



Suggestions on the Development of China's Financial Products under the Background of Population Aging

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Abstract. China entered an aging society in the 1990s. In 2021, the proportion of the over 65-year-old population in China exceeds 14%, which indicated China has entered a deeply aging society. The development of pension finance is of great significance to our country, which is related to the health of the elderly population and the overall well-off society of our country. At present, China's financial products are facing the problems of uneven development of pension financial products, inadequate innovation of pension financial products, insufficient power of pension financial capital and slow development of pension financial service. We suggest promoting the balanced development of pension financial products, the Intelligent development of pension financial products, the market-oriented development of pension financial products and the standardized development of pension financial products to ensure the high-quality development of pension finance in China.

Keywords: Population Aging, Financial Products, Endowment Insurance.

1 INTRODUCTION

Population aging refers to a dynamic process in which the proportion of the elderly population in the total population of a country or region increases correspondingly due to the decrease in the number of young people and the increase in the number of older people [1]. The aging of the population means that the proportion of the elderly population in the total population is growing, the aging is intensifying, the young and middle-aged labor force is decreasing, the age structure is unbalanced, and the social burden is increasing. According to the data of the National Bureau of Statistics, the aging trend in China continues to advance. In 2021, the number of people aged 65 in China will reach more than 200 million, accounting for 14.2% of the total population. As far as the overall trend is concerned, the proportion of aging in China is growing faster than that in 2011, and the overall trend is accelerating. According to the definition standard of the United Nations, when the number of people aged 65 and above in a country or region accounts for more than 7% of the total population, it means that the whole country or region has entered an “aging society” [2]. When the proportion reaches 14%, they

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will enter the “deep aging society”. This indicates that China has entered a deep aging society”. Figure 1 shows the current situation and trend of population aging in China.

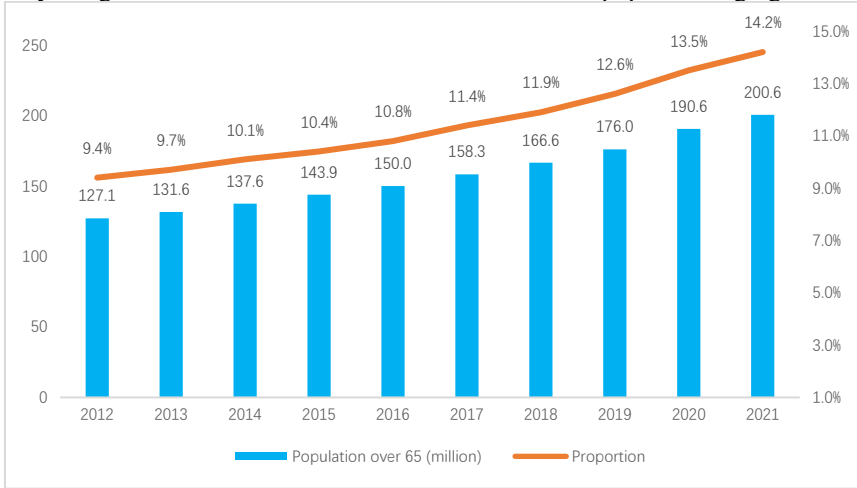


Fig. 1. Current situation of population aging in China in recent 10 years (figure credit: original)

The aging of the population has highlighted the problem of providing for the elderly, which is manifested in the following aspects: accelerated aging, increased pressure on providing for the elderly, imperfect pension system, unreasonable financial allocation for the elderly, insufficient financial support for the elderly, etc [3]. Under the condition that the population aging speed and the absolute number of the elderly population grow rapidly, and the population aging is ahead of the economic development level. Under the background of aging population, China's financial industry is also facing all-round challenges from foreign banks, especially the loss of high-end market customers with high profitability. Therefore, China's financial industry can survive and develop only by establishing characteristics in the competition. As a growing and undeveloped market, the elderly market, especially in the case of imperfect pension insurance system, commercial financial institutions will certainly form a favourable supplement to the government pension mechanism, which will inevitably generate huge business opportunities. With the adjustment of population structure, the aging process in China has been accelerated and deepened, and the national pension needs have been gradually released, and pension finance has also been promoted to the height of national strategy. It is of great significance to thoroughly sort out and analyse the problems existing in the operation of China's pension finance, pension service finance and pension industry finance to promote the healthy development of China's pension finance and actively respond to the aging crisis.

2 OPPORTUNITIES FOR THE DEVELOPMENT AND INNOVATION OF PENSION FINANCIAL PRODUCTS

At present, China's existing pension system structure is still not perfect. Occupational pension, enterprise pension, personal pension, and commercial pension financial services [4]. The basic endowment insurance shows a long-term downward trend, which is bound to form a huge pressure on the national finance in the long run, and will also increase the pension burden of families and individuals. In this context, it is imperative to develop a multi-level and multi pillar endowment insurance system. In March of the same year, the outline of the "Fourteenth Five Year Plan" again clearly proposed to "develop a multi-level and multi pillar endowment insurance system". The General Office of the State Council issued the Opinions on Promoting the Development of Personal Pension, proposing to establish a personal pension system suitable for China's national conditions, government policy support, voluntary participation of individuals, and market-oriented operation, marking the formal implementation of the third pillar of personal pension system in China [5]. The financial industry should actively respond to the call of national policies, not only make due contributions to the development of pension finance in China, but also constantly expand its own development space to meet the blue ocean of the industry. In the face of the huge elderly population base, the service population and scope of financial institutions will expand. In the past, financial institutions mostly served the labour force. In the future, the elderly will become the mainstream demand, and the elderly market contains huge industrial investment opportunities and financial development opportunities for the elderly. The needs of the real economy corresponding to the elderly society all need the support of financial institutions. Accelerating the development of pension finance will bring long-term stable business income and new profit growth points for financial institutions. As an important livelihood issue, the elderly care industry related to elderly care is a key area to ensure and improve people's livelihood and a sunrise industry supported by national policies.

3 MAIN PROBLEMS OF CURRENT PENSION FINANCIAL PRODUCTS

3.1 Uneven development of pension financial products

China's pension finance is too dependent on the first pillar. The first pillar accounts for 78.2% of the pension financial system, which will lead to excessive pressure on basic pension payment. The basic pension adjustment policy introduced in 2019 will increase the basic pension of retirees by 5% [6]. Although the basic pension has been increased for fifteen consecutive years, the increase rate has decreased significantly in the last four years. It can be seen that the pension pressure has begun to restrict the increase level of pension. The key reason why the first pillar can maintain balance is that the government continues to subsidize. In the long run, the government's financial pressure will also increase. The second pillar accounts for 21.5% [7]. While the development is

relatively slow, there is also a problem of uneven development. From a regional perspective, the pension development in developed areas such as Beijing, Nanjing and Hangzhou are far more than that in underdeveloped inland areas. From the perspective of the industry, enterprise annuity also covers more state-owned enterprises such as railways and petroleum, while private enterprises cover less. The third pillar developed most slowly, with a small total and a low proportion. In general, China's pension financial system is in a structural imbalance situation where the first pillar is the largest. This situation not only aggravates the financial burden of the government, but also is not conducive to the healthy and sustainable development of China's elderly care.

3.2 Inadequate innovation of pension financial products

In China's financial system, most of the elderly care financial products of commercial banks are those developed according to the traditional credit product model, which are not personalized. Statistics show that the number or scale of pension financial products of commercial banks is far lower than that of insurance companies, trust companies and fund companies. Domestic insurance, trust and other institutions have gone deep into the development of elderly care enterprises and the construction of elderly care communities. On the domestic market, pension financial products are gradually rich, but the homogeneity is still very serious, there is little innovation, and the product design is biased. According to the Statistics of the Analysis Report on the Newly Issued Pension Financial Products in 2020, 64, 228 bank financial products will be issued in the market in 2020, and only 149 pension financial products will be issued, accounting for less than 1% [8]. At the same time, the localization of the design and development of pension financial products is insufficient. Some of them simply copy foreign models, without adapting to local conditions and the actual situation in China. In addition to the traditional business, financial institutions began to realize the huge development potential of the pension financial market, and family trust, "housing for the aged" and pension finance and other financial products came into being. However, these products and services have many problems. Most of them provide traditional services in the name of elderly care, lack innovation, and in fact do not meet the requirements of financial services for elderly care. There are not many specific financial products suitable for elderly care, and most of them deviate from the orientation of the elderly's demands. A large amount of potential capital is wasted. Many of the product target customers are general consumers, especially young consumers, which don't focus on the elderly consumer group.

3.3 Insufficient power of pension financial capital

The degree of financial marketization in China needs to be improved. At present, competition and monopoly coexist in the capital market, and some infrastructure is imperfect, such as asset pricing benchmark. The valuation of assets and the level and ability of professional services need to be improved. At this stage, the virtuous circle between capital market and industrial growth has not been fully formed, the concept of value

investment is not strong, the stock market is basically hyped, and there are few institutional investors for long-term value investment. In this case, the long-term investment required by pension finance, especially value investment, should be linked to the results of economic growth, which has formed a challenge. There are many unknown and uncertain factors in the future of the traditional pension industry, which makes financial institutions doubt whether the pension institutions are profitable, greatly limiting the enthusiasm of capital participation, reducing the ability of the pension industry to attract social capital, leading to insufficient investment of social capital in the pension industry, and limiting the diversification of pension services. We should attract or arrange part of our savings into pension accounts, because pension accounts can be used for long-term capital allocation through professional management, and a large part of them can be used for equity allocation, which also optimizes our savings structure.

3.4 Slow development of pension financial service

The purpose of pension financial services is to meet the diverse and high-quality pension needs of the elderly, if there is a good economic foundation to support it. Since the founding of the People's Republic of China, China has experienced a long period of planned economy, with low wages of workers, low income of farmers and limited accumulation of national wealth. Since the reform and opening, although China's economic development has made great progress, the regional gap, urban-rural gap, and other contradictions are still prominent, and the weak economic foundation has inhibited the release of high-quality elderly care services. In addition, for people who have experienced economic difficulties, the long-term frugality habit makes a considerable number of elderly people have no high requirements for the quality of life in their later years. Under the dual effects of insufficient release of elderly care demand and low demand quality, the development and supply of high-quality elderly care services and products will be restrained, thus affecting the development of elderly care industry and elderly care service finance. Shortcomings and defects in the system design have provided opportunities for illegal fund-raising, property fraud and other illegal criminal acts. Frequent cases of old-age fraud have seriously damaged the public's trust in the old-age financial industry and hindered the healthy and rapid development of old-age service finance. The hollowing out of elderly care services mainly refers to the hollowing out development of elderly care products and industries. In fact, it has no effect on alleviating the problem of elderly care, but causes waste of resources. The foam and hollowness of pension services have a negative impact on pension finance and threaten the development of pension financial system [9].

4 SUGGESTIONS ON THE REFORM AND INNOVATION OF PENSION FINANCIAL PRODUCTS IN CHINA

4.1 Promote the balanced development of pension financial products

Build a long-term actuarial system for the first pillar of the basic pension system, gather the professional strength of relevant departments such as human resources and social security, finance, statistics, etc., regularly measure the long-term, medium, and short-term income and expenditure of China's basic pension system, and provide important reference for the reform of various pension systems. It is suggested to carry out rolling actuarial calculation on different time dimensions of short term and long term respectively to provide decision-making basis for public pension parameter adjustment and system reform. In addition, it is suggested to adjust the investment model of occupational pension, gradually release the right of personal choice, and classify the investment rate of return and risk tolerance according to the different age groups. For example, the asset portfolio of the upcoming retirees is dominated by fixed income assets to ensure the stability of treatment payment, Other employees who can withstand certain fluctuations will allocate assets in a three-year or five-year cycle. From the perspective of the enterprise, it is recommended to set up different types of investment portfolios, such as stable, balanced, and active, which are selected by employees within a limited range. The reform of the domestic pension system is a top priority. The three pillars must be developed in a coordinated manner, increasing the proportion of the third pillar, and changing the status quo of serious structural imbalance. Pension finance needs effective supply of multiple models and products to improve the financial sustainability of the entire pension system. Considering the reality of the pension system in China, in addition to relying on the transfer of state-owned assets and increasing investment income to improve the overall scale of the three pillars, the future reform of the domestic pension system needs to continue to optimize the structural supply. To promote the development of Pillar II and Pillar III, we should not place too much emphasis on Pillar I social planning and personal accounts [10].

4.2 Promote the intelligent development of pension financial products

Technology is an important means to develop pension finance [11]. With the development of the emerging smart pension industry, the integration between the government and the market will face new challenges. Therefore, necessary technical means are needed to provide support for the coordinated development between the two, and innovative technologies, such as mobile payment means, will be used in the new development opportunities of pension finance. Financial products are the bridge connecting financial institutions and customers. Financial institutions should establish the concept of serving customers throughout their life cycle, provide adaptive financial services according to the growth of customers' age and changes in demand, constantly cultivate customer loyalty, and gradually expand customer groups. The United States, Japan and other developed countries have designed and developed target date funds, long-term care insurance, housing reverse mortgage and other major products in the process of

developing pension finance, and achieved good development results. Based on the current situation of our country, it is suggested to formulate policy guidelines to support the development of pension service finance as soon as possible, and encourage financial institutions to increase the innovation of pension financial products. Diversified and localized pension target funds are designed, housing reverse mortgage loans are further improved, and pension entities are supported to apply for issuing special pension bonds, pension credit enhancement collective bonds, etc. At the same time, further reduce the market access threshold in the financial field of elderly care services, encourage more market players to enter the financial market of elderly care services, and gather more funds through rich and practical product and service innovation to improve the level of elderly care services in China. In addition, it is suggested to embed technologies such as blockchain and smart bank into pension financial services, promote the in-depth development of financial innovation in the direction of personalization, refinement, and intelligence, and achieve timely adjustment of deposit and loan interest rates, insurance premiums, children's education planning, etc. of elderly families.

4.3 Promote the market-oriented development of pension financial products

In view of the fact that China's pension industry finance is still in the early stage of development, investors are still immature in terms of project judgment and investment psychology [12]. The unreasonable expectations may lead to overheated or cold investment, which is not conducive to the healthy development of pension industry finance. Therefore, it is recommended to strengthen the education of investors, so that investors can fully understand the development status of the pension industry, help them form reasonable investment expectations, and avoid financial risks that may be caused by blind leverage and speculative psychology. In addition, it is suggested to standardize the scope of financial investment in the elderly care industry, strengthen the supervision of specific projects and financing tools, and guide capital to focus on key areas and weak links related to people's livelihood and elderly care. It is suggested that the government should implement supporting policies to attract more social capital into the elderly care industry through preferential tax policies; At the same time, it is necessary to introduce industry standards as soon as possible, standardize the industry order, and create a good soft environment for the financial development of the elderly care industry. At present, China's pension finance industry has a large capital gap, and it is difficult to attract financial institutions to participate directly in the industry nature and profit model in the short term. Therefore, we can start with innovative ways of financial institutions' participation and activate the participation force of financial institutions. There will inevitably be more payment and settlement in the aging industry, and the banking industry can play its settlement support service function. Indirectly serve the elderly care and content industries by serving the upstream, middle and downstream industries of the aging industry chain; Thirdly, explore and study the investment of insurance industry and trust industry in elderly care institutions, especially the insurance industry can try to participate in the construction of elderly care service institutions in the form of equity cooperation. Finally, we will carry out business cooperation with

non-financial institutions in different places, explore joint provision of comprehensive services, and activate market participation forces laterally.

4.4 Promote the standardized development of pension financial products

In the construction of the pension system, the rights and responsibilities of all parties, including employers, employees and promoters, should be clarified. Through the restriction of a sound regulatory system, the low efficiency of fund management caused by the disunity of account subjects and investment managers should be avoided. On this basis, we will protect the right of the trustee to freely choose pension services and products, promote fierce competition between investment institutions, and further promote investment institutions to improve investment efficiency and reduce service costs. At present, there are few institutional investors in China, so it is necessary to strengthen the improvement of the regulatory system and increase the education of institutional investors while realizing the marketization of entrusted investment. It is suggested that they cooperate with the introduction of the new personal pension policy to develop more diversified products, provide investors of different ages with more diversified choices, and meet their personalized pension investment needs to the greatest extent. Innovate publicity and education methods, carry out online education for pension investors through short videos, online classes, and other media, popularize pension finance knowledge to investors, and help them establish independent pension awareness, as well as pension investment concepts of long-term investment and value investment. The management between the government and the market is more a two-way interaction, rather than a one-way government management of the market. The government's management of the market is more direct, which is mainly reflected in the government's direct regulation and adjustment. The deficiencies in the development of the pension finance market are adjusted in time to ensure the smooth development of pension finance as planned.

5 CONCLUSIONS

With the arrival of the aging population, the scale of the elderly will grow day by day. It is an inevitable trend for the development of the financial industry to do a good job in pension financial products. However, at present, China's pension financial mechanism is not perfect, there are many problems, including uneven development of pension financial products, inadequate innovation of pension financial products, insufficient power of pension financial capital and slow development of pension financial service. Based on the above analysis of the current situation and problems of pension finance development and the summary of foreign pension finance development experience, this paper puts forward countermeasures and suggestions for the development of pension finance. In the new era, innovative financial products will benefit the vulnerable groups and will improve the national living quality.

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