The Researches on the Theory of Assets Securitization and Feasibility in Polyclinic

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Abstract: As a means of financing, the scope of asset securitization that had been applied should be very extensive. But Polyclinic Asset Securitization as a means of financing is very rare in china. At present, the fund of polyclinic is insufficient. On a certain extent, the development of the medical and health care had been hindered. In order to raise medical funds through multiple channels, Asset Securitization of Polyclinic will be applied in China's asset securitization financing. That will be play an important role on the development of China's medical and health.

Keywords: Asset Securitization (Asset-Backed Securities), Polyclinic, Financial Innovation

1 Introduction

At present, the resources and basic medical services have more obvious presence of the urban-rural gap about China's public health. "Sanitary resources concentrated in the cities, the level of rural health services and resources to the grass-roots significantly inadequate, a growing number of farmers are unable to shoulder the increasing medical expenses". Primarily, the allocation of health resources has been caused distortions by the unsuccessful control of government and the market.

The increasing medical expenses triggered the thinking that is the government's role in the medical and health policy research circles. People estimated the result of China's medical reform in the overall system. Commonly, they accepted view that the devotion of Government's health care system is too small. The whole community health resources have been allocated mainly by the market-led. Market-oriented health situation is often not only the allocation of resources will lead to medical services have the unfair distribution even it will also lead to a waste of limited resources. In other words, there are plenty of cases of market failure. However, the more serious problem is that, even if the input is limited, the input is not used in correction for the market failure. But limited input follow the market forces blindly and result in the allocation of resources are more unreasonable state.

Low proportion of government expenditure means that health costs mainly from non-governmental sources, especially the cost of individual medical health have a large proportion in the total cost. Owing to in the choice of medical services agencies people enjoy full freedom comparison, the allocation of medical resources have been led by the major medical services market forces (the patients). The result of market forces is bound to lead primary medical resources to the hospital (in particular the high level of the hospital) on the cities. However rural medical institutions and grass-roots (community) medical institutions of the market must be low. Due to rural and community health care institutions in the market competition are in a disadvantageous position, and its capacity-building will also encounter difficulties.

Reasons for these results are rather complicated. To sum up, there can be summarized as the following factors.

Firstly, it is the total lack of medical resources, unreasonable configuration and uneven development.

Secondly, sanitation has inadequate input and too much debt.

Thirdly, health services system is faultiness.

Fourthly, the prices of sanitation materials too high, the prices of drug did not make a substantive breakthrough. So "see a doctor" is extraordinary expensive.

Fifthly, the state policy has adjustments and new industry standards, increase of the patient's medical burden.

Because less financial input, the hospital in the purchase of equipment, renovation of housing,
improving the environment, personnel training, and expand publicity, and so on, all require substantial capital investment, the Government does not pay the bill, the cost eventually will transfer to patients. The standardization of operation and implementation of "inversion of quote" must allow patients to pay more for the inspection, "Malpractice Bill" in the course of treatment must be fixed in accordance with the norms of processes, all steps of clinics can not be less. Naturally medical costs is increasing. The doctors in order to adapt to deal with medical incident require patients to do more independent inspection, a further increase the cost of patients.

Sixthly, medical institutions have the pursuit of economic interests that leading to go to hospital is costly.

In urban areas the hospital's total revenue is about 48% of income from pharmaceuticals, health care accounted for about 42% of income in rural areas, a higher proportion of income from pharmaceuticals, which is a more prominent phenomenon. But financial allocation is only about 10%. Because of the lack of financial subsidies, the low standard of medical service charges and income from pharmaceuticals become a major economic source of hospitals. Hospital in order to survive and develop will have a strong interested impulse to give top priority to economic efficiency, follow the rules of market economy, implementation of enterprise management operations. Therefore, there is a further increase in the cost of patients.

Seventhly, health care is a hi-tech, high-risk, high-cost industry. The growth of health costs, a certain extent, is inevitable.

Actually diagnosis and treatment of diseases in the process of medical research is the process of exploration. Research on the human body and the treatment of the disease are high-risk behavior under high-tech. In the medical activities patients spent a lot of money but not have the anticipated effect of the situation is common. On the one hand, because of this lack of awareness by the masses, who are easy because of the unsatisfactory therapeutic effect to arise or exaggerate emotion that see a doctor is difficult and expensive. Medical technology is development. New technology, new drugs, new devices and new materials have been using in critical illness. The ability in the problem-solving has been improving, the hospitals need survival and development in the rising price of the market economy environment, health care costs rose that is medical science and technology progress and the inevitable result of socio-economic development. So it is an irreversible trend. On the other hand, former staff and workers of institutions are full reimbursement of medical expenses, but now they pay the costs by themselves. So the expensive costs of seeing a doctor have become social hotspot after medical reform.

For resolving the worldwide shortage of healthy funding, many countries are adopting new measures. One method, it is the development of private hospital. Another method, expanding financing channels is extensively developed. Among the many channels of financing, asset securitization, as a lower-cost, more efficient and more potential new tool for the operation of capital markets, will be a wide applications in the future polyclinic during the process of financing.

2 Polyclinic financing via Asset Securitization

2.1 Feasibility of Asset Securitization model

At this stage, the methods of Asset Securitization financing will be used in the medical and health care financing to expand financing channels in polyclinic and ease the shortage of funds. Such way has certain feasibility.

Asset Securitization can be essentially understood as a new kind of the realization of assets, the transaction of the assets (such as loans or other account receivable) through sponsors conversion and the sale of the securities to investors, thus achieving realization. Finally, because the original conversion difficult liquidity of the securities, which can be implemented on many compact cash flow segmentation and recombinant techniques, the original risk and return of assets to be divided accordingly and reorganization in order to achieve risk diversification to those who most deep understanding of the most suitable for absorbing the risk of market participants, and receipts were allocated to the highest bidder market participants, the financial markets to finance this efficiency has been greatly increased.
2.2 Independent financing of Polyclinic

In a market economy environment the main priority of securities is polyclinic, which will become the main financing for independent financing and will be integrated in the use of hospital assets stock of securities to finance in the course of an active leadership role. In the past because failure to implement the status of the main financing, financing of polyclinic lacked enthusiasm, initiative, furthermore, much less financing strategy and the formulation of innovative financing models, to a certain extent, that causing capital investment channels for poor health or obstructed. The definitude of the polyclinic financing in the dominant position will enable hospitals asset securitization financing better implementation and operation.

With the different varieties of securities issued of Asset Securitization, there are also different schemes of the specific design.

In the current, debt and equity is mainly two modes of operation assets in the securitization. If the securities are issued via shares, it is called equity scheme; if the securities are issued via bonds, this method is called the claims scheme. Claims mode settings is a typical pattern of the securities, asset management companies as special trust (Special Purpose Vehicle, or SPV) role, and its work is commissioned by the issuers of securities companies or investment banks carried out. In the equity model, first of all, the companies of asset management will transfer claim to stake and form the real stake, and then the asset management companies through business acquisitions, stock exchange and transfer of capital operation modes, and optimize the asset structure, has gradually become a listed company or the formation of a new joint-stock companies and listed.

2.3 Appropriate to the objectives of the securities financing assets

In the Polyclinic emergency department, clinics, inpatient department, the medical-technical departments, security systems, administrative and living space, such as seven hospital facilities stock assets - for the objective of the securities financing assets

Securitization of assets to use the definition is: the lack of mobility, but it is expected that in the future a stable cash flow of assets will be produced together to form a pool of assets through structural reorganization, can be changed in the financial markets, sale and circulation Securities financing process. That is used to produce stable returns but less mobile assets collateral or security, the issue of the circulation of securities, and to advance access to financing or investment income of a financial operation.

Analysis of the Polyclinic emergency department, clinics, inpatient department, the medical-technical departments, security systems, administrative and living space, such as seven hospital facilities assets in stock, first of all, they are more quality assets. On the one hand, strong profitability in the future, there may be a predictable and stable cash flow (a fixed annual emergency, outpatient, inpatient charges), the proceeds can be used to pay securities; On the other hand, these assets as collateral liquidity and a strong ability Once unable to pay the normal income securities and the collateral must be realized, they will have higher realizable value. At the same time, hospitals have a higher credit level of investment, the risk smaller and more attractive to investors. Finally, as mentioned previously, the larger of these assets, then larger amount of financing can be effectively implemented via asset securitization (Asset-Backed Securities, hereafter referred to ABS). So Polyclinic's emergency department, clinics, inpatient department, the medical-technical departments, security systems, administrative and living space, and other hospital facilities seven more appropriate for stock assets into securities, thus achieving the goal of financing assets.

In addition, at present it has assets of the potential demand for the securities market in China. First, there are individual investors. Since there are fewer consumer channels and investment channels are sluggish, the high savings rate, which funds urgently need to seek new investment channels. Second, there are institutional investors. Insurance funds, pension funds, investment funds and other institutional investors also urgently need to seek revenue stability, the long duration, and low-risk investment tools. So in polyclinic the emergency department, clinics, inpatient department, the medical-technical departments, security systems, administrative and living space, such as hospital assets as the target asset-backed securities issued to meet the requirements of the majority of investors are bound by the
3 Correlation subject and operation procedure

Assets securitization modes used by medical and health care system financing, in which the correlation subject mainly included: originator, investment bank, investor, government or health management sectors. The third party guarantor and so on. Its operating programs are as follows:

3.1 Construction of portfolio, forming assets-pools
First of all, sponsors must analyze theirs need of securities financing, according with need, then identified the goal of asset securitization, afterward, liquidation and estimation their assets, combination these assets, forming assets pools. In the process of financing, the goal of assets is stock assets of sponsor. It refers to emergency unit, outpatient department, inpatient department, medical technology department, support system, administration, and housing. The goal of assets will be estimation and evaluation by sponsor, who make sure the quantity of securitized asset, collective this asset then formation of asset pool. Considering the specific situation, we can integrate assets of other polyclinic. Then come into being a certain scale asset pool.

3.2 Established Special Purpose Vehicle (SPV), implement “True Sale”
The special purpose of SPV is that transaction of asset securitization could be completed. SPV can be as a subsidiary body of original sponsors, also can be a special presence institutions in the asset securitization business. Here, I think that through public bidding or other forms, the feasible way is choice an investment banks, then set up SPV. Then it signs a contract for sale with the sponsors, the sponsors transfer the assets of asset-pool to SPV. This transaction must be “true sale”, that is to say, if sponsors are bankruptcy, once liquidation of property, the sold assets is not involved in the scope of liquidation. So Bankrupt Remote could come true. Assets-pools and its all cash flow (the annual emergency, outpatient, inpatient costs) were flowed in dedicated account of SPV. All of the operation with entire assets should be involved in the account.

3.3 Selected operation model of ABS
At present, credit and equity is the main operation model with the design of asset-backed security. If securities is stock, selected the scheme of equity; if securities is bond, then selected the scheme of credit. Combined the real situation of property right with polyclinic in China and practice of ABS resin abroad, the ideal choice is the scheme of credit. According to the features of polyclinic, designed bonds could be paid interest once at the end of every year, then one-time payments at the maturity.

3.4 Credit enhancement and credit rating of ABS
The main methods to enhance credit are direct demand, assets reserve and purchase or save the right of subordination. Regarding the quality of target assets and the credit of polyclinic as basis, then through true sale, bankruptcy-remote (BR) make the credit enhancement come true. In addition, through the third party guarantor, such as bank, insurance company and so on, support credit guarantee and fluidity, as well as bonds be divided into sub-class and priority.
When credit was improved, SPV will rate the bonds through credit rating agency. After credit enhancement, credit rating and the low risk, the issuing interest of bonds may lower than bank loan, reducing financing cost, a new financing way of long term, low cost is proposed.

3.5 ABS issue
The income of securities issue paid to sponsor, then bond issuance through investment bank of SPV or syndicate which composed by managing underwriter. The income of bond issue will belong to SPV, after all expenses are deducted, the purchasing price will be paid to sponsor according to the regulations of contract. Till then, the aim of financing was reached.
3.6 Management service and liquidation with cash flow

Assets-pool’s management through trust organization, main contents are receive and record the incomes of cash flow which produced by the assets-pool, deposited in a dedicated account which designated by SPV, then debt service to in-incomes of emergency expenses, outpatient charges and patient charges is higher than expenditure, account balances will be dedicated, so office expenses, maintenance costs will be withdrawals in dedicated account. In the maturity of the bonds, after pay off principal and interest, liquidation account of assets pool, which balance belong to polyclinic. Then SPV will be dissolved, asset securitization process is completed. There are Operational processes as shown in figure1.

4 Conclusions

On the above, the asset securitization is a financial innovation project, which makes the capital market to be favorable and the future collection of the financial system to be sound. That is more advantages than disadvantages. So it should be timely to try. To speed up the process of the asset securitization in polyclinic, the following related issues should to be considered and done.

4.1 The problem about accounting treatment

In the process of financing, the main problems about accounting treatment are: the target is sales or financing; merging problem; investment of surplus interests. Let the assets of facilities stock carry out securitization. The assets of facilities stock are emergency department, clinics, inpatient department, the medical-technical departments, security systems, administrative and living space hospital. First of all, make sure the “off-sheet” principle. If we want to process securitization in the way of “off-sheet” principle, cognizance the subject qualification of SPV in transaction, recognition “bankruptcy-remote”. The process of asset securitization was seen as obtain income through sales assets, allowing the seller reject the securities assets from the balance sheet, then admit the financing as the accounting income of seller.

4.2 The problem about tax treatment
In the process of asset securitization in polyclinic, the treatment of sponsor, SPV and taxpayer should be clearly stipulated. First of all, make sure tax treatment, such as implementing the levy of income tax whether or not, the problem of deductions and exemptions the income tax. The sold assets rarely value-added, consider that, value-added tax can be exempting. Secondly, in the part of circulation tax, levy of value-added tax should be stipulated. Thirdly, the treatment of tax in SPV should be stipulation. In the process of financing, the level of intermediate expenditure should be affected by revenue. In this case, true rate of tax be reduce or the range of other expense be enlarge are all feasible. At last, the treatment of bond investor should be stipulated.

4.3 The problem about legal protection

Asset securitization has a lot of characteristics, such as systematic characteristic, complexity, generalization, and so on. In the process of operation, it needs regulation system. Nevertheless, China’s current execution system of asset securitization is imperfect. For example, in the process of assets securitization, SPV and sponsor must mutually independent in law, and they must have real sale. But there is not have clear regulation in securities law. The assets which purchased by SPV must have “bankruptcy-remote” with sponsor, but there has contradiction with the No.28 of bankruptcy law. In addition, in our country’s company law, the concrete definition of establishment about SPV, organization form, rights and obligations are all deficiency. At last, the prominent problem is lack compound talents, who not only familiar with the operation of asset securitization, but also understand the operation with medical.

References