Economics of Health and Healthcare
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Lecture - 27
Mechanisms of Health Financing

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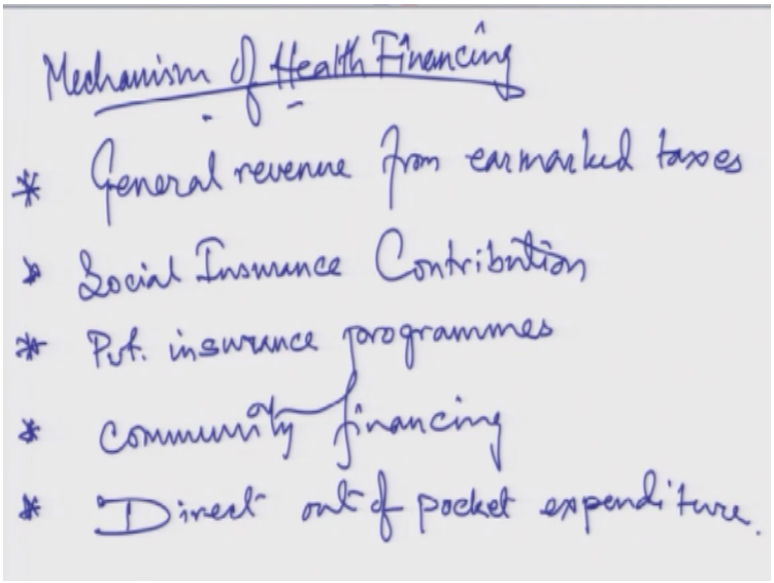

Mechanism of Health Financing. So the again, this primarily talks about you know the; it primarily talks about the; of sources and how do they work and then we will talk about these sources you know separately. So 1 is general revenue from your marked taxes or ear marked taxes whatever, which comes from the government. The second 1 is social insurance contribution. The third 1 is private insurance program. The fourth 1 can be community financing. It can be an insurance; it cannot be an insurance.

The fifth 1 is direct out-of-pocket expenditure. So each of it has a distribution mechanism and these financial burdens and benefits they distribute differently. You know the social insurance contribution their target population is different from our private insurance programs or from any particular schemes you know funded by the marked taxes or the direct out-of-pocket expenditure, the amount of direct out-of-pocket expenditure and to whom these expenditures are being made.

So they are very different from population to population from across different socioeconomic backgrounds and each method affects the health seeking behavior differently. It affects the implication on the financial status of that household differently and it has different implication thus to the financial protection of the overall society and individual of course. Therefore, if I try to discuss about this mechanisms one by one what happens.

The first one is of course the government budgeting, which comes from the general revenue of the government. That is a government's income, general revenue of the government through ear marked taxes.

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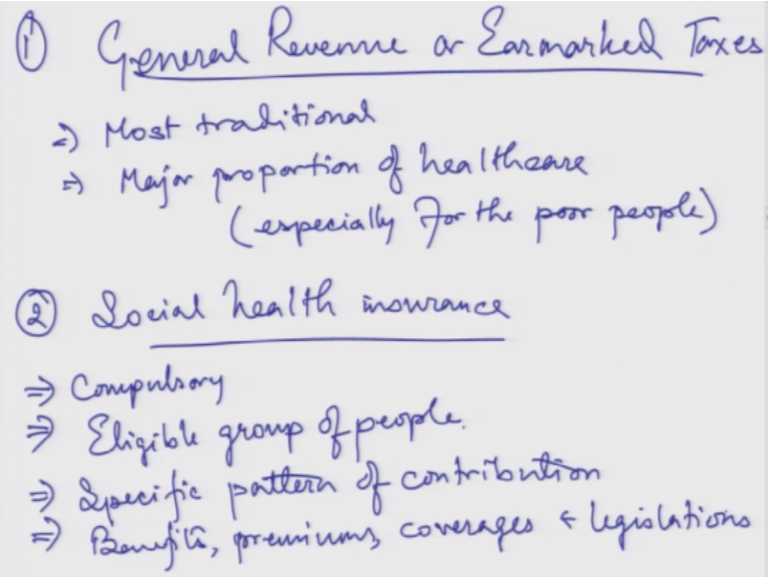

So general revenue or ear marked taxes. So this is the most traditional way of financing if not out-of-pocket expenditure. Of course the government takes care of the people's, individuals health and they pay for that. So government has they say your own you know health system mechanism or the primary, I mean public sector takes the major responsibility of people's health, then this is the most traditional way of again if not the out-of-pocket expenditure taken into consideration.

And it finances a major proportion of the healthcare, especially for the poor people you know, because they whatever will happen if they can afford they will come to the government hospital.

Or if there is a you know some critical treatment is required they will come to a government hospital. Otherwise if there is no government institution, let us say primary health center, community health center, they can go for a traditional healer or some quacks nearby you know there are even now a lot of a high percentage of birth takes place at no institutional delivery.

So it takes place at home or some untrained guy or somebody. Around maybe not less than 40 percent in most of the sub standard African countries. You know the scenario has improved a lot in India in last one or two decades. In Bangladesh, in Sri Lanka they have done exceptionally well, but you know but still in these developing countries we for any major health you know treatment, we rely upon the government institutions. So the second 1 can be social insurance or social health insurance.

It is compulsory as mentioned. It is compulsory, because most often it is funded by the government and it is not for everyone, an eligible group of people which government things need to be covered or which a particular organization things need to be covered, eligible group of people and it follows a specific pattern of contribution, say under CGHS they pay a certain section of the salary.

The contribution rate is higher, even though the coverage is absolutely same for a top-level officer to the group D staff, you know the coverage is absolutely same. The benefits are absolutely same, but the contribution which comes from different you know the lower level employees, they will have a lower share of their salary going to the CGHS, where the top level managers they will have to pay a largest section of their salary.

So their contribution is more and so, it is not similar everywhere. Say for a particular scheme ESIS may be you know those who earn something close to rupees 137 per day. For them, there is no contribution in if anybody earns more than 137 per day, they have to pay 1.75% towards this ESIS scheme. So it is like that. So there is a specific pattern of contribution under its schemes, under its social health insurance program.

And you know this, the benefits, the premiums, coverages all are decided through legislations because it is often by the government, so you know it has to be passed as a bill. So it comes is through the legislation as a bill and it follows a formal political process to get this particular legislation passed or particular health scheme passed. And this is and these 2 are broadly the government related health financing mechanisms and then the major private health financing formal mechanism is private insurance.

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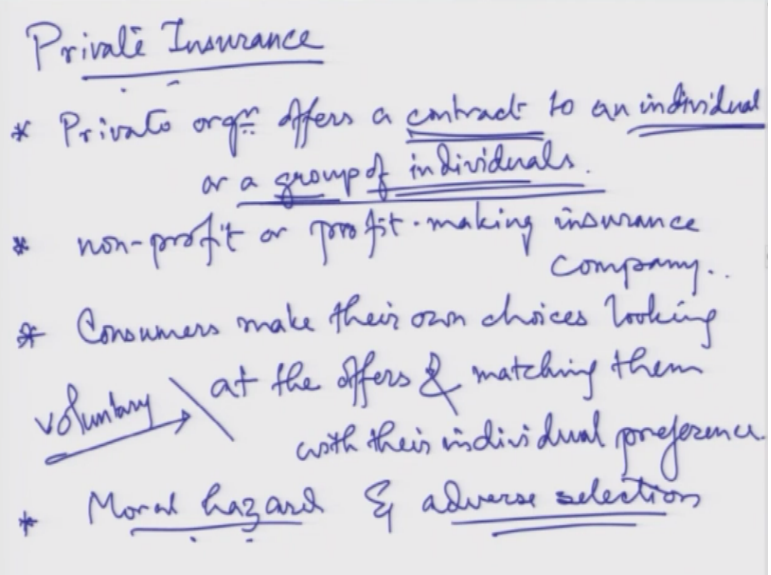

Private insurance, now what happens in private insurance or private contract, a private organization offers the contract to an individual or a group of individuals and this contract talks about what should be the premium, how much that individual has to pay, if there is a claim under that insurance when the patient or somebody under that particular insurance is ill, then how much the insurance company is going to pay.

How much the patient is going to pay that is the known as indemnity and co-payment respectively. If the insurance company is paying that is indemnity, if the patient is paying that is co-payment and together it is 100% the total payment and for how long it is covered, which are the hospitals that they can go, which are impaneled under these schemes, who are and which are the diseases of course are covered, whether there is health check-up whether this cardiovascular disease whether dengue is covered and all these things.

So that is basically a health insurance private health insurance contract and it is basically marketed either by nonprofit, if it is an NGO based or a profit-making insurance company. Finally, here it is as voluntary the consumers make their own choices looking at their offers and matching them with their individual preference. So it is very voluntary. So this talks about voluntary payment. That the consumers make their own choices based on their preference.

If you give me a coverage of, I am 50 years old, I have not married and you will see that I will cover the pregnancy benefit for your family hardly matters. So I will not be unnecessarily for those benefits which probably so I would like to customize it or I would like to you know there are plenty of insurance companies. So I would like to get that 1 which you know will with my requirement.

Where they do not really ask me to charge for the unnecessary benefits, which I do not require, but what happens is there is always you know the problem as it is they are I said here it is an individual or a group basis. So either they will approach the patients, I mean the individual customers or they will all approach the organizations, where they can avail a group of individuals together under a particular socio-economic background or professional background.

And which actually is giving them a large business and at one time, with the lesser effort. So it can be other end, the individual level or the group level and then the policies really, really change whether it is group level or individual level, the bargaining takes place. So that can be dealt with in a different session, whereas in this private insurance there are 2 problems they face. One is moral hazard that you know even if I do not require a particular hospitalization, I still go.

So that is moral hazard under private insurance schemes because where my private insurer will pay for me. So I do not really mind and that is where these private insurance companies are making losses because this unavoidable hospitalization, which the consumer or the patient has to be by their own. So they are not doing that; they are passing the cost upon the health insurance companies.

They still can do that because they say that we are paying for so many years and it is the first time, I am availing or something like that. They still have a justification where the hospitals play this game towards their own benefit that you know not all, but of course few so they allure the patients that because it also generates one night extra stay or even if unnecessary but one days stay in a hospital will give them will occupy a bed for them.

They can charge a higher bill. So that is one moral hazard and another one is adverse selection because once they go for this in a country's, the country like India where the market is developing these private insurance companies are really competing with each other. It is a strong competition and everybody tries to get or sell their insurance to the healthy people because in that case they will earn money because they will get the premium, but they do not have to pay anything.

But in that case maybe many of their potential customers, they are lying that they do not have any physical adversities. They have followed good healthy behavior, so that is why and if they are lying then you know even if the health insurance company do not expect that these people will fall sick, they fall sick and then the private health insurance company has to make an unexpected payment.

So they may make losses because of these 2 causes you know moral hazard and private health insurances and the third one is that under group insurances as I said, it is basically estimated based on these with the characteristics of a particular group and they also consider several things and that also happens in for an individual insurance, that they will look at age, gender, socio-economic background, their health profile and all these things before they sell the insurance.

Because based on those parameters, they decide what will be the premium for that particular individual. The next one is that community based financing.

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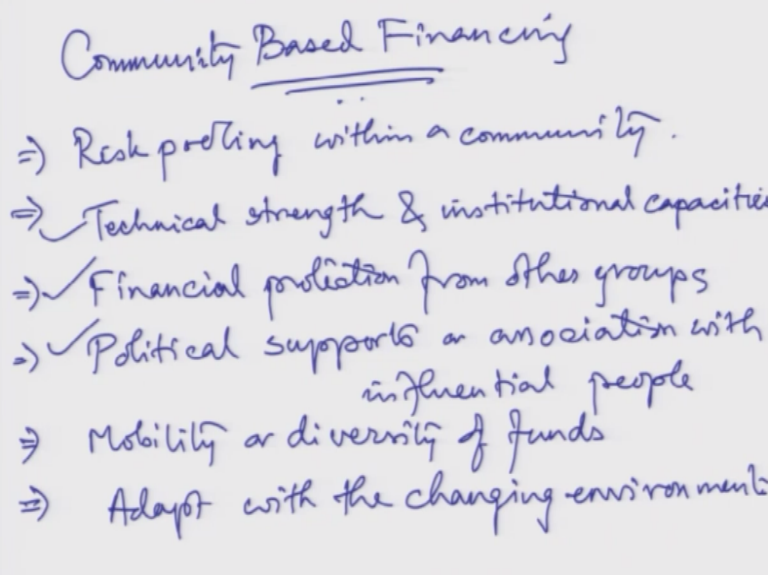

So in community-based financing, it basically refers to a particular community. They all you know form a network and then they pool money. So it is a risk pooling within a community. Now that community can be say for those who diabetes, they have a high chance to generate infections like say lung infections or respiratory problems. So a particular NGO comes forward or a particular organization comes forward.

They try to convince everybody, bring everybody together and then try to sell or try to form a health insurance mechanism and who are all these you know the employees or those who are associated with this industry or are interested to join this community health financing program, they contribute a very low amount of the money and then they pool that money and whenever anybody of that community falls sick, they can you know utilize that money.

But then this community based financing is not a very easy task you know to operate with because it requires a lot of technical strength, because they are dealing with people who are poor, who often can fail to make the payments on their contributions, technical strength and institutional capacity. They are also unaware of these you know the health hazards, its implications and all these.

So it is mobilizing them, continuing with the scheme is really challenging and you know to continue years after years to meet with any particular adverse situation so they may also require

financial protection from other groups political supports or association with influential people, so you can understand that with this they are actually trying to strengthen their network you know mobility or diversity of funds from other sources.

So if they are working on this agricultural risk protection as well as health risk protection, the same organization, if there is a health calamity they can probably pool the fund from this agricultural risk protection fund towards this to meet this health calamity. With this political support, technical strength, they can if there is a problem they can probably you know convince the people by their influences of these political leaders.

Or they can use their influences to gain or to ambulance or to mobilize a particular private clinic or to arrange health camps and all these things and this is very, very important and the finally this community based financing organization, organizers or administrators should be able to adapt with the changing environment. So whichever the particular condition, the scenario lies they should have to adapt themselves and act quickly.

Because these people they are mostly illiterate or with having low education, low awareness may often fail to understand you know this particular necessities and these interventions and the implications of this intervention. So they may drop out very often. So it is very important that they adapt with the changing environment to the perception of the people you know if the people are migrating or changing their job, so what should be again the transiting risks.

So everything has to be understood or if there is a kind of the change in the political environment over there then how to manage with that. So this community health financing administrators or organizers have to really be connected strongly with the grass root. The last one is the direct out-of-pocket expenditure.

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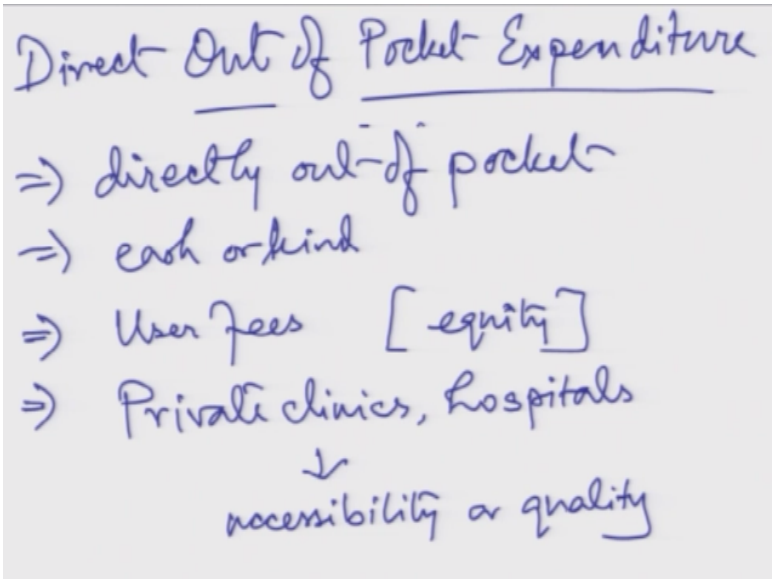

So this is the out-of-pocket expenditure, which a household directly pays from their pocket. It can be cash, it can be kind to meet their treatment costs and they pay it to the healthcare providers. So generally if it is known as user fee that means they are paying to the government institutes and all, but then there have been debates that whether it is right to keep some user fee in government institutes, but the user fees are often very, very nominal.

It is a very low amount, but then it has been argued that okay user fee is required that generates the accountability among the patients as well as it you know it generates some, even if it is a very small fund but of course generates some fund, which can be utilized towards the development of that facility. So you know the user fees is even though it is debated, but it is still there you know. So this if I go to a government hospital, I need to get a ticket, 20 rupees or something like that.

That can be called as a user fee and however the major objections raised in terms of user fee is equity you know that there are many people who could probably afford a higher payment and but they still go to those hospitals where which are meant for the poor people and then get the treatment paying 20 rupees only and then that increases the number of you know the patients in a particular hospital or the care seekers and which delays the entire process.

And who actually lose the most are the ones who have come from a faraway place, the ones who is losing money by losing a day and you know being more impoverished. So the major debate or

the major contention raised was in terms of equity in terms of user fee, but at the same time when it is you know towards the private clinics, hospitals then nothing can be done because that has a question in terms of either accessibility of the government health facilities or the equality has been a under question of the government health facilities.

So this out-of-pocket expenditure from this individual part has you known basically been more with the percentage share of the out-of-pocket expenditure has mostly been out of this private healthcare facilities in most of these developing countries. So, and that is why out-of-pocket expenditure has remained as some very, very major indicator of the you know status of the healthcare system in a particular developing country or the development in terms of health.

So thank you very much. You can access this data again through several websites as well the main one can be World Bank, which gives a basic idea and otherwise I will ask you can also go across the schemes. So that gives you idea. There are schemes like community health insurance, like say Accord and all; also there are plenty of community health insurance schemes, social health insurance schemes for the government.

The budgeting you can go by through the budget documents in terms of the health aspects, so and which gives you the broad idea about the health financing in any country or in India. Thank you.