

POLICY AND PRACTICE UPDATES

Healthcare Reform: the Anhui Approach

Source: 21st Century Economic Reporter 2011-3-3

<http://www.21cbh.com/HTML/2011-3-3/xMMDAwMDlyMzcxMw.html>

Even though the “no mark-up” policy for drug sales has been in place, the financial burden on hospitals has been largely reduced, according to Yu Yi, director of a township hospital in Anhui province. Yu’s words are testimony to the achievements of Anhui’s Basic Medical Institution Reforms. With comprehensive government subsidy, a performance surveillance system and a unified drug bidding platform, the essential drug policy has been implemented smoothly in Anhui, yielding valuable experience for the rest of the country.

Financial support from local governments plays an important role in the reform. Although the markup of drug sales has been reduced from over 100% to 13%, substantial government subsidy has been provided to ensure administrative and programmatic expenses. Another important reform is for the personnel compensation system: medical workers are paid according to a comprehensive evaluation system instead of the value of medicine prescribed. By introducing this change, the policy makers hope to motivate the medical workers and eliminate over-prescription.

However, there are still many problems to be resolved. People are worried that the so-called “double envelope system” separates product quality evaluation from price competition, which may inadvertently encourage businesses with qualified products to offer the lowest prices possible, depressing the real value of the medicinal products. And the exclusive supply agreement may cause inefficiency in the form of market segmentation and protection.

Minister Chen Zhu: The Conglomeration of Primary Care Institutions and Large Public Hospitals

Source: 21st Century Economic Reporter 2011-3-4

<http://finance.ifeng.com/news/20110304/3563211.shtml>

The Minister of Health, Chen Zhu, made it clear in a recent interview that the ministry will explore all possible solutions to modernize the management of China’s public hospitals. Ultimately, hospital presidents will be responsible for the management of hospitals, under the supervision of a board of directors.

In response to questions regarding inadequate and overly expensive medical care, Chen admitted these are challenges faced by the current system, brought by a shortage of large hospitals and a lack of high quality primary care institutions. He is currently considering a conglomeration model in which primary care institutions and large public hospitals form associations, to boost positive interactions between big hospitals and grassroots institutions, encourage two-way referrals, increase flow of medical resources, and establish a flexible personnel system.

Township Hospital as the Critical Link of New Healthcare Reforms: the Zichang Model May Be Promoted as the Preferred Model

Source: Economic Observer 2011-3-18

<http://business.sohu.com/20110319/n279899415.shtml>

County hospitals offer direct medical services to more than 900 million people in China and play a pivotal role in China’s medical system. According to an officer from Ministry of Health, success of the county hospital reform is the key to the success of China’s health care reform. However, there still exist many serious problems in county hospitals, such as imbalanced growth between eastern

and western regions, inadequate management, lack of medical professionals and insufficient government support.

To solve these problems and accelerate the reform, several pilot projects have been implemented across the country, and the Zichang project has yielded valuable experience for application nationwide. The first step of the reform was to transform hospitals into social welfare organizations and transfer debt burdens to the local government. Doctors were paid based on the number of patients given prescription instead of the value of medicines prescribed. Exclusive supply agreements were also established between hospitals and suppliers, severing the connection between doctors and pharmaceutical sales representatives. The results of the reform are promising: drug prices are significantly reduced and medical workers' salaries have been raised.

The Ups and Downs of Doctor Multisite Practicing

Source: Economic Observer 2011-3-20

<http://finance.sina.com.cn/roll/20110321/00499562651.shtml>

Last December, the Beijing Bureau of Public Health passed a policy allowing registered, high competency doctors to work part time at up to three medical institutions within Beijing. This policy has great impact on doctors who have been regularly 'moonlighting'--secretly seeking business opportunities with other local hospitals without advising their employers. The transparency brought by this new policy will doubtlessly reduce these doctors' income, for they now have to turn in part of the "moonlighting" income to their official employers. However, the new policy does not specify insurance liabilities in case of medical dispute, and this ambiguity might result in disputes between patients, the "moonlighting" doctors, and the hospitals. Despite the potential problems, this policy could help China's medical reform by encouraging human capital exchange within the medical system, allowing highly qualified physicians to serve a larger population. If implemented well, this policy might help achieve better medical resource allocation, diverting both patients and physicians from tertiary hospitals to secondary or even primary hospitals, easing the pressure on the top tier hospitals and providing better care for the general public.

Separation between Supervision and Operation: the Beijing Model

Source: Economic Observer 2011-4-1

<http://finance.ifeng.com/news/20110401/3808325.shtml>

After Shanghai, Wuxi, and Ma'anshan have experimented with the separation of management and operation of medical industry and established hospital management infrastructure, the basic structure and function of Beijing Bureau of Hospital Management have also been preliminarily defined, and is expected to be put into motion by early April.

The Beijing Bureau of Hospital Management will be part of the Beijing Bureau of Public Health, while the hospital management institutions in the other cities are set up within the local state-owned Asset Supervision and Administration Commission (SASAC). After the reform, the Bureau will be in charge of twenty two hospitals that used to fall under the direct supervision of Beijing Bureau of Public Health. Under the new management system, assets from all twenty two hospitals will be centralized and budget devised by the Bureau of Hospital Management, putting to history the days when hospital heads could arbitrarily determine budgetary issues. The right to nominate, assign, and evaluate the head of hospitals will also be transferred from the municipal government to the Bureau of Hospital Management.

The Ministry of Health hopes to establish a 'greater medical and health system' and has favorable outlook on the Beijing model. According to an Anzhen Hospital insider, it is conceivable to establish a system in which a national bureau of hospital management leads the local bureau of hospital management to implement beneficial reforms.

Nationalization May Become the Mainstream: the Speeding Up of M&A in Healthcare Business Firms

Source: Economic Observer 2011-5-14

<http://finance.irj.com.cn/industry/2011/05/1404139966853.shtml>

There may be an upsurge of mergers between private drug companies, resulting from a series of recent policies aimed at increasing medicine circulation in China. This merging process might continue for two years, and could reduce the number of drug companies from the current 13,000 to about 6,500. The market could also evolve from being dominated by private companies to being led by partial state-owned enterprises.

Currently there are a huge number of drug companies in China, producing a diffused market. The three biggest companies only occupy about 20% of the market share, with the rest shared between medium and small companies. As a result of the fragmented market, the cost of medicine circulation in China is 7% of the industry profit, compared to 1%-1.5% in U.S. and Japan. This high cost of medicine circulation also cuts into the drug companies' profit margin.

The National Drug Circulation Industry Development Plan was issued on May 11 of this year, setting out regulations for drug circulation, market entry standard, and the logistic chain of cold storage drugs. The Good Supply Practice for Pharmaceutical Products (GSP) also incentivizes mergers and acquisitions of small drug companies. Local governments are generally supportive of the new wave of mergers and in favor of a drug industry led by state-owned enterprises.