

Industry Insights:

The Regulatory Framework of the “Combination of Medical Service and Senior Care” is Taking Shape

written by Michael Qu

At the end of year 2015, the most notable policy in the China's senior living space has been seen in the enhancement of "Combination of Medical Service and Senior Care" ("医养结合"), which was published by the State Council and several other departments in terms of a Guiding Opinion. Details set forth in this Guiding Opinion sheds more light on the way to realize the "mixed services" for seniors, given the reality that in China service types are in lack of proper definition¹. The Guiding Opinion is also seen as one of the implementation rules that has been highlighted in the State Council Circular No. 35 and No. 40², which set the tone for the development of senior living and health care industry.

For those of you who haven't heard of the phrase of "Combination of Medical Service and Senior Care", it is necessary to know that the concept has been introduced ever since the beginning of the 12th Five-Year Plan, from which time development of senior living service has become a national strategy. Before this Guiding Opinion, more practices are at the local (municipal or provincial) level. After an experimental period of time when local governments are trying to find their ways to synergize the resource of senior living and medical care but only to find difficulties are far more than they imagine (e.g. how to break through the bottleneck of providing medical-related services in senior care facilities or at home), it is time for the central government to provide viable solution. Under the current regulatory regime, it is the National Health and Family Planning Commission (NHFPC) who is in charge³ of the health care

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We represent international companies in their investment in the Chinese senior care market. Our clients can benefit from our deep industry knowledge and experience, and from our creative, solution-oriented and responsive approach.

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¹ Unlike in other countries where senior care services are categorized in different types (e.g. by the U.S. definition, independent living, assisted living, skilled-nursing care and memory care), there is no unified definition of service type in China.

² The State Council's Guiding Opinion on Enhancing the Development of Senior Care Service Industry (Guo Fa (2013) No. 35) and the State Council's Guiding Opinion on Enhancing the Development of Health Care Service Industry (Guo Fa (2013) No. 40)

³ The Ministry of Civil Affairs and its local counterparts are in charge of the senior care activities.

activities, and requirements from NHFPC for a care provider to be able to provide medical services are always restrictive and in many cases in lack of transparency and consistency, which impedes matured business models in the western country being successfully migrated into the Chinese market.

It is expected that, with the implementation of the Guiding Opinion throughout the nation, the government will gradually address those very common difficulties that senior providers have been encountered in their endeavor to combine medical service and senior care.

Here's what we see necessary for investors in this industry should be aware of:

Vision from the Government

Before we start the below elaboration, it is necessary to explain a little bit of the "9073" or "9064" (in some cities) strategy. The "9073" strategy means senior living infrastructures will be built with the aim that 90% seniors will receive services at home, 7% seniors will receive community-based care and the other 3% will stay at nursing homes (institutional care). In some cities, such as Beijing, there is a slightly switch of 1% from community care to institutional care, given the demographic difference in those localities. For institutional care, that 3% or 4% only refers to the services come from nursing homes that has obtained operation license from the Ministry of Civil Affairs (MCA). Medical care in those nursing homes is provided by means of establishing internal clinic/nursing station, or cooperating with nearby medical institution. As a matter of fact, a big portion of dependency or mental impaired seniors will prefer to stay in medical institutions, where availability of various medical services, national medical insurance reimbursement, professional personnel, among others, are key motivations. As a result, nursing beds in hospitals are overly occupied, which overloads the hospital's capacity and brings a huge burden to the social insurance. Notwithstanding that, the portion of nursing beds in hospitals can only serve approximately 1% of seniors who need institutional care (take Shanghai's planning as an example). Then it comes to the question of how to really meet the medical needs for the other 99% seniors.

With the skyrocketing of disabled and semi-disabled senior population in China, needs for health and life care services is also booming. Given the isolation of resources between medical and senior living, current system is far away from perfection for senior citizens. In order to find out its own solution to the ageing society, the Chinese government is eager to establish a regulatory system and service network to realize the combination of medical and senior care services. The Guiding Opinion has been introduced under this context.

From the government's vision embodied in the Guiding Opinion, we found the policy will provide support and incentive from the below dimensions:

First of all, the policy put primary health care for seniors in priority. Disabled and semi-disabled seniors shall rely on senior care institutions to receive rehabilitation and care services while most of the independent seniors shall ageing in place or within their communities. By means of effective combination of medical service and senior care, every one shall be able to enjoy primary heath care service.



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Second, with the policy support and cooperation among governmental organs, it is expected that the resources among institutional services within the “9073” (or “9064”) framework shall be more utilized. Functions in either hospitals or senior care institutions are further incorporated; in other words, medical services are no more symbolized as hospital resource but are presented as a consolidated senior and health care service accessible from diversified institutions in a joint manner. Services can cover as much as inpatient treatment, rehabilitation, post-acute care, hospice, etc., to meet different needs from seniors.

Third, grassroots medical institutions will play a vital role in primary home health care services for seniors, including periodic body examination, home rounds service, in-home ward, community care, health management, etc. The grassroots medical institutions will also standardize certain in-home medical and senior care services, and further include certain service fees into the national medical insurance system. Regulators from the NHFPC, MCA and NDRC, among others shall formulate standards and specifications of the in-home medical and senior care services in order to enforce the supervision to providers.

Fourth, the government will further encourage private capital to invest in medical institutions that combine medical and senior care, or senior rehabilitation or skilled-nursing care services. The Guiding Opinion requires local government to allocate spaces for private capital to invest in comprehensive institutions with medical and senior services during the planning of medical and senior care infrastructure. It reiterates the principle that “all activities are permitted as long as they are not expressly prohibited”—literarily, government authorities should not arbitrarily set up barriers for investors who are able to satisfy the master planning and legal qualification.

Finally, the government will guide more resources to be put in non-medical health care services, such as preventive management of diseases, nutrition and regimen by means of Traditional Chinese Medicine (TCM), which is a very forward-looking approach. From the long-run perspective, this could save a lot of the national medical expenses. The Guiding Opinion sets a goal to establish health care records for seniors through the network of public primary health care system. Coverage for seniors over 65 years old that can receive health management services is aimed to be as high as 70% by 2020.

Finding out business opportunities through the lines

With the above policy direction in mind, we advice investors in the senior and healthcare industry put more focus on business opportunities in below areas:

First, to make sure there will be enough resource to meet the needs of primary heath care and senior living services, the government will have to re-position itself as regulator and resource provider, rather than player in the market, the latter of which shall be dominated by private investors by means of franchise, and Public Private Partnership (PPP); in particular, private capital will have more opportunities to participate in the operation of not-for-profit senior care institutions. In another recently released Opinion Regarding the Deepening of Reform to System of Public-funded Senior Care Institutions in Beijing, it is stated that the government will guide private capital to participate in the operation of public-funded senior care institutions by ways of public fund and government run, public fund and private run, or government construct and private run. In addition, the Capital has just announced its open-up to 12 primary sectors, including healthcare and senior living, to private capital through PPP channels.

One of the pilot PPP projects that has drawn a lot of attention is the Senior Service Center of Tian Ning District in Changzhou, Jiangsu. The project is co-founded by Legend Holdings and a local SOE in the form of PPP and with the theme of “Combination of Medical and Senior Care”. With total investment of around RMB 540 million, the community will include senior houses, nursing center, health management center, rehab hospital and elderly university, etc., in total of its construction areas of 83,000 m²; upon completion of construction, it can meet dynamic needs for as many as 1,200 elderly people. Services within the community are expected to vary from mid-to-high end home and institutional care, to skilled-nursing care, rehabilitation, etc.



Second, the market for skilled nursing facility and hospital is expected to be prosperous. From the market perspectives, there is an extreme mismatch between the market needs of nursing beds and over-construction of huge senior care communities, the latter of which are mostly targeted at independent seniors. In light of this, many provinces and municipalities (such as Beijing and Sichuan) have already formed special master planning for senior care infrastructure. However, it remains to be an imminent issue to address as to how to effectively connect the market needs with government planning.

On the investment perspective, prior establishment threshold is expected to be further lowered for private-owned specialty hospitals. With pilot scheme implemented to allow foreign capital own 100% of a medical institution in Beijing, Tianjin, Shanghai, Jiangsu Province, Fujian Province, Guangdong and Hainan Province, there will be more foreign-invested hospitals specialized in dementia, rehabilitation and nursing care emerging in China. If another experimental scheme—long-term care insurance—can be introduced and quickly find its target customers, chances are high these two business can work well with each other to secure a good slice in private paid health care market.

Foreign capital has already been very active in the health care sector. Seattle-based Columbia Pacific Management, Inc. (CPM) has recently invested the first foreign-owned comprehensive hospital in Wuxi, Jiangsu. Construction of the hospital will be completed until the end of 2017, and by then, there will be as many as 17 departments in the hospital, including General Practice, General Surgery, Internal Medicine, Ophthalmology, Gynecology, Obstetrics, Pediatrics, Orthopedics, Healthcare Management, Rehabilitation and Physiotherapy, etc. As an early entrant in assisted senior living and medical institution, CPM is planning to invest another two hospitals in Jiaxing of Zhejiang and Changzhou of Jiangsu, the latter of which will be the first WFOE hospital in Jiangsu Province with a scale of 500 medical beds and 300 senior care beds upon opening. Apart from these investment, CPM has previously invested, jointly with Emeritus Senior Living, the U.S. largest senior living group, two senior care facilities respectively in the district of Xuhui and Pudong of Shanghai. The two facilities, named as Cascade Healthcare, are focusing on rehab and skilled-nursing services.



Third, home and community health care will be popularized and rapidly developed. Since the first local enactment of Home Senior Care Regulation in Beijing as of May 1, 2015, many cities are following suits with legislation on how to combine home care with medical services. In practice, legitimacy of in-home medical service to high age and disabled seniors is still a controversial issue. The NHFPC always holds the position that practice of in-home medical service is beyond the current legal framework, where physicians and nurses can only practice in their licensed medical institution. Because of the peculiarity of medical care, many services are not supposed to be provided at home due to the restraint of service environment and capability of professionals, which may implicate risks that cannot be mitigated were they occurred in a hospital.

Given the conservative position from regulator, the above Beijing's Home Senior Care Regulation has just extended home senior care to several scopes (such as health care guidance, management of chronic diseases and family doctor) where risk can be largely managed; and most importantly, service providers are only limited to primary (community) medical service institution. From the market perspective, however, more business opportunities for in-home medical services shall be opened to private clinics with the capacity to serve the community, where their target clients could be more extensive than just the senior segment. It is recently reported that the Guangzhou government is planning to draft a series policies to encourage private capital to invest in hospital. Policies may include permitting practice doctor working in public hospitals to establish GP or specialty clinic, TCM clinic by means of multi-site practice; permitting practice nurse to establish community nursing institution by means of multi-site practice; and permitting qualified pharmacy to increase its business scope to clinical services upon administrative approval. If all of these contemplated policies can be introduced and implemented throughout the country, medical resources will be highly activated and utilized, which is definitely a big breakthrough for primary healthcare reform.

Early in 2013, the United Family Healthcare has started to provide a series in-home medical service for high net-worth families to meet their diversified needs. It is one of the few hospitals where personalized and tailor-made medical services can be provided at patient's home. It is reported that private services, such as disease prevention, clinic treatment, post-acute and rehabilitation care, will be provided by seasoned doctors and nurses in the most convenient place for clients. Currently, the UFH's target customers are postpartum mother and newborn, senior and patients with chronic disease. Although the market performance is still under testing, it is undeniable that the in-home medical service does fill in a gap in the marketplace.

Fourth, while pioneers in other countries has explored and found out fairly successful business models for telemedicine, the mobile development in the Chinese healthcare market is also expecting an unprecedented booming. The Guiding Opinion has set forth the direction to support the "Combination of Medical Service and Senior Care" with information technology and technique support. Therefore, through information sharing between two database platforms (one is the community service forces for senior care and the other is the local health information), the Internet can play a vital role in innovation for practitioners to find out new service model. At the end of the day, the Internet platforms that now are majorly focusing on "consulting-based" services could find a viable way for their next move.



The most highlighted case has been found in Wuzhen, Zhejiang, where the first-of-its-kind Internet hospital was opened recently. Online medical services (mostly subsequent visit)

are for the first time provided by a hospital to patients throughout the country. In order to ensure the service quality and manage medical risks, Wuzhen's Internet hospital limited the service scopes to online consultation and subsequent visit only to common and chronic diseases. Basically, the online service is accessible once the patient has obtained examination report and been diagnosed by a hospital; or the patient can enjoy subsequent visit by nation-wide expert invited by the Internet hospital after an offline face-to-face consultation and diagnosis has been previously made by a doctor. In the context that the country is advocating the "Internet Plus" innovation, the local government of Wuzhen has this time created a series of policy breakthroughs in order to address barriers in the telemedicine sector. Among others, qualification for Internet hospital, compliance for electronic prescription, online payment for medical reimbursement and delivery of prescribed drugs are all issues they tried to address. The long dream has come true that senior citizens can now enjoy excellent medical resources without having to get out but by means of advanced Internet technologies.

Fifth, capital market for the senior care industry is heating and ready to take off any time soon. With the accelerating of new development of senior living projects everywhere throughout the country, on the one hand, investors hope to find ways to raise money from the capital market, or withdraw their investment through capital market; on the other hand, capital from various sources are all rushing into this industry in different forms. Among them, there are industry investment fund and incubator who

will acquire equity of companies with great potential and help them to grow; there are various insurance and trust company who will explore payment methods for senior care services by introducing innovative finance product and instrument; and there are traditional developer or service provider in the real estate industry who involve in the business by virtue of their excellent integration ability.

Lately, Poly Real Estate and Taiping Life disclosed that the two companies would jointly initiate the first-of-its-kind private equity fund for investment in the healthcare and senior living sector. The fund will be put in senior housing development, operation of senior care platform and research of senior care industry. Further, they will explore new business models to attract capital from insurance companies. The move actually echoes one direction the Guiding Opinion has stated to promote the “Combination of Medical Service and Senior Care” through a series of finance support. As the Guiding Opinion has put, it is encouraged for various finance institutions to create new finance products and ways for service, and local government shall also guide finance institutions and industrial funds to work together to raise capital to invest into the healthcare industry.

Several issues yet to be clarified

Through the lines of the Guiding Opinion, we regret not having found solutions to payment method and talent attraction specific to the promotion of “Combination of Medical Service and Senior Care” (though, there are several simple mentioning in the Guiding Opinion).

For the payment channel of medical and care expenses, the government has, from long ago, encouraged internal clinic in nursing homes to be included in the basic medical insurance system, and the coverage will continue to increase; however, in absence of the Long-Term Care Insurance, major expense for senior care service in the nursing home still cannot been reimbursed, which has impaired the development of “mixture-purposed” nursing homes to a large extent.

From the talent perspective, although the Guiding Opinion has reiterated to encourage doctors and nurses to work in nursing homes, the incentives are still not attractive enough for those who have been used to work in the obsolete medical system where qualification ranking, professional training and continuous education, among others has far more advantages than those in the senior living sector. There has to be a fairly long transitional period before career of senior living profession is truly attractive for talents. Whereas the new profession of senior living is in huge demand of practitioners and experts with blended educational background, many elderly care service providers have seen the opportunity and are looking into the training business for senior living, which seems to be a good area to tap into.

As the next chapter of 13th“Five-Year Plan” is near the corner, we believe the government is scheduled to introduce more policies to support and regulate the senior care industry, and there will of course be more business models emerging. We will continue our focus on this area and share updates with you in the year of 2016. ■

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