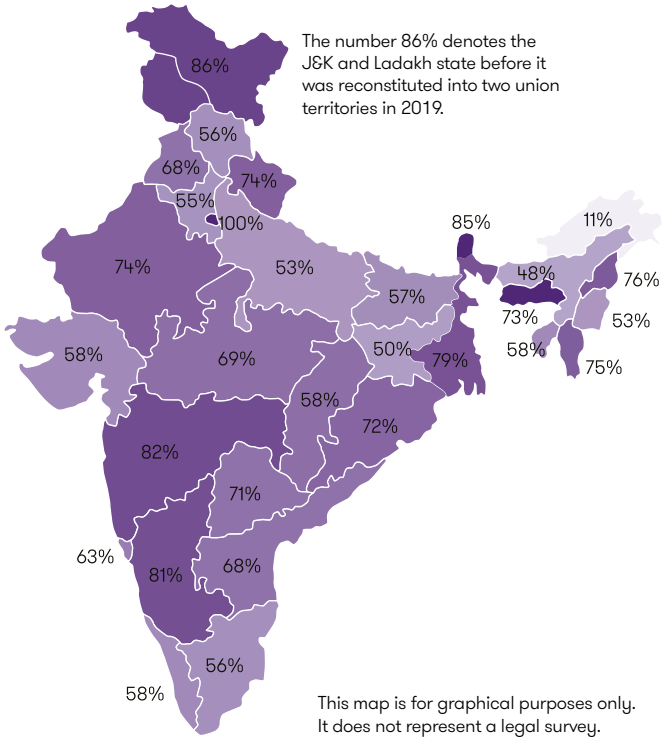
1.4 Beds per 1,000 population

The current state of hospital bed strength in India:

Public hospitals, the lifeline for millions, struggle to meet the basic standard of 2 beds per 1,000 population recommended in the National Health Policy (2017). Even when factoring in private facilities, the national average barely reaches 1.4 beds per 1,000. The overall deficit amounts to nearly 3.5 million beds, underscoring a pressing need for expansion.

The regional divide:

Even at the state level, none of the larger states have achieved the global average or the WHO-recommended 3.2 beds per 1,000 in public healthcare. Karnataka, Telangana, Kerala, Uttarakhand, Himachal Pradesh, Maharashtra, Tamil Nadu, and Punjab lead in private bed concentration, yet they are predominantly urban-centric. The data also reveals that while these states have high bed counts, the quality of services and health outcomes varies significantly.



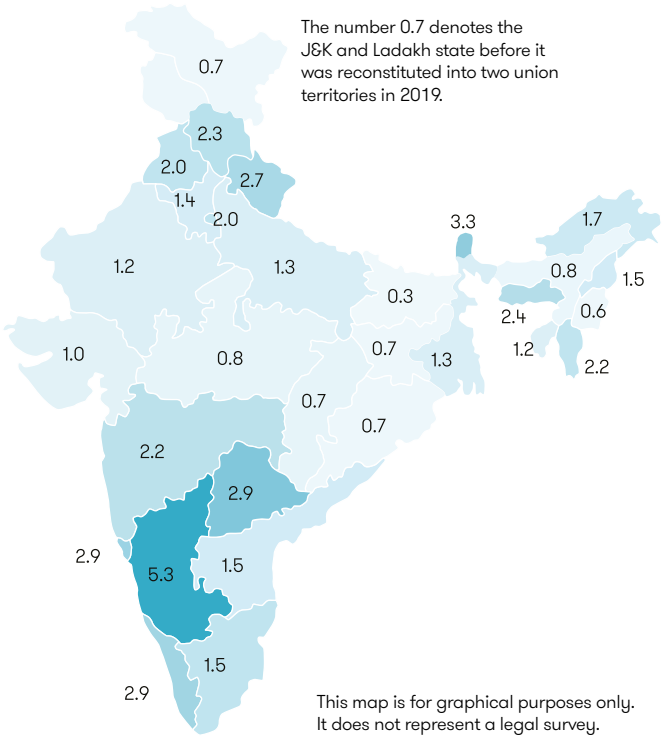
69%

of total hospital beds in India are concentrated in urban areas

Highest	Lowest
Maharashtra: 82%	Assam: 48%
Karnataka: 81%	Jharkhand: 50%
West Bengal: 79%	Uttar Pradesh: 53%

Share of hospital beds in urban areas from total beds

[8] Ministry World Health Organisation
[9] National Health Profile 2019, Population Projection for India and States – Census of India, 2019



The number 0.7 denotes the J&K and Ladakh state before it was reconstituted into two union territories in 2019.

This map is for graphical purposes only. It does not represent a legal survey.

1.4

Public + private hospital beds per 1,000 population

Highest	Lowest
Karnataka: 5.3	Bihar: 0.3
Telangana: 2.9	Odisha: 0.7
Kerala: 2.9	Chhattisgarh: 0.7

Public + private hospital beds/1000 population (2019)

Source: National Health Profile 2019, Population Projection for India and States – Census of India, 2019

The rationale for expanding bed capacity is multifaceted. Firstly, it directly addresses the critical issue of patient access by alleviating overcrowding, reducing wait times, and improving overall healthcare outcomes. Moreover, increasing bed strength presents a compelling revenue opportunity, allowing hospitals to cater to a larger patient base and potentially boosting financial health. Beyond mere numerical expansion, this strategy enables healthcare providers to diversify services, invest in specialised disciplines, and establish themselves as regional or national leaders. It also opens doors to tap into underserved segments, particularly in rural areas, where essential medical services are often lacking.



Sumeet Abrol

Partner and National Deals Consulting Leader, Grant Thornton Bharat

Sustainable financials play a pivotal role in both M&A transactions and PE fundraising, particularly within the healthcare industry. In the healthcare sector, where valuation multiples and capital expenditures are high, strategic buyers prioritize companies demonstrating sustainable profitability over long term. Additionally, the ability to estimate the payback period accurately is crucial in determining the buy vs. build decision. Predictable cash flows provide investors with the necessary insights to project returns effectively, influencing strategic choices and resource allocation.

In PE, investors actively pursue opportunities exhibiting not only growth potential but also predictable performance. This is integral in attracting capital, as it positions the investment for a successful exit, ensuring high returns for private equity firms.

Modes of expansion

As we explore the various modes of expansion, including owned, leased, revenue-sharing, managed, and public-private partnerships (PPPs), it becomes clear that the decision-making process involves careful consideration of advantages, disadvantages, and key strategic nuances of these modes.

Model	Strategy	Advantages	Disadvantages	Key remarks from respondents
Owned	The hospital is owned outright by a single entity, which could be a government, a private company, or a non-profit organisation. The entity has full control over the hospital's operations, decision-making, and finances. The strategy might focus on long-term sustainability, community health, and delivering quality care.	1 Full control: Owners have complete autonomy over decision-making and operations. 2 Long-term stability: Ownership provides a stable foundation for strategic planning and investment.	1 High upfront costs: Acquiring and maintaining ownership can involve substantial initial investments 2 Limited expertise: Owners may lack specialised healthcare management skills.	The rise in real estate prices is posing a significant challenge for hospitals that entered the market in the last 8-10 years to adopt this expansion model.
Leased	The hospital is leased from another entity, often a real estate company or a property management organisation. The strategy here may involve cost-effectiveness, as the hospital pays lease fees instead of dealing with the upfront costs of ownership. Focus could be on operational efficiency, service quality, and lease negotiation for financial sustainability.	1 Lower upfront costs: Leasing reduces the initial financial burden on the entity. 2 Flexibility: Leasing allows for more flexibility in terms of relocating or upgrading facilities.	1 Long-term costs: Over time, lease payments may exceed the cost of ownership. 2 Limited control: The lessee may have restrictions on modifications and operations.	This expansion model is not preferred by the participants in the survey.
Revenue sharing	Ownership is shared between multiple entities, and revenue generated is distributed among them. Collaboration and cooperation are key strategies in this model. Entities may work together to enhance services, share resources, and optimise revenue distribution. The strategy might involve negotiating equitable revenue-sharing agreements.	1 Shared risk and investment: Multiple stakeholders contribute to financial responsibilities. 2 Collaboration: Enhances resource-sharing, expertise, and overall service quality.	1 Complex negotiations: Arriving at fair revenue-sharing agreements can be challenging. 2 Decision-making challenges: Multiple owners may lead to slower decision-making processes.	-

Model	Strategy	Advantages	Disadvantages	Key remarks from respondents
Managed	The hospital is owned by one entity, but the day-to-day operations are managed by another entity, often a management company with expertise in healthcare administration. The strategy may involve outsourcing operational responsibilities to experts, allowing the owner to focus on strategic decisions. It might include selecting a competent management partner and ensuring effective communication between the owner and the management entity.	1 Access to expertise: Owners can benefit from the management company's specialised skills. 2 Operational efficiency: Professional management can lead to streamlined operations.	1 Dependency: Owners may become reliant on the management company for critical functions. 2 Potential conflicts: Differing goals between the owner and manager can create tensions.	This expansion model is being implemented in tier 2/3 cities where there is an existing hospital and tie-ups are entered into for a win-win scenario.
PPP	A collaboration between a public entity (government) and a private entity. The strategy in a PPP is usually cantered around leveraging the strengths of both sectors. The public sector brings infrastructure and public interest, while the private sector contributes efficiency and innovation. The strategy might involve clear delineation of roles, risk-sharing, and alignment of interests to achieve common goals.	1 Combined strengths: Integrates public resources with private sector efficiency. 2 Risk-sharing: Both sectors share the risks and responsibilities of hospital management.	1 Complex governance: Balancing public and private interests can be intricate. 2 Regulatory challenges: Navigating the regulatory landscape may be more complicated.	Survey participants expressed a preference for an escrow model in which the collected amounts are shared with the government based on an agreed percentage and granting the hospital complete autonomy over operations.

Additionally, insights from Grant Thornton's research indicates that the current expansion plan of some of the key private players is significantly focused on the Tier 1 cities and a growing presence in Tier 2 and Tier 3 cities. As per the research on 6 of the publicly listed companies, about 65-75% of the expansion is happening in Tier 1 cities, around 15-20% is happening in Tier 2 cities and about 10-15% of the expansion in bed strength is happening in Tier 3 cities.

Hospital brand	Current bed strength	Bed addition in next 3-5 years	Cities of expansion
Apollo	9957	2000	Tier 1:Bengaluru, Chennai, Mumbai Tier 2: Gurgaon
Fortis	4500	1300	Tier 1: Delhi, Bengaluru, Kolkata, Mumbai
KIMS	3950	3000	Tier 1: Hyderabad, Bengaluru, Mumbai Tier 2: Nellore, Vizag, Kurnool, Nagpur Tier 3: Rajahmundry, Srikakulam, Ongole, Anantapur
Max	3530	2600	Tier 1: Delhi, Mumbai Tier 2: Gurgaon, Punjab
Medanta	2697	800	Tier 2: Lucknow, Patna
Narayana Health	5821	1000	Tier 1: Bengaluru, Kolkata

Source: Figures have been taken from the annual reports of the companies mentioned in the table.

In the next four to five years, private healthcare providers in the country are likely to add over 30,000 beds, thus boosting their overall growth. The expansion is expected to be led by Delhi-NCR, adding 5,200 beds, followed by Bengaluru with 3,500 new bed additions, Haryana with 2,700 beds, Mumbai with 2,300 beds, Chennai with 2,000 beds, and Kerala with 500 beds, with the remaining 13,750 beds distributed across other regions.

This strategic move is a response to the rising demand for healthcare services and signifies a substantial investment to cater to the evolving needs of patients. Furthermore, it underscores the crucial role of expansion in hospital businesses for achieving financial sustainability.

Expanding bed capacity in the Indian healthcare landscape is not merely a numerical strategy; it represents a comprehensive approach towards financial sustainability, improved patient care, and the creation of a more equitable and resilient healthcare ecosystem. Despite the challenges, this transformative strategy, when approached with strategic planning, careful investment, and a commitment to quality, holds the potential to unlock new horizons for healthcare providers and contribute significantly to the evolving narrative of Indian healthcare.

4.1.2. Optimising services mix for revenue growth

India's demographic and epidemiological profile is undergoing a significant transformation, necessitating a recalibration of healthcare offerings. The rise in the geriatric population, increasing incomes, and shifting disease patterns are pivotal trends shaping the healthcare landscape.

- **Rising geriatric population:** With the elderly population in India set to double by 2050, there is a growing demand for specialised geriatric care services, chronic disease management programmes, and assisted living facilities.
- **Growing middle class:** As disposable incomes rise, the demand for premium healthcare services, such as minimally invasive surgeries, personalised preventive care programmes, and aesthetic procedures is expected to surge.
- **Burden of non-communicable diseases (NCDs):** The prevalence of non-communicable diseases, such as diabetes, cardiovascular diseases, and cancer, is on the rise. Hospitals need to equip themselves to effectively manage these conditions through specialised departments, telemedicine platforms, and early detection programmes.
- **Emergence of rural markets:** Rural healthcare infrastructure presents a significant opportunity. Establishing satellite clinics, offering mobile diagnostic services, and developing cost-effective treatment models for prevalent rural diseases can unlock untapped potential.



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The advent of Digital Personal Data Protection Act (DPDPA) is pivotal for cybersecurity in healthcare. It sets strict guidelines for personal data handling, crucial for the sensitive patient information hospitals manage. During the entire patient lifecycle, personal data is collected and generated at various stages. A strong cybersecurity system shields hospitals and other healthcare institutions from various cyber threats such as ransomware attacks and data breaches. Investments in technologies such as intrusion detection systems, encryption tools, and secure network protocols are crucial. Regular security audits and employee training are equally essential to create a culture of awareness and resilience against evolving cyber threats.

In response to these trends, hospitals are tailoring their service offerings to better cater to the evolving needs of their communities.

- **Invest in geriatric care:** Develop dedicated geriatric wards, offer geriatric-specific rehabilitation programmes, and train staff in geriatric medicine to cater to the growing elderly population.
- **Embrace specialised departments:** Establish centers of excellence for high-demand specialties such as oncology, cardiology, and orthopedics to attract patients seeking quality care and premium services.
- **Leverage technology:** Implement telemedicine platforms to provide remote consultations, chronic disease management services, and mental health support, especially in rural areas.
- **Focus on preventive care:** Offer affordable wellness programmes, health screenings, and vaccination drives to address the rising burden of NCDs and promote preventive healthcare.
- **Partner with local communities:** Collaborate with local stakeholders to understand specific healthcare needs, offer targeted educational programmes, and develop culturally appropriate care models for rural populations.

Aligning services with local trends and catering to specific needs enables hospitals to unlock new revenue streams, improve patient satisfaction, and achieve financial sustainability.

- **Data-driven decision-making:** Analyse local demographic and epidemiological data to identify service gaps and inform investment decisions.
- **Strategic partnerships:** Collaborate with insurance companies, pharmaceutical firms, and other healthcare providers to expand reach and improve service delivery.
- **Operational efficiency:** Implement cost-saving measures such as resource optimisation, technology adoption, and improved inventory management to mitigate rising healthcare costs.
- **Community engagement:** Build trust and loyalty by actively engaging with the local community, addressing their concerns, and adapting services to their specific needs.

4.1.3. Diversifying the payor mix

Diversifying and streamlining the payor mix helps hospitals to maintain consistent cash flows and establish a resilient financial foundation. Several key strategies can be employed to achieve this:

- **Strengthening private insurer relationships:** Negotiating favourable contracts with private insurers, offering cashless treatment packages, and building trust among policyholders can attract private insurance referrals and enhance revenue.
- **Government contracting focus:** Actively participating in the tenders for schemes such as Ayushman Bharat expands the patient base and secures guaranteed reimbursements, providing a stable income source.
- **Niche service development:** Catering to the specific needs of niche segments, such as corporate wellness programmes or specialised procedures, attracts patients willing to pay out-of-pocket for premium care.
- **Exploring alternate revenue streams:** Venturing into ancillary services such as pharmacy, diagnostics, or laboratory testing diversifies income sources and improves overall profitability.
- **Efficient revenue cycle management:** Optimising billing and coding practices, minimising claim denials, and shortening cash conversion cycles ensure timely inflow of funds.

Diversifying the payor mix goes beyond financial metrics, yielding positive impacts on various fronts:

- **Improved patient access:** Partnering with different payors allows hospitals to offer affordable care options to a wider range of patients, promoting greater healthcare equity.



- **Enhanced financial stability:** Diversified funding sources reduce reliance on any single payor, mitigating risk and ensuring smooth cash flow in times of economic uncertainty.
- **Investment in infrastructure and expertise:** Increased revenue creates opportunities for reinvestment in advanced technology, skilled personnel, and specialised services, ultimately improving the quality of care provided.

While optimising the payor mix offers substantial benefits, hospitals must navigate challenges, such as:

- **Complexities of contracting:** Understanding different government schemes, negotiating with private insurers, and complying with regulations can be intricate.
- **Investments in marketing and infrastructure:** Attracting patients from new payor segments demands targeted marketing and improved service quality, requiring initial investment.
- **Potential for ethical dilemmas:** Hospitals must remain vigilant against unethical practices to maximise revenue, ensuring ethical standards are upheld.

Optimising the payor mix is an ongoing journey that demands careful analysis, strategic partnerships, and a commitment to ethical practices. By navigating challenges diligently and capitalising on the benefits, Indian hospitals can unlock sustainable growth, improve patient access, and contribute to a healthier future for all.

4.2. Cost containment

The healthcare sector faces critical challenges of revenue leakages, cost inefficiencies, and the burden of manpower and overhead expenses. In navigating these complexities, healthcare providers must strategically address these areas to fortify their economic foundations. By scrutinising and curbing revenue leakages, streamlining operational costs, and optimising manpower and overhead expenditures, healthcare entities can navigate the financial complexities and build a sustainable future.

4.2.1. Revenue leakages

The impact of revenue leakages emerges as a significant threat to the financial sustainability of hospitals. With escalating costs and limited resources, institutions, regardless of size, cannot afford to disregard the repercussions of revenue leakage. Unfortunately, the healthcare sector grapples with substantial annual losses, primarily stemming from issues such as uncollected or delayed payments.

4.2.1.1. Documentation and billing errors

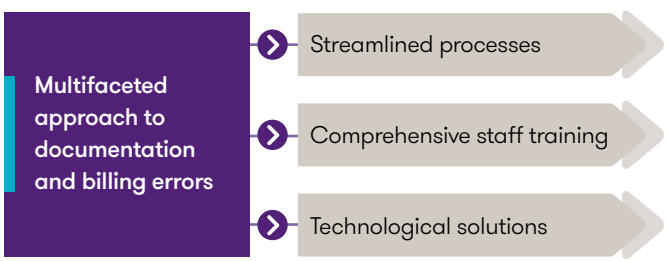
Documentation and billing errors represent a substantial risk to the financial stability of hospitals. The widespread reliance on manual data and billing entries, particularly in hospitals managing extensive patient bases, heightens the risk of inaccurate coding, primarily attributable to human error. The problem is compounded by inaccuracies in documentation, which not only give rise to billing and coding errors but also lead to denied or underpaid claims.

Standardisation of medical billing codes will help in reducing the errors when dealing with multiple insurers as each have their own billing codes. Such standardisation will also help in reducing the rework and improve the efficiency of the process.

The repercussions of these issues extend beyond the financial domain, creating operational hurdles in tracking and monitoring patients' accounts. This obstacle not only complicates the efficient collection of payments but also presents challenges in managing accounts receivable, further expanding the overall impact on hospital finances.

Solutions:

Addressing documentation and billing errors requires a multifaceted approach that combines technological solutions, streamlined processes, and comprehensive staff training.





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Grant Thornton Bharat

Operational excellence in hospital operations is a vital tool for administrators and clinicians as it can be deployed across various key result areas like revenue increase, costs reduction/containment and resources utilization improvement for improving EBITDA while addressing patient centered care, quality accreditations, technology integration, regulatory compliances, performance evaluation, training, etc. which are critical in hospital operations and impacting the four dimensions of healthcare: safety, timeliness, accessibility, and effectiveness.

By implementing these strategic measures, healthcare organisations can significantly reduce revenue leakages, ensuring financial stability and providing high-quality care to patients. These measures include:

1. Implement an integrated hospital management system:

- Integrate an easy-to-use hospital management system tailored to the specific requirements of the healthcare facility.
- Ensure seamless data flow, reporting, and alerting functionalities to identify and rectify mistakes and quality issues promptly.
- The system should encompass all departments, including store, pharmacy, lab, radiology, hospital accounting, and auditing.

2. Collect relevant patient data at the front desk:

- Ensure that patient registration functionality captures essential details, including insurance, contact, referral, personal, emergency contact, payer, and disability information.
- Accurate patient details facilitate better patient engagement, care, and payment tracking to minimise revenue leakage.

3. Patient engagement functionalities:

- Integrate communication management software for cost-effective patient engagement, incorporating SMS, WhatsApp, email, or other communication mediums.
- Replace paper-based record management with a robust patient registration system to enhance documentation.

4. Token management system:

- Implement a token management system to maintain real-time patient appointment data, monitor patient flow, and ensure billing accuracy.
- Enhance patient satisfaction by reducing wait times and streamlining communication through a completely automated hospital management system.

5. Create structured data for better hospital billing:

- Develop a structured hospital management system database to streamline patient engagement and billing processes.
- Ensure efficient processing, verification, and validation of bills to prevent revenue leakages caused by incorrect billing.

6. Train hospital staff on billing and documentation:

- Implement an effective training programme for the hospital staff, focusing on all functionalities, including billing and documentation.
- Equip the staff with the necessary knowledge and skills to process payments accurately, preventing revenue leakages.

4.2.1.2. Disallowances

The high level of disallowances, particularly for lower insured amounts, emerges as a critical factor influencing the financial stability of hospitals. The financial burden imposed by denied claims is compounded by operational challenges, hindering healthcare organisations' ability to efficiently track and monitor patients' accounts.

This, in turn, complicates the collection of payments and the management of accounts receivable. Hospitals are further burdened by the intricate and time-consuming appeals process, and negotiations with insurance companies to recover denied claims may not always yield success. Ultimately, denied claims contribute significantly to revenue leakage, posing a substantial threat to the overall financial health of healthcare institutions. Understanding the common reasons behind denied claims, exploring their implications, and implementing strategic solutions are imperative for hospitals in their pursuit of financial sustainability.

Common reasons for denied claims:

- Medical necessity: Insurance companies contesting the medical necessity of provided services can lead to claim denials.
- Preauthorisation issues: Failure to obtain preauthorisation from the insurance company may result in claim denials.
- Out-of-network providers: Claims may face denial if the healthcare provider is out-of-network for the patient's insurance plan.
- Patient responsibility: Denials can occur when patients have not met their deductible or coinsurance obligations.
- Additional causes for claim denials:
  - Duplicate claims: Filing two claims for the same encounter significantly contributes to claim denials, wasting healthcare dollars.
  - Filing outside time frame: Exceeding the specific time frame for claim filing set by each payer can lead to denials.
  - Incomplete provider credentials: Errors in insurance ID numbers on claims due to inaccurate data entry or outdated insurance cards can cause denials.
  - Non-covered services: Services deemed not medically necessary according to payer policies may face denial.
  - Bundled services: If a service is already part of another billed service, it might be denied as a duplicate.

Solutions to mitigate disallowances:

To effectively address denied claims and underpayment, hospitals must prioritise health insurance denial management. Without proper tracking and monitoring, hospitals risk significant revenue loss. Utilising hospital management systems designed for efficient tracking, processing claims correctly, and ensuring timely payments are crucial steps in preventing revenue leakage.

- **Specialised teams:** Dedicated team which works on reducing such disallowances percentages from various private and public insurers has helped the respondent hospitals in narrowing down this figure.
- **Proactive documentation:** Accurate and complete documentation is pivotal. Implementing robust documentation practices minimises billing and coding errors, reducing the likelihood of denied or underpaid claims.
- **Advanced hospital management systems:** Investing in integrated hospital management systems tailored to specific healthcare practices facilitates seamless data flow, efficient billing processes, and enhanced patient engagement. These systems should cover all departments, including store, pharmacy, lab, radiology, hospital accounting, and auditing.

- **Patient data collection:** Ensure that relevant patient data, including insurance details, is accurately captured at the front desk during the registration process. Accurate patient information aids in better patient engagement, care, and payment tracking, minimising revenue leakage.
- **Structured data for billing:** Develop a structured hospital management system database to streamline patient engagement and billing processes. Structured data enables more efficient processing, verification, and validation of bills, preventing revenue leakage caused by incorrect billing.
- **Staff training:** Comprehensive training programmes for hospital staff, including billing and documentation processes, are essential. A well-trained staff can process payments accurately and efficiently, reducing the likelihood of denied claims.
- **Prevention of fraud:** By incorporating these solutions, hospitals can not only save time but also secure the full amount owed to them from insurance companies. Proactive measures in denial management not only contribute to financial resilience but also enhance the delivery of high-quality patient care, ensuring a sustainable future for healthcare institutions in the face of disallowances and revenue leakage.

4.2.1.3. Pricing and charge capture errors

The consequences pricing and charge capture errors manifest in a dual threat – undercharging poses the risk of incomplete compensation for services rendered, while overcharging may engender trust issues with patients, casting a shadow over the hospital's reputation and inviting potential legal repercussions, such as civil penalties. To navigate these pitfalls, investment in a robust auditing system and comprehensive training for healthcare teams becomes imperative.

According to Grant Thornton's assessment of top six publicly listed hospitals in India, these charge capture inefficiencies, constitute to around 1% of net revenue loss for healthcare facilities annually. To address these inefficiencies, a multi-faceted approach is necessary.

Sources of errors:

Computer glitches: Technical malfunctions in the hospital's systems can result in incorrect pricing and charge capture, leading to financial discrepancies.

Human error: Manual entry of data and pricing information is susceptible to human error, a significant contributor to pricing and charge capture mistakes.

Improper training: Insufficient training of healthcare staff in charge capture processes can lead to inadvertent errors, further amplifying the financial impact on the hospital.

Solutions:

Thorough training of new employees in charge capture processes is pivotal, ensuring every staff member is proficient in accurate data entry and pricing. Establishing a clear auditing plan becomes essential to detect errors before they impact the hospital's financial health. Automation of processes, especially data entry and pricing, emerges as a strategic imperative, minimising human mistakes and streamlining charge capture for sustained financial health. In essence, strategic investments and a proactive approach are indispensable for hospitals aiming to mitigate the risks associated with pricing and charge capture errors and secure their financial sustainability.

4.2.2. Cost leakages

As hospitals and healthcare providers navigate the complexities of delivering quality care amidst rising operational costs, addressing these twin challenges becomes not just a prudent approach but a strategic imperative. Cost leakages, whether through inefficiencies in procurement, redundant processes, or wasteful expenditures, undermine the fiscal health of healthcare institutions. Simultaneously, the judicious management of manpower and overhead costs is pivotal, considering the substantial share they claim in the overall budget.

From scrutinising operational processes to optimising workforce management, the adoption of innovative strategies in this domain is not merely a fiscal exercise but a strategic investment in the long-term viability and resilience of the healthcare ecosystem.



Cost assessment of private hospitals in India:

In the pursuit of financial sustainability, a critical lens on cost management becomes important for healthcare institutions. A detailed assessment of the financials for FY23 of leading publicly listed hospitals – Apollo, Narayana, Max, Medanta, Fortis, and KIMS – provides an understanding of their expenditure patterns.

The assessment helps in the identification and evaluation of potential cost leakages, an aspect crucial for the long-term economic viability of healthcare providers. The aim is to disclose areas of potential inefficiencies that may contribute to financial leakage within these institutions.

- **Operational efficiency:**
  - **Lean healthcare practices:** Streamline processes to eliminate waste and improve efficiency across departments.
  - **Technology adoption:** Utilise electronic health records, automation tools, and telemedicine to reduce administrative costs and improve workflow.
  - **Resource optimisation:** Optimise scheduling, staffing, and equipment utilisation to reduce idle time and unnecessary expenses.

For FY 2023[12]	Apollo	Narayana	Max	Medanta	Fortis	KIMS
Revenue in INR crore	**6,676**	**3,066**	**2,049**	**2,021**	**1,203**	**1,156**
Total expenses (as a % of revenue)	**73%**	**81%**	**64%**	**77%**	**76%**	**67%**
Cost of materials consumed	**28%**	**23%**	**17%**	**23%**	**22%**	**20%**
Medical consumables, drugs and surgical instruments (INR Cr.)	1%	1%	1%	2%	1%	2%
Employee benefits expense	**19%**	**18%**	**18%**	**26%**	**15%**	**16%**
Other costs	**26%**	**39%**	**29%**	**28%**	**40%**	**30%**
Retainer / Profession and consultation fee to doctor	7%	20%	18%	9%	17%	17%
Power and fuel	2%	2%	1%	2%	1%	1%
Maintenance	3%	4%	1%	3%	2%	2%
Rent	1%	1%	0%	2%	1%	1%
Patient catering and welfare	1%	1%	1%	1%	1%	1%
Housekeeping	2%	3%	1%	3%	0%	2%

Few methods that the respondents are pursuing to control cost leakages:

- **Procurement and inventory management:**
  - **Bulk purchasing:** Negotiate better deals with suppliers by pooling demands with other hospitals or leveraging group-buying organisations.
  - **Inventory optimisation:** Implement data-driven stock management systems to minimise near expiry products and avoid overstocking of consumables such as implants, etc.
  - **Standardisation of medical supplies:** Reduce variety while ensuring quality to lower procurement costs.
- **Revenue optimisation:**
  - **Coding accuracy:** Train staff on proper coding practices to maximise reimbursement from insurance companies.
  - **Revenue cycle management:** Implement efficient billing and collection systems to minimise payment delays and bad debt.
  - **Service diversification:** Offer value-added services such as wellness programmes, preventive care packages, and concierge services to generate additional revenue.
- **Cost-effective staffing:**
  - **Skill-based staffing:** Utilise paramedical staff and administrative personnel for tasks not requiring doctor intervention.

[11] Company financials

- **Outsourcing non-core functions:** Outsource non-medical services such as housekeeping, security, and laundry to reduce overhead costs.
- **Training and development:** Invest in staff training to improve skills and reduce errors, potentially lowering costs associated with re-treatment and complications.

- **Additional strategies:**
  - **Energy efficiency:** Implement energy-saving measures such as LED lighting, VFDs installation, IoT devices for energy monitoring, smart building automation, and efficient medical equipment to reduce energy bills.
  - **Waste reduction:** Minimise medical waste generation through proper segregation, recycling, and waste disposal practices.
  - **Transparency and accountability:** Foster a culture of cost consciousness through transparent expense reporting and employee engagement in cost-saving initiatives.
  - **Quality:** Leaders of healthcare organisations need to govern for quality by adopting a shared vision of quality care, a clear quality strategy, strong regulation, and continuous learning. Certifications such as JCI and NABH help to establish the healthcare institution as a trustworthy brand that increases patient footfalls.

In conclusion, this cost assessment highlights varying strengths and areas for improvement among leading hospitals. Best practices in cost containment and efficient allocation of resources can serve as benchmarks for others striving to enhance their financial sustainability. It is imperative for hospitals to leverage these insights, adopting a proactive approach in optimising costs while maintaining high-quality healthcare services to ensure a resilient and financially sustainable future.



Nitesh Jain
Partner, Business Consulting,
Grant Thornton Bharat

Leaders of healthcare organizations need to govern for quality by adopting a shared vision of quality care, a clear quality strategy, strong regulation, and continuous learning.



Anirudha Chakravarty
Director, Business Consulting,
Grant Thornton Bharat

The focus on quality for improving healthcare performance is not only about benefitting communities, but also a meaningful investment for healthcare organizations to gain financial sustainability. High quality performance in delivering healthcare services leads to enhancement in revenue generation and reduction in cost of operations, thus resulting in improved profitability, the indicator for financial sustainability, wherein healthcare organizations can maintain positive financial ratios.

4.3. Trends

Amidst rising costs and shifting patient expectations, technological advancements are emerging as a powerful ally for hospitals and healthcare providers. By embracing tech-driven solutions across various aspects of care, institutions cannot only enhance patient experience and improve quality, but also unlock avenues for sustainable revenue growth.

4.3.1. Digital transformation

- Electronic health records (EHRs) are a transformative leap. By streamlining patient journeys, eliminating redundant tests, and facilitating data-driven clinical decision-making, EHRs not only improve care quality but also reduce resource wastage, lowering costs.
- Implementation of EHRs across network hospitals has not only boosted operational efficiency but also led to a 15% reduction in unnecessary investigations, directly impacting bottom lines.
- Further amplifying this data-driven approach are clinical decision support systems (CDSS). By analysing vast datasets of clinical trials and outcomes, CDSS can significantly improve treatment success rates while reducing unnecessary interventions.

4.3.2. Reimagining of patient care through telemedicine:

- Physical walls no longer define the boundaries of healthcare, thanks to telehealth platforms and apps. Virtual consultations enable doctors to reach patients in remote areas, improving access to specialists and reducing unnecessary hospital visits. This translates to lower overhead costs for hospitals and increased convenience for patients, leading to higher service satisfaction and potential loyalty.
- Narayana Health's telemedicine platform, Swasthya Mitra, connects patients across rural India with specialists in urban centers. This not only expands their reach but also generates revenue through remote consultations, contributing to financial sustainability.

4.3.3. Patient-centric solutions:

- Optimising outpatient department (OPD) management can be a game-changer for hospitals. Appointment-scheduling apps such as Practo allow patients to book appointments online, reducing wait times and boosting operational efficiency. This not only translates to improved patient satisfaction but also allows hospitals to see more patients, potentially increasing revenue.
- Max Healthcare's use of tele-OPDs during the pandemic not only ensured patient safety but also led to a 30% increase in consultations, showcasing the potential of technology to boost revenue streams.
- Beyond scheduling, technology can personalise patient care. Service models such as subscription-based chronic disease management platforms or on-demand mental health therapy apps cater to specific patient needs, fostering loyalty and generating recurring revenue.
- Fortis' 'Fortis La Femme' app offers personalised healthcare services for women, while DocsApp provides on-demand consultations with mental health professionals, both tapping into niche markets and diversifying revenue streams.

4.3.4. Precision medicine

- Imagine treatments tailored not just to diagnoses, but to the unique genetic and biological makeup of each individual. This is the promise of precision medicine, where technology such as next generation sequencing and big data analytics are harnessed to identify the most effective treatments for specific patients. While still in its nascent stages, precision medicine has the potential to reduce unnecessary and ineffective treatments, leading to significant cost savings for hospitals.
- Tata Memorial Hospital's use of genetic testing to guide cancer treatment plans is an example of the potential cost-effectiveness of this approach. By identifying patients who would benefit from targeted therapies, the hospital can avoid administering costly, and potentially ineffective, broad-spectrum treatments.

4.3.5. Value-based healthcare:

- Value-based care is a form of reimbursement in which payments to the healthcare providers for care delivery is made based on quality of care provided. Under value-based care model, healthcare providers are rewarded for helping the patients improve their health, which consequently reduces the effect of disease in the population in the long term.
- The need for value-based care is realised because of increasing healthcare expenditure, excess healthcare costs attributed to unnecessary and inefficient services, along with uncoordinated care.
- The major aims of value-based care are implementing the continuum of care, enhancing patient experience, standardising outcome and the cost of care, and treatment delivery through a collaborative chain of activities with measurable outcomes.
- Implementation of value-based care would require public financing, resource availability, utilisation of technology and a collaborative ecosystem. In the context of the Indian healthcare system, which largely operates on the fee for service model and has high out-of-pocket expenditure, inadequate infrastructure and technology support, implementing value-based care would require in-depth strategic and financial planning, along with transformation of the delivery model. The government is also expected to play a significant role by implementing enabling policies. Going forward, Ayushman Bharat, with its focus on government funding and preventive as well as curative care, will lay the foundation for value-based care implementation in India.
- Aravind Eye Care System, a network of hospitals dedicated to providing low-cost, high-quality cataract surgery, combines systematic tracking of health outcomes with an integrated approach to care delivery. It has the same result as of the world best providers, about 10% of the cost per surgery in the United States.

Conclusion

Our research findings indicate that prominent healthcare providers in the country are supportive of the government's ambitious objective of achieving universal health care (UHC) for all citizens by 2030, a goal integral to realising other committed sustainable development goals.

UHC mandates ensuring that the population has access to a comprehensive range of high-quality health services when and where they need them, without facing significant financial hardship. Hospitals are actively navigating the pursuit of this trinity - availability, accessibility, and affordability - while also maintaining their financial viability.

In essence, the multifaceted strategies adopted by Indian hospitals to attain financial sustainability in the dynamic healthcare landscape underscores the paramount importance of financial stability. This pursuit revolves around the pivotal roles played by revenue expansion, cost containment, and technological innovation. The strategic emphasis on expanding bed strength not only addresses the acute shortage of hospital beds but also strategically contributes to revenue generation. A comprehensive approach to cost containment, involving nuanced analyses of revenue and cost leakages, manpower management, and overhead expenses, is highlighted as imperative. The outlined strategic solutions, ranging from efficient procurement practices to technology-driven operational efficiency, serve as a clear roadmap for healthcare institutions seeking to fortify their financial resilience.



About Association of Healthcare Providers (India)

AHPI represents the vast majority of healthcare providers in India. It is registered under Indian Society Registration ACT- 1860 as "not for profit" organization. It educates to its members and at the same time, advocates with the government, regulatory bodies and other stake holders on issues, which have bearing on enabling its member organizations in delivering of Universal Healthcare Services to the community at large.

AHPI's vision is to have healthy India, encompassing society, community and common man at grass root.

AHPI works with all stake holders in establishing a national system where, common man can avail assured universal access to basic health services. The Federation facilitates its members and partnering bodies, in carrying out healthcare improvements to serve the community effectively and efficiently.

AHPI undertakes advocacy for healthcare reforms, infrastructural issues, taxation and tariff issues, health insurance concerning matters and any other difficulties face by the healthcare organisations or community for healthcare delivery or obtaining healthcare services with equity. The AHPI Institute of Healthcare Quality develops and conduct various healthcare management courses focusing on patient safety and healthcare quality, whereas AHPI Healthcare Certification Centre an another subsidiary body of AHPI develops standards for different categories of healthcare establishments, certification of compliance of various standards by the healthcare agencies and customised certified training programs and training (QMS and healthcare managerial training) for the industry. AHPI also provides information assistance to its member organization on various problematic issues face by the client members.

AHPI in a short period of time has become the esteemed organisation in the healthcare industry comprising of about 10,000 hospitals as its members.

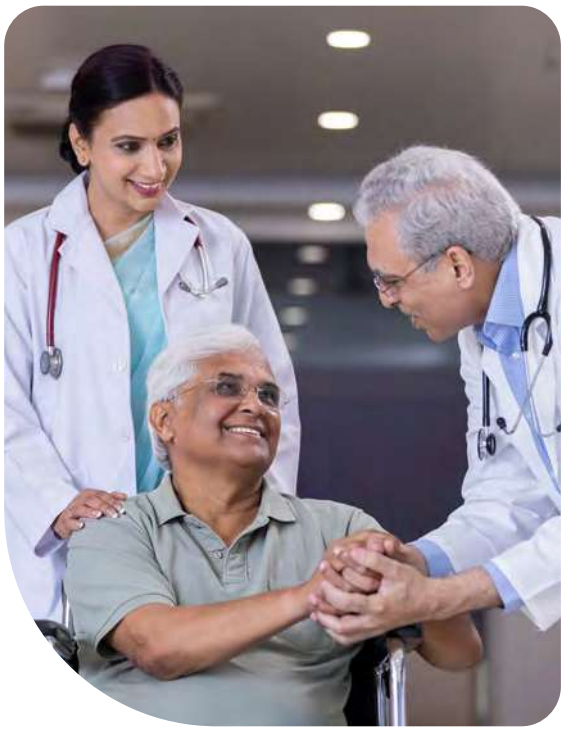
AHPI aims at integrating healthcare providers to work jointly with the stakeholders including government and society for well being of common man and build healthy India. To make this task easier we have divided the work and created empowered teams at the state level. Maharashtra, Karnataka, Tamil Nadu, Gujarat, Delhi NCR, Jharkhand, Andhra Pradesh, Telangana, Rajasthan, Punjab, Kerala, Odisha, North East, MP and West Bengal now have AHPI chapters.

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