

Rating Methodology for Medical Institutions

1. Basic Stance for Rating for Medical Institutions

JCR evaluates debt service capacity of a business firm in the future in a comprehensive way by performing quantitative factor analysis and qualitative factor analysis as the rating process for such business firm. Concerning rating for medical institutions, JCR adopts the same approaching method as applied to the business firm as a base. However, an incorporated medical institution or incorporated foundation, which is a primarily establishing body for a medical facility, is a nonprofit corporation with high public interest and is different from business firm in terms of management base basically. In medical field, there are the following characteristics: (i) There are many cases in which specific indicators that are not used for business firms are used often; (ii) Accounting system, which is different from accounting system for business firms, such as Hospital Accounting Standard is adopted; and (iii) Impact of medical policy or health care system on business management is larger in comparison with business firms. JCR considers it necessary to reflect fully these characteristics in rating for medical institutions.

In the meantime, although medical institutions are not obliged to undergo an external audit by a certified public accountant, it is desirable that financial statements to be submitted in the actual process of rating be audited externally. For a medical institution, which does not undergo an external audit, therefore, JCR implemented rating process on the premise that such medical institution undergoes an informal audit by a medical professional team of an auditing firm as a general rule. Such informal audit is centered on affirmation or verification of reliability of figures in its balance sheet or profit and loss statement for the recent period, substantial workforce or funds.

The following are the items on which JCR places emphasis in rating for a medical institution.

2. Evaluation of Business Base

Under the current medical care plan system, a system, in which community medicine is by and large complete in secondary medical care zones that are subdivided into roughly 360 nationwide, has been established. Majority of medical institutions operate medical and nursing care business facilities in a single secondary medical care zone. Given these conditions, JCR considers that analysis of a medical care zone, in which the medical institution to be rated locates its headquarters, is an important factor in evaluation of business base of the medical institution. Primary items for evaluation of business base are (i) regional characteristics of the secondary medical care zone (demographics, disease characteristics, etc.), (ii) maintenance of medical infrastructure, (iii) establishment of a community medicine cooperation network system (such as community medicine cooperation clinical pathway), and (iv) support from municipality.

3. Evaluation of Medical Base

Under the current community medical program, tasks and numerical targets are clearly specified for each of 4 diseases (cancer, stroke, acute myocardial infarction, and diabetes) and for each of 5 services (emergency / psychiatric emergency, pediatrics, perinatal, disaster, and remote place). Community medicine cooperation or functional differentiation of medical facilities is progressing in response to these targets. It is likely that information sharing among medical institutions symbolized by community medicine cooperation clinical pathway will progress, and it is considered that roles played by a core medical institution as well as a family doctor will become more important. In particular, JCR considers whether or not a medical institution can assume a core function in the 4 diseases and 5 services an important factor for evaluation of functional property of a medical institution. In that sense, a current "community medical support hospital" should be evaluated to a certain degree because of strictness of its approval requirements including outpatient referral system, emergency medical service, community-based sharing / education and training. In evaluation of medical care function, JCR positions the following as the primary indicators of evaluation: (i) Standards for facility (primarily nursing placement or referral rate which leads directly to basic hospitalization charges; (ii) Functional indicators (average length of hospital stay, the number of emergency patients transported, etc.); and (iii) Maintenance of clinical training system.

4. Evaluation of Financial Base

In evaluation of financial base, quantitative analysis is principal. However, under the current system in which constraint conditions in terms of fundraising are large, it is important that whether or not a medical institution ensures stability in its financing such as business relations with private sector financial institutions. As for a quantitative analysis, the following indicators count: (i) Profitability indicators; (ii) Stability indicators; and (iii) Efficiency indicators. The same is true of a business firm. However, JCR considers that impact of functional indicators, which are peculiar to a medical institution, on financial aspect of a medical institution should be also taken into consideration. For a medical institution with medical care in acute phase being its primary medical services, in particular, it is considered that indicators related to hospitalization such as average length of hospital stay and bed occupancy rate are very important.

5. Evaluation of Management

In light of guarantee of management transparency, maintenance of governance is an important task for a general private sector medical institution such as an incorporated medical institution. Specifically, the following are important for it: (i) Perfect separation between the chairman who is the top management as an individual and a corporation (hospital) and (ii) Clarification of functions of decision-making bodies such as board of directors. In terms of administration, the following checks on an organization system of a medical institution as an entire corporation are considered important: (i) Whether or not several

committees such as safety administration are working substantially; (ii) Whether or not administration system such as sending a bill for medical services rendered by it to Health Insurance Claims Review & Reimbursement Services (in response to reduction in its assessment) has been established; (iii) Whether or not a medical institution can respond quickly to revision of fees for medical treatment. JCR also considers that approaches of a medical institution towards third-party evaluation such as certified evaluation by Japan Council for Quality Health Care are important. It goes without saying that quantitative analysis focusing on financial base is positioned as important part in rating where debt service capacity is evaluated. JCR wants to emphasize that proportion of factor analysis other than numeric items is large owing to the business characteristics of medical field.

6. Rating for Social Medical Care Corporation

As for rating for a social medical care corporation, fundamental method is the same. However, concerning certification for a social medical care corporation by a responsible cabinet minister or other authority, because requirements related to public operation and emergency medical care are imposed on it, maintenance of this standard is positioned as business challenge to be prioritized by such medical care corporation. For this reason, establishment of system for these requirements counts in rating for it. JCR sets the following especially as evaluation items in light of the functions as a social medical care corporation: (i) Core function in community medicine; (ii) System of governance enhancement; and (iii) Approaches towards stabilization of its management base in the medium term.

Chart: Major Evaluation Items for Medical Institutions Rating

	Analysis of Institutional / Environmental Factor Analysis	Qualitative Analysis	Quantitative Analysis	Evaluation items for social medical care corporation
Evaluation of Business Base	<ul style="list-style-type: none"> Community medical program Size Regional characteristics (secondary medical care zone) 	<ul style="list-style-type: none"> Community medicine cooperation network system Framework of public support 		<ul style="list-style-type: none"> A. Core function in community medicine <ol style="list-style-type: none"> Establishment of system as a core acute hospital Approaches towards acquisition of multiple accreditation criteria Active involvement with establishment of community medicine cooperation network system B. Governance enhancement <ol style="list-style-type: none"> Periodic disclosure of management information, etc. Further improvement in management transparency Approaches for CSR C. Stabilization of management base in the medium term. <ol style="list-style-type: none"> Human resources development and enhancement for staff engaging in community medicine Approaches towards improvement in fundraising ability Support system from municipality
Evaluation of Medical Base	<ul style="list-style-type: none"> Characteristics in community medicine Standards for facility Clinical training system 		<ul style="list-style-type: none"> Functional indicators 	
Evaluation of Financial Base		<ul style="list-style-type: none"> Approaches towards improvement in operating flow Correspondent financial institutions 	<ul style="list-style-type: none"> Profitability indicators Efficiency indicators Stability indicators 	
Evaluation of Management	<ul style="list-style-type: none"> Ability to handle revision of medical treatment fee Safety administration system Approaches towards third-party evaluation 	<ul style="list-style-type: none"> Governance enhancement Functions of board of directors, etc. Administration system 		