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Further Opening of the Private Capitals on Medical Institutions

Recently,National Health and Family Planning Commission and State Traditional Chinese Medicine Bureau together launched "Several Opinions on Speeding up the Development of Private Medical Institutions"(hereinafter refer to "H&F Commission Opinions", which is a catalytic for private capitals into the medical and healthcare industry. It is another detailed regulation promulgated by the Chinese Authority ,following last year's "Several Opinions of State Council on Promoting the Development of Health Care Industry"(GuoFa [2013] No.40, hereinafter refer to "State Council's Opinions"). The core contents of these two Opinions are to encourage private capitals to participate in the investment and construction of health care business (especially in the medical service industry). It is the aim of the government to form a market with diversified participants with not-for-profit medical institutions as the main part and for-profit medical institutions as the supplemental part, while public medical institutions as the dominant part and non-public medical institutions as co-develop part. Driven by a serial of incentive policies, we recently find stocks related to medical and healthcare services are favored by investors on the capital market. In light of this, we try to analyze in this article the recent policies and industrial trend to help private investors to understand whether the medical service industry is a "honey cake" or "just looks beautiful".

Contents of further opening policies

H&F Committee Opinions mention that "it will further broaden the scope of setting up wholly-foreign owned hospitals; service providers from HongKong, Macao and Taiwan are permitted to set up wholly-foreign owned hospitals in the cities at provincial levels of China; other qualified overseas capitals are only permitted to set up wholly-foreign owned hospitals in some special areas such as China (Shanghai) Free Trading Zone ("FTZ"); meanwhile, according to the gradually opening up and risk controlling principle, the requirement on the minimum proportion of overseas capital shares in Sino-Foreign Equity and/or Cooperative Joint Venture Medical Institutions will also be relaxed. Although the opening speed of foreign investment on medical institutions are not as quick as public expect, and in most of the cities, the threshold of at least 30% of domestic share is still not broken formost of the foreign capitals, the wholly-foreign owned medical institutions are no longer impossible for investors from HongKong, Macao, Taiwan, or those within Shanghai FTZ. Furthermore, it is worth noting that when it comes to the definition of "qualified overseas investors", CEPA requires the investors shall have at least 3 years substantial operational experience, and the regulation of FTZ requires the foreign investors shall have more than 5 years experience of direct operation or management of medical institutions". Therefore, we advice investors to be aware that NOT every investors from HongKong, Macao and Taiwan, or foreign investors within Shanghai FTZ could set up wholly-foreign owned medical institutions.

Except for direct investment on the medical institutions, according to relevant policy, Chinese government will also support and select private capitals with good reputation and strong management competences at the first priority to participate in the reform and restructuring of public hospitals (including state-owned hospitals) through diversified approaches. In fact, the restructuring and reform of public hospitals has already started several years ago. However, it is not that easy for private capitals to enter into this area, given the existence of systematic obstacles yet to be overcome (e.g. the different attitudes of local authorities in dealing with the registration process of changing the business nature of institutions or private non-enterprise to for-profit enterprises), and other challenges in respect to, for example, the hospital managing models and human resource issues. Nevertheless we believe there will be more and more private capital swilling to enter into the reform of medical institutions through all kinds of mechanisms, i.e. joint venture, merger, management entrustment, among others, after the new policy being implemented. Meanwhile, it is worth noticing that the Ministry of Civil Affairs has launched trials on the reform of public senior care institution since this year. The reforms between medical institutions and senior care institutions are very similar to a great extent, and therefore the experience of the reform on medical institution could be a valuable learning course for that of the senior care institutions.

Impacts on Senior Care Industry

"Combination of Medication and Senior Care" is always pursued by many project developers as they positioning of their products. Relationships between medication and senior care is imperative to each other not only due to its importance to senior consumers as their nature needs grow over time, but also to the industrial investors, who could reasonably allocate the resource of medical service and senior care to enhance their technical and profitable competence.

We notice the wordings in the foresaid two Opinions of "encouraging the medical institutions to extend the care service to residential homes", "establishing collaborative mechanism and also encouraging to build green channel of doctor appointment between medical institutions and senior care facilities", and "encouraging private capitals to directly invest in medical institutions, such as rehabilitation hospital, geriatric hospital, nursing home, hospice facility, etc., to satisfy various demands; encouraging private capitals to invest in high-end and large scale medical institutions or hospital conglomerates". Back to the senior care market, we find some medical institutions have already expand their services to home care sector, such as US brand United Family Hospital; and some senior care operators already have the intention to invest in medical institution in China, i.e. US brand Cascade Health care. Nowadays it is popular that the developers build rehabilitation hospitals and senior care facilities as the infrastructure of senior care community to satisfy the demands of neighborhood seniors.

Undoubtedly, all these policies are good news to consumers, however we shall question whether it will bring negative impacts on the senior care service providers in hindering themselves from identifying its function, service scopes and market positions while they are so excessive reliance on the medical institutions to serve the senior care functions? Whether it is a waste of resource if medical institutions are over constructed but are operated in lack of effective management? "Reasonable planning" looks very simple, but presents a great challenge for the government to plan and guide in this field. ■

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