

Perspective

# Medical Inflation - Issues and Impact

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## I N F O

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## A B S T R A C T

Inflation is one of the biggest threats to developing countries. It reduces the value of the rupee, which makes goods and services more expensive. Generally, inflation is acceptable if it is in the range of 5-7% per annum. Medical inflation is much higher than general inflation as it is estimated to be around 20%. The money spent on the services provided by medical practitioners increases year after year, thus medical inflation automatically increases. It refers to an increase in both unit cost and utilisation cost of services.

**Keywords:** Consultant, Health, Chronic Disease, Drugs, Care Management, Premium, Inflation, Index

## Introduction

The inflation rate is one of the key indicators of macroeconomics. Inflation in a country is directly related to income, uncertainty, and volatility in the economy, and a decrease in long-term investments.<sup>1</sup> The balancing factors between inflation and welfare activities undertaken in a country are considered important causes for the rise in the price of services, which has an effect on the public. The rate of general inflation is less as compared to healthcare inflation because of special services provided in hospitals to the public. Charges imposed on the services offered have increased in comparison with those in other sectors. It shows that medical inflation increases sharply as compared to Consumer Price Index (CPI) or Wholesale Price Index (WPI).<sup>2</sup> The sudden increase in health inflation shows that health expenses have raised and have led to limited access to healthcare services.<sup>3,4</sup> It is clear that expenses incurred after a patient is hospitalised, including expenses due to doctor consultation, purchase of tablets, and diagnostics have a significant impact on medical inflation. Global and

local factors play a key role in determining health inflation and they cannot be ignored because of the quality of services and economic conditions.<sup>5</sup>

## Factors Associated with Medical Inflation

The factors determining medical inflation in India are discussed below:

**Change in Cost Per Person:** This change occurs due to an increase in hospital consumable costs, staff and consultant fees, and expenses such as utilities, technology, rent, or property costs.<sup>6</sup>

**Change in Services Utilised Per Person:** This change occurs due to the following reasons:

- New drugs and technologies which are used to treat the disease ultimately increase the cost.
- New diagnostic technology that detects diseases increases medical expenses.
- Consumer behaviour is an important factor in changes in prices per person.
- Change in access to and availability of healthcare is also

a primary reason for rising medical inflation.<sup>6</sup>

### General Factors of Medical Inflation

- Growing and ageing population
- Increase in chronic diseases every year
- Payment of high health insurance premiums<sup>7</sup>
- Shortage of qualified experts in the medical field

**Table 1. Medical Inflation Rates**

S. No.	Year	Medical Inflation (%)	Report
1.	2016-17	10	Insurance Information Bureau of India <sup>8</sup>
2.	2018-19	7-14	The Economic Survey <sup>9</sup>
3.	2019	9-9.2	Global Medical Trend Rates Report <sup>10</sup>
4.	2022	20	Mercer Marsh Benefits <sup>11</sup>

Table 1 shows that medical inflation in the year 2022 was 20% while that in 2019 was 9.2%. In 2018-19, medical inflation reached a maximum of 14% and in 2016-17, it was 10%. This table shows that medical inflation may increase or decrease. However, in the year 2022, it touched a peak of 20% which is dangerous for the common public.

### Medical Inflation Experienced by Health Insurers

1. Policyholders' risks are associated with the premiums paid to the insurer. The equipment required for modern medical treatment is imported from foreign countries which comes with additional expense. Thus the reason for the increase in medical inflation is due to the implementation of the latest technology and extended services offered in the package.<sup>12</sup>
2. Good negotiation can be made on rates by the insurers who have large portfolios and they are in a situation to reduce inflationary pressures by giving a higher rate of discount.
3. Highly efficient and effective care management services offered in hospitals also constitute an important factor in the rate of medical inflation. The medical management programmes are limited, and ascertaining the demand for medical facilities will help to optimise the utilisation of resources. The aim of the evidence-based criteria is to improve the medical outcome and a medical person has to play a major role in this process.
4. Insurance companies face a difficult situation when a customer in the low-risk category reduces the benefits or a customer belonging to the high-risk category stays in the insurance contract. It is called selective lapping. If the insurer increases the premium, the risk profile of

the insured changes which results in a further increase in the premium.

### Conclusion

The importance of medical inflation has been documented in this article. There are several factors to be considered, namely infrastructure, hospital expenses, and fees paid to doctors, all of which have proven to be crucial for the increase in medical costs over the past few years and it is time to find a suitable solution to provide optimum healthcare facilities at a minimal cost. Policy decisions have to be taken by the government to ensure that better services are offered and cost of treatment is controlled in hospitals. Legal measures, government policies and ethics in fixing an affordable price must go hand in hand to control the rise in hospitalisation expenses. Finally, having adequate medical coverage is essential for everyone to safeguard themselves from the increase in medical inflation.

**Conflict of Interest:** None

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