NPPA must balance access with innovation

There is a need to induce more competition on the one hand while encouraging innovation and long-term stability of the sector on the other

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In the past one year, the decisions by the National Pharmaceutical Pricing Authority (NPPA), including price ceilings, have led to intense discussions. Clearly, the long-term ramifications were ignored by the agency in assessing the right way forward for the fragile, wobbling healthcare system of our country. The agency will appoint a new chairman soon.

The World Health Organisation (WHO) revealed last year that several countries that are poorer than India allocated and disbursed significantly more funds to their health sectors. Our problems are different, and possibly much more complex. But, for us, defence deals seem to be more important than diarrhoeal diseases, and highways and ports are prioritized over heart and pulmonary diseases. While we spend 1.4% of our national income on health and family welfare, Brazil spends 3.8%. On top of this, we battle crippling corruption and extreme bureaucratic inefficiency on a daily basis in the procurement and distribution of medicines, and ultimately end up relying on phased-out legacy medical devices, delayed drugs and treatment options.

Decisions taken in the last year by the NPPA seem to suggest that capping market prices has become the go-to solution in India. But price ceilings are far from a panacea. Without catching the drift of long-term implications, unmethodical price regulation will be detrimental to India’s healthcare system. Using price ceilings as a policy tool to correct perennial systemic problems in our formal healthcare system is akin to paralysing the body while treating a sore arm.

For the new chairman of the NPPA, the biggest challenge might just be to stay focused and get the basics right. A recent empirical study by the Advanced Medical Technology Association (AdvaMed), which comprises nearly 300 global medical technology companies, found that the price cap on stents led neither to better accessibility of angioplasty procedures, nor to affordability for patients bearing out-of-pocket expenses.

India’s indigenous industry should fight much more pressing challenges; after all, among a range of problems, we have a high incidence of diabetes and cancer. We ignore that “access” must be accompanied with “timely”; and “drugs” and “devices” with “improved” and “innovative”. For the new chairman of the NPPA,
a priority should be to create an enabling environment to ensure that we have improved drugs, innovative devices and timely access to healthcare, irrespective of who the provider is.

Striking the right balance in regulation for healthcare is always an herculean task. India is still import-dependent in the technology-intensive segment of the medical equipment industry, with 75-90% of equipment, implants and patient aids being imported, simply because R&D (research and development) and innovation are not a priority. The cost-containment approach of policies that focus on static efficiency may produce favourable outcomes in the short term, but have an overall adverse effect on the innovation potential of the industry. There is a need to balance access and affordability by inducing more competition on the one hand while encouraging innovation and long-term stability of the sector on the other. The successful licensing mechanisms, including medicine patent pool or tiered pricing models that maximize public health benefits, were initiated and propelled by the same firms that are now being pushed out of what was a level playing field.

The market for medical devices certainly offers huge potential for the Indian industry to tap into. At the moment, there is clearly an imbalance in the level of technological competency, the larger vision of policymaking, and priorities of our healthcare system. Indian patients miss out on half of the new medicines that are launched in other countries by at least five years because of a failure to embrace dynamic competition, the push to weaken intellectual property (IP) rights, and the embrace of populist, market distorting price-control policies.

According to WHO and Health Action International, more than 50% of the end price of medicine is contributed by components other than the manufacturer’s selling price. Drug price regulation, such as the one instituted by the NPPA recently, is ineffective if the design of the price-control mechanism is detached from all the other components identified by WHO.

Other than exacerbating the real risk of cutting down supply of medical technologies in the market, a price ceiling does nothing to stop several service providers from recouping their lost profit margins from elsewhere. In the end, patients end up paying the price due to a misguided policy, either through lack of supply in the market, or through higher pricing of complementary medical services. A solution the agency can consider is price regulation for older...
technologies that have already been disseminated in the market, rather than distorting the free market for new technologies, thereby putting the lid on the potential for innovation in new medical technologies.

We must strike a balance between the current and future needs of patients, and the timely introduction of existing and new drugs and devices. Incentives for innovation must be preserved to stop our healthcare system from crumbling. After all, a lot of the work by the NPPA, unlike other regulatory agencies, does not necessarily bring benefits in our lifetime. Correct formulation and implementation of policies by the agency will have long-lasting consequences for future generations.

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