The Status Quo Analysis and Countermeasures Research of Pension Service Financial Market

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Abstract. In recent years, as the aging of the population is accelerating, social sectors are paying more attention to the needs of the elderly, and along with the country’s continuously clear path planning and strong policy support for pension finance, financial institutions have started to speed up the exploration and innovation of pension service financial market. In this paper, the current situation and development dilemma of pension service financial market for financial institutions, including banks, insurance companies, fund companies, and trust companies are analyzed emphatically, using statistical analysis method, and some countermeasures are provided from government function, product innovation, technology application and talent training.

Introduction

Since our country entered an aging society in 1999, the aging degree has been gradually intensified. In the 19th National Congress of the Communist Party of China, the elder-care problem was mentioned several times. As stated in the report, we will foster a social environment in which senior citizens are respected, cared for, and live happily in their later years. This means that the problem of old-age care is not limited to solving the basic life issues faced by the elderly, but also to improving the quality of life and well-being of the elderly.

As the aging problem becomes increasingly severe, many scholars have conducted relevant research on this issue, and many of them have mentioned the concept of “pension finance”. Dong Keyong and Sun Bo (2015) made a detailed definition of pension finance, subdividing pension finance into retirement pension finance that is related to pension system arrangement, pension service finance that meets the consumption, investment and derivative demand of the elderly through financial service activities, and pension industry finance including investment and financing activities in the pension industry.[1] Last several years, driven by government policies, pension financial system continues to improve, and through the correct guidance of the market, pension investment and financing mode of the pension industry continues to innovate. However, the development of pension service finance is currently insufficient due to multiparty constraints. Therefore, this paper mainly discusses the pension service finance.

The Status Quo of Pension Service Financial Market

Affected by the rise of the “silver hair economy”, banks have developed a series of professional pension service financial products. They are no longer limited to traditional old-age savings products, but also include pension financial products, housing reverse mortgage loans, pension-specific bank cards, and comprehensive pension financial services.

The old-age savings products have always been the most common method of pension financing for Chinese residents because of their low risk and stable returns. However, in the past two years, many residents have turned to invest in pension financial products because of the decline in interest rates on bank deposits. According to the data provided by Wind, we can obtain the financial products with the word “old-age” issued by banks for the past five years, as shown in Figure 1. We can see that the number of pension financial products issued by banks has basically increased year after year. However, the growth rate of pension financial products designed for individuals is very
slow compared to institutions. In addition, the average annualized return of the banks’ financial products is basically around 5%, showing a trend of falling first and then rising. This trend is related to the policy of the central bank’s multiple interest rate cuts in 2015 and the moderate tightening of monetary policy in the context of financial deleverage in 2017.

As for pension-specific bank cards, some banks have launched common card and credit cards that fully meet the consumption habits of the aged.[2] For example, China Guangfa Bank launches the “free card” that integrates functions of wealth management, payment, and consumption for the elderly. For housing reverse mortgage loans, in 2011, China CITIC Bank first developed the loan business for “house-for-pension” pattern in Beijing and Shanghai. However, due to factors such as loan restrictions and rising housing prices, there are only a few commercial banks that provide housing reverse mortgage loans so far. With regard to comprehensive pension financial services, commercial banks use their advantages in linking various sectors of society to provide comprehensive services for the aged. Huaxia Bank connects the supply and demand of pension finance and builds a smart community ecosystem of “customer + merchant + property + bank”.

![Figure 1. Pension Financial Products Issued by Banks from 2013 to the First Quarter of 2018.](image)

With improving of population aging degree, the entire pension industry showed a positive trend. Insurance companies take this opportunity to lay out the pension insurance market, forming an endowment insurance system consisting of personal commercial pension insurance, long-term care insurance and housing reverse mortgage endowment insurance.

![Figure 2. Scale of Trustee Management Assets of Pension Insurance Companies (2009-2017Q3).](image)

The scale of trustee management assets of top five commercial pension insurance companies in the market, for 35 quarters from 2009 to September 2017, is shown in Figure 2. From which we can see that in recent years, the scale of personal commercial pension insurance market is rapidly
expanding. Among them, China Life Insurance Co., Ltd. has the fastest growing scale of trustee management assets, which shows that its endowment insurance business has developed rapidly and has the highest market coverage. For long-term care insurance, the insurance industry has taken the lead in trying this new model according to the 13th Five-Year Plan. On March 15, 2018, China Life Insurance Co., Ltd. signed a cooperation agreement with Sino-Ocean Pension Management Co., Ltd. to jointly explore and develop the long-term care insurance business model based on Chinese characteristics. As for housing reverse mortgage endowment insurance, only Happy Life Insurance Co., Ltd. has launched the first domestic “house-for-pension” insurance product.

In the context of aging, the progress of financial institutions in the field of pension financing is not the same, and the development of trust companies in pension industry has only just begun, with a small number of products and a small business scale. At present, there are only several types of products for pension consumption trust and pension financial trust. CITIC Trust integrates consumption trust and medical care and launches the first domestic pension consumption trust product, which includes health data management, family endowment and emergency rescue services. In addition, China Industrial Bank introduces the “Anyu Trust”, the first pension financial trust product in Chinese mainland market, drawing on the design structure of the “family trust” product. The trust product uses monetary funds in the entire process of investment, operation, payment, and liquidation. But the trust product was originally designed to meet the needs of endowment and inheritance of private banking customers. As a result, its investment threshold is high and it is not suitable for ordinary investors.

After HSBC Global Asset Management (UK) Limited issued the first hybrid target date fund with old-age attribute in 2006, the fund industry has never stopped exploring and innovating in the field of pension.[3] According to statistics of funds provided by Wind, as shown in Figure 3, there are 19 funds with the word “old-age” on the market as of March 2018. From the type of investment, more than half of funds are hybrid funds. In terms of risk level, most of them are medium and low-risk funds. For the time being, the sum of the funds that can be counted in the current market is taken as the total size of the fund. From the perspective of fund size, the total fund size of the two funds, Southern Anyu Pension and Southern Antai Pension, issued by the China Southern Fund Management Co., Ltd., reached 41.22% of the total fund size. In addition, there are statistics showing that currently the accumulated earnings of the 19 funds are mostly positive, with Penghua Pension Fund having the highest accumulated return rate of 67%.

![Figure 3. Investment Type, Risk Degree and Fund Size of Pension Fund in the Market as of March 2018.](image-url)
The Development Dilemma of Pension Service Financial Market

Although relevant departments have issued a series of policies concerning pension finance in recent years, most of them are partial to macro guidance and lack detailed operating guidelines and preferential policy, which results in low efficiency of pension service finance development. For example, bank-directed housing reverse mortgage loans have not yet reached a scale due to various restrictions and no government incentives, although they have been launched for a long time. In addition, owing to the lack of relevant regulatory mechanisms for pension financing and the lack of risk awareness among the elderly, there are more and more cases in which seniors invest in fraud.

In addition, the problem of product homogeneity is serious. Taking the bank pension financial products as an example, there are no major differences in the nature of different types of pension financial products issued by different banks, and there is a serious lack of characteristics that reflect “pension”. In addition, the aged people generally prefer products with low risk and high liquidity. However, most pension financial products are not allowed to be redeemed in advance. And with the introduction of Guiding Opinions on Regulating the Asset Management Business of Financial Institutions, rigid payment of bank financial products will be cancelled, which means that buyers of financial products are required to bear the risk. Under the current situation, it is a big test for the development of pension financial products.

Moreover, under the background of an aging population, there is a huge financial need for the elderly population, but the corresponding products that financial institutions can provide are seriously inadequate. In July 2017, China Insurance Regulatory Commission pointed out that the supply of personal commercial endowment insurance products and services in China is insufficient. And from the analysis of the above situation, we can see that the amount of supply of pension funds and trust products in China is also very small. In addition, there are some problems in the pension service financial market where the professional quality of employees is not high.

Countermeasures and Suggestions for Developing Pension Service Financial Market

Above all, the pension service finance has a typical characteristic of mixed operation. Therefore, in the new mode of “One Central Bank and Two Commissions”, the government should continue to clarify the scope of supervision of various regulatory agencies, refine their supervisory responsibilities. Moreover, the government should strengthen support for the pension service financial industry through tax preferences, special funds to guide more financial institutions to enter the market. Finally, in the current situation of rigid payment being broken, the government must properly handle the relationship with the market, guide investors to recognize the relationship between risk and return, and create a healthier and more reasonable development environment for the pension service financial market.

Second, in the context of “Internet plus”, financial institutions should make full use of technologies such as big data and cloud computing, intelligently evaluate the core investment needs of the elderly, and design personalized, diversified, multi-level pension service financial products for the elderly. In particular, under the constraints of the new regulations on asset management, it is imperative for financial institutions to seek product and service innovation based on strict risk control. Thus, all institutions should break down industry barriers, continue to strengthen cross-border integration of the industry chain, and develop pension service financial products through cooperation in the financial, real estate, health, medical, and tourism industries.

Last but not least, pension finance is an emerging financial market with great potential for development. It is necessary to continuously increase capital investment and resources support in this area and enrich the docking channels between the pension industry and the capital market. Moreover, pension finance adopts specialized operations and covers a wide range of areas. Therefore, it is necessary to vigorously cultivate compound talents with a wealth of knowledge in finance, pensions, and science and technology to serve this market.
References


