A Tightening Policy for Lump-sum Entrance Payment in Senior Care Facility

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The Wuhan municipal government has in this July issued Administrative Measures for Senior Welfare Institution Founded by Private Investors. One prohibition in this Measure has drawn great attention, that the private-invested senior care facility is not allow to charge lump-sum entrance payment in exchange for a costumer's till-death stay and service in the facility. Fortunately we don't find severe punishment in the Measure for violating such prohibition. To a large extent, the Measure presents a warning to senior care investors as they used to think this kind of pricing model for entrance or membership fee is applicable anywhere in China.

Actually, there are worries not only from government, but from industry players as well that if all payment is charged in the beginning, how senior care providers can manage a sustained financial capability and avoid falling into financial difficulty in a long-term dedicated business. This does make sense as some developers are considering the senior care business as real estate development. They will then pursue a "more cash for more projects" strategy, which seems fatal for senior care business. Without a systematic mechanism being in place to monitor and take control the advance payment or deposit from the elderly, it is hard to have people believed their lifetime pension is safe and the provider can be counted on. However, instead of introducing a money-tracking system, like many western countries do, the Chinese authorities tend to just prohibit the model, and Wuhan might just be the beginning. It reminds me of the timeshare ownership populated in China a decade ago, which ends up in a bad reputation for the whole industry while many fraudulent cases and illegal fundraising criminals emerges. It is until resent years several variations of timeshare products introduced by big brands are generally accepted in the marketplace, but there is still no single regulation on it.

This is how legislation works in China. If the prohibition extends to other major cities, profit models are to a large extent restrained. Investors and operators may then think more about lease model or sales model to market their senior care facility, even though in the past they might think these models are just options, not mostly recommended choice. You guess who is the beneficial player in the market? I think it is the insurance companies who are engaging in senior housing. They are anyway allowed to charge big volume premium to associate the insurance policy with its senior care community, although the product for insurance are still under the test of market.

It's not too early to switch the mindset. For those who stick to their plan, I have to say the door is still open in many cities. Technically speaking, you should have the residency agreement well designed. Even though maybe in the future your pricing mechanism is deemed as violation of relevant regulations, as long as it does not violate some specific law that approved by the National People's congress, the agreement between operator and clients is valid and enforceable. As for administrative punishment for such violation, it is always the weakest part of authorities. See the effectiveness of the curbing policy of land market, how many are still out of the radar? ■

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