Trade

PART THREE OF A SERIES

Medical entrepreneurs on the subcontinent gear up to build and staff high-quality hospitals to serve well-to-do Indians and foreigners on a budget—including a *National Journal* reporter.

Bedside India

By Bruce Stokes

NEW DELHI—The most striking aspect of Fortis Healthcare's Rajan Dhall Hospital may be what it lacks. Rajan Dhall, located in the middle-class Vasant Kunj neighborhood of south New Delhi, doesn't smell like a hospital. Absent is the scent of disinfectant and disease that is so pervasive in most medical centers. And the dreary claustrophobia felt in so many institutional settings built for function rather

than for human beings is not present, either; the hospital's soft-green walls and oddly angled corridors lighten the mood. Finally, the red-sari-clad attendants walking the halls bear no resemblance to Ken Kesey's infamous Miss Ratched.

This reassuring first impression is by design. Jasbir Grewal, Fortis's vice president for operations, worked in East Asia for the Hilton hotel chain for years. He knows that initial experiences matter to people, be they overnight lodgers or sick patients. "We are a hotel delivering clinical medical excellence," Grewal said, reflecting Fortis's ambition to provide first-class, private health care for India's burgeoning middle class and for a growing number of foreigners.

This reporter spent six hours being poked and prodded during a comprehensive executive-fitness checkup at Rajan Dhall, and the experience confirmed that Fortis provides world-class medical services with a hotelier's touch, and at cut-rate prices.

On the hospital's spacious lower floor, a dozen examination rooms for outpatients surround a well-appointed waiting area. The décor and atmosphere is more airport business lounge than public health clinic. Gracious aides usher patients from test to test. Hurry-up-and-wait brusqueness is kept to a minimum, reflecting a finely tuned patient flow. Medical technicians are courteous but definitely on a schedule, juggling multiple procedures. Yet the final interview with a doctor to review the results, the interaction that is undoubtedly the most important to the patient, is unhurried and complete, taking a full half hour. Many of the tests performed—an echocardiogram, a stress test, a lung-function test, and an ultrasound of internal organs—would never be part of a basic annual physical in the United States. In America such examinations simply cost too much. Here the total bill was $125. A comparable battery of tests in Washington would cost at least $4,000, a difference that would have more than covered the entire cost of a trip to India.

The number of foreigners who come to India each year for such checkups, or for more-extensive surgical procedures, is not huge: fewer than 200,000 a year, and these visits generate about $300 million in revenue for Indian hospitals. That amount, however could grow to $2 billion a year by 2012, according to an estimate by the management consulting firm McKinsey & Co. In the $800 billion Indian economy, $2 billion is small change. But to put that sum in perspective, it is more than the Indian auto parts industry earned from exports in 2005.

India has high hopes for medical tourism. Currently, most such visits are by patients who somehow find their own way here for treatment; it is a hit-or-miss interaction. In the future, Indian health care providers, such as Fortis, foresee medical tourism becoming a much-higher-volume business, in which patients' insurance companies steer them to India because of the nation's reputation for low-cost, high-quality elective surgery. In this way, India hopes to capitalize on its pool of skilled, English-speaking doctors and nurses to better integrate its economy into the global market and to diversify its service exports, now heavily dependent on software and call centers. (When India treats a foreigner in one of its hospitals, it is, on the country's balance sheet, an "export" of services.) "India will become the global health care hub," predicted Harpal Singh, Fortis's chairman.

Most of India's foreign patients do not come from the United States. And the outsourcing of large numbers of American medical procedures to India is still some time off. The subcontinent is too far away, too exotic, and too poor for all but the most adventurous or the most cash-strapped Americans. India still lacks brand-name hospitals and easy physician follow-up. And if something were to go wrong, a patient would stand little chance of successfully suing.

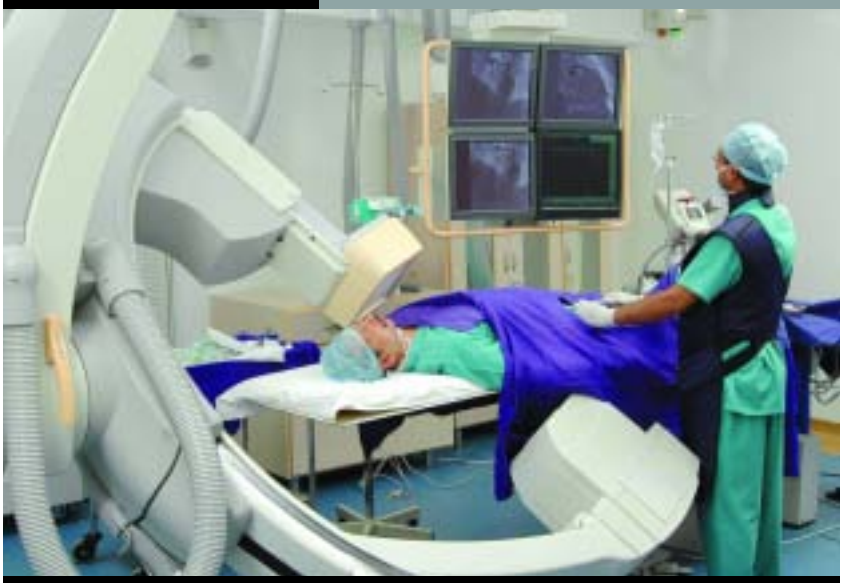
But as Americans scramble to pay runaway health care bills, India promises to draw more and more cost-conscious patients from overseas. The financial savings for foreigners are so compelling that it is only a matter of time before private U.S. insurers and the corporations that foot many of the health insurance bills of their American employees offer treatment options in India.

Private-Sector Challenge

Health care is the largest service industry in India in terms of revenue and the second largest, after education, in terms of jobs, employing more than 4 million people. Yet overall, India's health care system is in shambles—overstretched and underfinanced. India spends only 4.8 percent of its gross national product on medical care, less than China and far less than the United States. For every 10,000 patients, India has only six physicians, eight nurses, and nine hospital beds. That is 64 percent fewer doctors, 17 percent fewer nurses, and 64 percent fewer hospital beds per capita than in China.

Private upscale hospitals such as the Fortis facility are the exception in India, not the rule. They are primarily an outlet for the well-to-do and for foreigners who can afford to travel here—a thin veneer on top of a vast table of underserved patients.

Modern Equipment

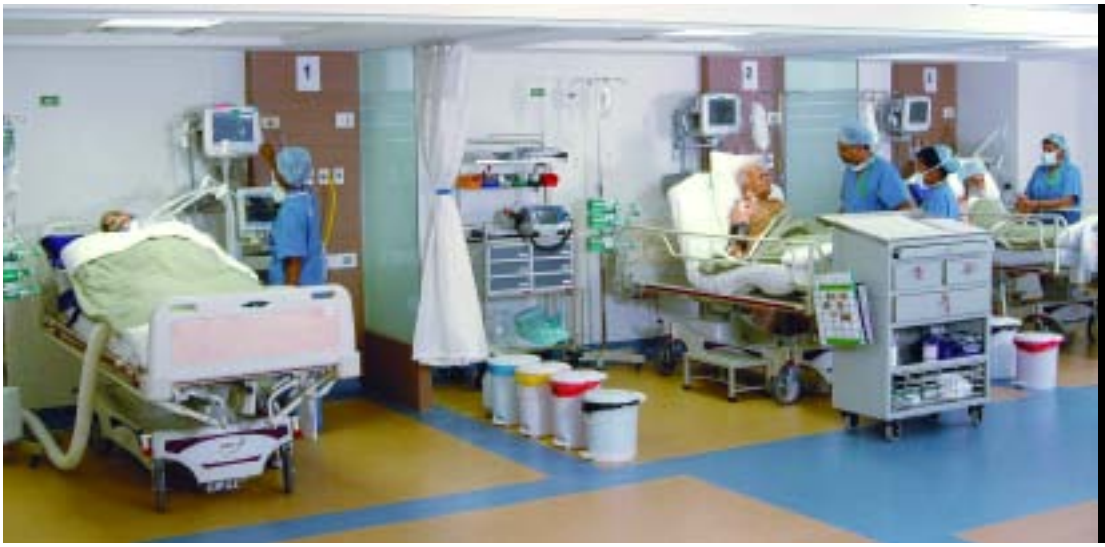


FORTIS HEALTHCARE

New private Indian hospitals come with the latest technology, but foreign patients still want some assurance that the standards of care are high.

NEW HOSPITAL
The 120-bed Rajan Dhall Hospital, named for an Indian fighter pilot, will eventually grow to 200 beds. It has three deluxe suites often used by foreigners.

PHOTO (OPPOSITE PAGE): BRUCE STOKES



FORTIS HEALTHCARE

- A six-hour, comprehensive, executive-fitness checkup that could cost $4,000 in the U.S. costs $125 in India.
- India hopes to capitalize on its pool of skilled, English-speaking doctors and nurses.
- Critics say that medical tourism is luring doctors away from the public health sector and the rural areas of India where they are needed most.

Improving the availability of health care for all parts of India's society is a staggering challenge. The World Health Organization estimates that India needs to add 80,000 hospital beds a year over the next five years; McKinsey, in turn, says that India must invest at least $77.9 billion in health care by 2012 to meet expected demand.

Competing priorities to build roads and schools put such investment in health care beyond the Indian government's means. As a result, McKinsey estimates that 89 percent of new capital spending for health care will have to come from the private sector.

Fortis Healthcare

India's private hospitals already provide more than half of the country's hospital beds. But for-profit facilities are often little more than private clinics, with four in five having fewer than 30 beds. Recent economic good times and the prospect that private-hospital revenue could double by 2012 have triggered a boom in the consolidation and expansion of the private health care business in India, and many large, modern, highly efficient facilities such as Rajan Dhall are under construction. "We are redefining the parameters and raising the benchmarks," Singh said.

Rajan Dhall, named after an Indian fighter pilot killed in the country's 1971 war with Pakistan, opened in July. The sleek, low-rise, 120-bed facility, which will eventually grow to 200 beds, has three deluxe suites—often used by foreigners—where family members can stay with patients. It also has a luxurious presidential suite. With 80 doctors on staff and scores of consultants, the hospital specializes in cardiac care, joint replacements, diabetes, and renal and respiratory diseases.

Rajan Dhall is one of the newest links in a chain of hospitals either owned or managed by Fortis Healthcare, a company established in 1996 by the family that started Ranbaxy Laboratories, India's largest pharmaceutical maker *(see NJ, 4/16/05, p. 1146)*. Fortis, the second largest of India's private health care providers, opened its first facility in 2001 and now has a network of 12 hospitals with 1,580 beds across north India. Fortis also has three facilities under construction, one each in Jaipur, Gurgaon, and New Delhi, and it hopes to run at least 40 hospitals nationwide by 2010.

About 3 percent of Rajan Dhall's patients are foreigners, many of them expatriates living in New Delhi. Overall, about 6 percent of Fortis's patient load is from abroad, and its number of non-Indian patients could reach 2,000 this year. Most come from Asia and the Middle East, with Europe and the United States accounting for only about one in 10. Cosmetic surgery is Fortis's big draw: It attracts about 50 percent of its foreign patients. An additional 20 percent come from abroad for gall bladder operations and treatment of kidney stones. About 30 percent of foreigners seek out Fortis for more-serious procedures, including heart surgery and knee replacement.

Lower Costs

The worldwide market for medical tourism is estimated at $40 billion; India's share is less than 1 percent. By 2012, the total market could be $100 billion, and India's share could be 2 to 3 percent, according to a McKinsey estimate. To realize that target, Fortis and its competitors are positioning themselves to provide more high-end procedures, leaving nip-and-tuck plastic surgery to Thailand and Singapore, the current destinations of choice for many medical tourists.

On price, India's competitive advantage is formidable. A knee replacement at Fortis costs a patient a third of what it would in the United States, a liver transplant is a quarter of the cost, and a bone marrow transplant is a tenth of the American price.

Lower labor costs are responsible for much of these savings. Fortis estimates that it pays its doctors as much as 40 percent less than what comparable physicians earn in the United States, even though many of the Indian doctors have been trained in American medical schools. Fortis can attract foreign-trained doctors because India's cost of living is so low that physicians earning smaller salaries can still afford drivers, servants, and big houses. And for Indian physicians trained abroad, family ties obviously beckon. The reduced threat of malpractice lawsuits is also a factor.

Moreover, Fortis pays its nurses between $2,100 and $10,000 a year, while the median annual salary for a hospital nurse in the United States is $53,000. But Fortis says that its real labor savings are achieved in the maintenance and administration of its facilities, thanks to the relatively low cost of Indian carpenters, plumbers, and receptionists, who are part of India's abundant supply of semiskilled labor.

Another plus is Fortis's focus on efficiency. "We have to make a

profit," Grewal said. "So we run this like a business. It is no different from when I ran a hotel."

His boss, Singh, who came from the auto industry, added, "If you get good process, you get good outcomes. To do a dozen knees a day, you have to have the process down. Even in the laundry, if you get good process, you get clean sheets."

Despite these competitive advantages, Fortis is moving cautiously into medical tourism. "We don't want to be overly aggressive," said Sudarshan Mazumdar, the company's director of marketing. "We have to hit the low-hanging fruit, those with no or limited insurance, or those who want procedures not covered by insurance. We don't want to push the service until we can meet people's needs. The patient has to be comfortable about coming here. One negative experience would spoil the image of the company and India as a health care destination."

As a result, Singh said, "we don't anticipate more than 10 percent of total revenue from overseas patients."

Grim India

Singh's circumspection reflects the daunting reality that foreign patients face when seeking care in India.

New Delhi is a 17-hour flight from the East Coast of the United States. Fortis does pick up overseas patients on arrival, but travelers first must navigate the capital's teeming, antiquated airport (thankfully, soon to be replaced). Then it's a stomach-churning, disregard-that-truck-that-almost-clipped-you trip into town on traffic-choked highways past depressing street scenes of appalling poverty and human deprivation. It's enough to make many Americans wonder what they have gotten themselves into.

"Once the numbers are big enough, we could go to charter flights" to make the long trip from North America more tolerable, Fortis's Mazumdar said. For now, Fortis is pushing the Indian government to allow it to pick up patients directly from the tarmac to ease the transition. The hospital that Fortis is building in Gurgaon, a community adjacent to the airport, will cater to foreigners, enabling them to avoid many of the hassles of daily Indian life.

But before patients come from abroad in great numbers, they must trust the care they will receive here. The Joint Commission International, which is affiliated with the group that accredits U.S. hospitals, has given its approval to fewer than 100 facilities outside of the United States. The commission is now reviewing two of Fortis's facilities for possible accreditation.

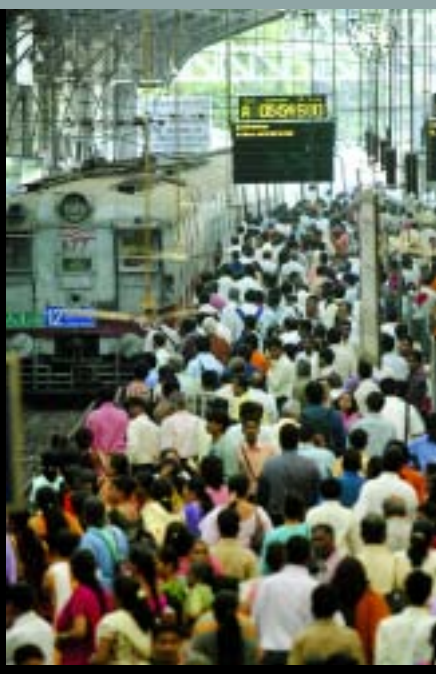
It is hard for potential patients to get quality-of-care data on any hospital, much less an Indian one. Data on the complication rates for heart surgery or knee replacement, for example, would help consumers pick and choose between Indian hospitals. But internationally comparable measurements of outcomes at various hospitals simply don't exist. Indian health care centers, like most American hospitals, do not publish such information.

Although sketchy, existing evidence seems to be supportive of the Indians. In testimony before the Senate Select Committee on Aging last year, Dr. Arnold Milstein, medical director of the consulting firm Pacific Business Group on Health, said, "The low gross mortality rates" in Indian hospitals for coronary bypass surgery suggest that any American quality advantage on that particular procedure "may be negligible."

Quality Reassurance

To really be comfortable in an Indian setting, Americans may insist on some reassurance of quality, perhaps through Indian hospitals partnering with a major American hospital, for example. A patient might feel more confident having knee-replacement surgery in India if it were done at a Johns Hopkins/Fortis affiliate. Such partnerships would also give patients access to follow-up at a U.S.-based institution if complications developed.

The Other Half



PHOTOS L TO R: AFP/GETTY IMAGES/FINDLAY KEMBER; AP/GAUTAM SINGH

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Waiting Area

FORTIS HEALTHCARE

In décor and atmosphere, Rajan Dhall Hospital's waiting area is more airport business lounge than public health clinic.

Any such partnerships would make the economics of surgery in India less attractive because the savings from outsourcing such procedures would have to be shared with the American affiliate. But that may be the price of attracting a larger number of foreign patients. "We would be more than pleased to encourage joint ventures," Singh said.

Liability is another issue. Americans cherish the right to sue doctors if something goes wrong with a medical procedure. Currently, foreign patients must sign a consent form agreeing that their only legal recourse in case of a botched operation is through the Indian court system, which is excruciatingly slow and not nearly as friendly to medical malpractice suits as are courts in the United States. Fortis says that no international patient has ever sued it. But to reassure skittish patients worried about malpractice, U.S. insurance companies may need to offer coverage that would recompense victims of poor treatment without their having to fight their case in an Indian court.

The biggest impediment to medical tourism in India may prove to be opposition from domestic public health care providers. "In this country," Fortis's Grewal said, "hospitals are considered a socialized thing, so you aren't supposed to make money in health care."

Proponents of private-sector medicine in India contend that medical tourism creates career opportunities and generates revenues to pay the salaries that entice world-class Indian-born physicians to return home from abroad, reversing a decades-long medical brain drain. Indian critics counter that medical tourism is luring doctors away from the rural areas where they are most needed and is tempting physicians to leave the already understaffed public health care sector. Both effects undermine medical treatment for all Indians, the critics say. Until the Indian government spends adequate amounts on public health care for its own people, this opposition will remain.

The U.S. Implications

The migration of elective surgery from the United States to foreign locales such as India may be inevitable, given the unsustainable rise in the cost of American medical care.

The average U.S. family's out-of-pocket spending on health care, excluding payment of health insurance premiums, rose nearly twice as fast as family income between 1996 and 2002, according to an analysis by the Commonwealth Fund, a private foundation that conducts research on the health care system. A recent study by McKinsey concluded that even after adjusting U.S. spending to account for higher average incomes, Americans still spend $1,645 more per capita per year on health care than consumers in other industrial nations.

Many Americans are open to the idea of traveling overseas to save on expenses. Some 61 percent of those without health insurance and 40 percent with insurance said they would be willing to travel 10,000 miles if they could save more than $5,000 on elective surgery, according to a May 2006 poll by *Time* magazine. "People are willing to travel if the value proposition—the quality of care, timeliness, and the cost—is strong," said Fortis's Singh.

Comparing labor costs at U.S. hospitals with those at hospitals in other industrial economies, McKinsey estimates that the United States has $54 billion in excess costs, even after factoring in Americans' greater wealth. U.S. hospitals also bear $87 billion in excess costs for operational and support functions compared with other countries. This fat makes American medical centers particularly vulnerable to lower-cost foreign competition.

Physicians in the United States are similarly exposed. They earn significantly more than Indian doctors, and more than their counterparts in other industrial countries relative to per capita incomes in those economies. As concerns about liability and India's quality of care are addressed, American physicians may find their patients deciding that the premium they pay U.S. doctors is not worth it.

A key question for the United States is how strongly American hospitals and doctors may push back if they see a sudden and steady exodus of profitable elective surgery to foreign shores. Opposition from those with a vested interest in the status quo could be ferocious, if the reaction of other sectors of the American economy to their first competition from abroad is any guide. So a protectionist backlash to medical tourism from the politically potent American Medical Association and the American Hospital Association may be unavoidable.

Indian hospitals have a clear economic advantage in exporting their health care services, an edge that gives India a leg up in its growing global competition with China. If India can offer its world-class medical services to more foreigners, the nation's overall economy—and, ultimately, Indians themselves—will benefit. It is the kind of economic win-win that trade is supposed to bring to all. But because it involves the sensitive health care sector—a point of pride for many countries—and questions of life and death, the globalization of this service is likely to be more of a long-term investment than a short-term payoff. ■

Beautification

50%

of foreign patients who come to India's Fortis hospitals are there for cosmetic surgery.

The author, a staff correspondent for National Journal, is also a journalism fellow with the German Marshall Fund of the United States, which supported research for this article. He can be reached at bstokes@nationaljournal.com.