The relationship between provider and patient in the healthcare market is often characterized as a principal-agent relationship. The principal (the patient) appoints an agent (the provider) to advise the principal in making decisions about treatment or to make decisions on the principal’s behalf. The provider is expected to be a perfect agent, combining professional knowledge with the patient’s preferences to determine a choice that the patient would make based on that information. The principal-agent problem arises as the provider chooses instead to maximize his or her own interests, which in many cases do not align with the patient’s interests. The most often cited principal-agent problem is provider-induced demand. This dynamic occurs when the provider influences the patient’s demand for care against the provider’s interpretation of the best interest of the patient. Provider-induced demand implies persuasive activity to shift the patient’s demand curve according to the provider’s self-interest. At the heart of the principal-agent relationship is the issue of information. As in any agency problems, the degree of provider induced demand depends on the information asymmetry between the provider and the patient. In fact, the healthcare market is characterized by a high degree of uncertainty. Perhaps neither the provider nor the patient is certain about the disease and the optimal treatment. More likely, the provider has a greater knowledge of the patient’s condition than the patient has. As the patient becomes more empowered and informed about his or her health conditions and possible treatment alternatives, the provider is less able to deviate from the role of a perfect agent. Provider induced demand occurs more frequently in developing countries particularly in the private sector due to poor regulation of this sector and lack of consumers organizations and patients’ rights groups to protect patients’ interests. In addition, most of these countries rely on fee for service or out of pocket payment for health services that increases the opportunities to provider-induced demand. The private healthcare sector in Iraqi Kurdistan region has developed strongly in both quantity and complexity during the last decade. Physicians from other parts of Iraq, neighboring countries and even Europe have come to work in the region. In addition, a large number of private health facilities like private hospitals, private medical centers, medical and drug companies and polyclinics are now widely distributed in the region. The healthcare services provided at these facilities are often interlinked from financial and ownership aspects. The general practice/family medicine and referral systems are poorly developed in the region. In most instances patients bypass the primary care doctor and go directly to the specialist that they choose without having enough knowledge about their health conditions. Moreover, regulation of the private sector in the region is very weak and unable to cope with this rapid expansion of the sector while consumer organizations are rarely in place to protect patient interests. Finally, there is no health insurance in Iraq and patients bare the full cost of private care services through fee-for-service payment method. Hence there are no insurance agencies to scrutinize the providers to make sure they could not abuse the service easily. The above-mentioned
reasons render the region highly susceptible to provider-induced demand. Although evidence supporting the presence of provider-induced demand in Kurdistan region is limited, examples of serious cases of provider-induced demand are frequently discussed in the society and the media. These examples include overprescribing of drugs and injections, requesting unnecessary investigations, and carrying out surgical operations for patients whose conditions do not warrant surgical intervention according to standards of care. If this induced demand in the region has not yet reached a serious level, there is no doubt that this will occur soon in the future due to the above-mentioned reasons. Literature has provided ample examples of provider-induced demand in developed countries where many of these cases have been revealed and subjected to disciplinary action. If such cases occur in Kurdistan region, it is very difficult to be uncovered and unlikely to be subjected to disciplinary actions with the current poorly applied regulations. Therefore, strong regulation of the private healthcare sector and establishment of disciplinary mechanism for any malpractice are needed to prevent provider-induced demand. Moreover, there is a need for in-depth exploration of the magnitude, particularities, and impact of provider-induced demand in the region through research.

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