Insurance Companies into Senior Housing Industry

– Risks Not To be Overlooked

Since this June the China Insurance Regulatory Commission ("CIRC") issued 13 draft regulations for public opinion, paces for insurance companies towards senior housing are further picked up.

Loosened policy for senior housing projects

A regulation within the 13 draft ones, namely *Notice Regarding Equity and Real Estate Investment for Insurance Funds ("the Notice"),* which has already been promulgated on July 16, relates a previous restriction of net assets threshold from RMB 1 billion to RMB 100 million on the real estate investment qualification for insurance company, and cancels the requirement of the company's profitability as well. In addition, insurance company can finance its investment by mortgage-backed loan with a ceiling of 40% of its project investment volume in the project-based company. In contrast to previous stipulation in the *Interim Measures on Investment in Real Estate for Insurance Funds* that allows only less than 10% of total assets of the insurance company to invest in real estate or real estate related financial products, the Notice sets it as 20% at top for insurance funds to invest in non-self-use real estate, debt investment plan on infrastructure facilities and real estate related financial products. The alteration will then enable insurance company to increase or decrease its proportion in real estate investment portfolio by adjusting its different business targets.

The Notice also for the first time stipulates that insurance funds can make equity investment in enterprises that engage in the senior care business. There is no specific reference as to the ways insurance companies can pursue in senior housing investment. According to the *Interim Measures on Investment in Real Estate for Insurance Funds*, insurance companies cannot develop and sale apartments of senior housing project in term of commercial real estate development and under the guise of senior care investment. This seems like a big barrier for those solely or partially pursuing the built-for-sell model in project development. However, as long as equity investment in senior care related enterprises is allowed, it is easy for insurance companies to find a pass through just by having real estate developers involved in. Real state developers are not subject to such restriction, and, if developers and insurance companies ally with each other, more bargaining power with government is created, especially in the case of acquiring large scaled plots.

Active initiatives from insurance companies

On this June 6, as reported, Taikang Life Insurance started construction of its first retirement community in Beijing Changping District. This is a substantial step for the company follows to its prior announcement of first life insurance product that associated with senior housing. Said retirement community, a seemingly CCRC community that has been practiced in western countries for decades, is planned to be opened by 2015. As reported, Taikang Life Insurance is planning to develop more than 30 retirement communities for chain operation in the coming years in other cities like Shanghai and Sanya.

Among others, China Life Insurance, Union Life Insurance and New China Life Insurance have also announced their tapping into senior housing development. With implementation of the Notice, an estimated 100 billion RMB will be unleashed. Adding with the relaxation on finance tools for insurance companies in real estate development, it is believed to bring more stimulus for insurance companies to invest in senior housing.

Attractive or Not

For consumers, is a senior care housing or facility that attractive? Only time will tell. Just for the time being, we find more risks for consumers than attractiveness. Let's first take a look at Taikang's product:

There are two documents contribute to Taikang's life-time senior care insurance product—an annuity insurance policy and a confirmation document from Taikang, ensuring a residency right in its senior living community to the policyholder. Designed as a high-ending annuity product, it has a premium threshold of 2 million RMB, which can be a lump-sum payment or ten years' installment. Insurance benefit, mainly covers the monthly rental and care service expense in senior living community, is entitled for the beneficiary after 65 or 70 years old, as he or she chooses. Insurance benefit is guaranteed to the elderly before 85 years old, and will continue until his or her departure.

Risks to be considered for new type of insurance product

Similar to residency model as is practiced in Japan and Australia, buying an annuity insurance product is more like paying an amount of entrance fee to senior housing developer. Whether this high amount of entrance fee worthy, several tips for considering the risks and consumers can judge by themselves:

Total premium of some insurance policy has already reached the amount of buying an equivalent apartment nearby the senior care community. However, consumers in this case only obtain a paper of guarantee of residency. Moreover, deal between insurance company and consumer is reached at the very beginning the senior care community is still in planning, much uncertainty remains and can only be eliminated until the community is completed construction and put into operation, and, until the consumer is up to move into it.

No assets backed loan is available here as is always used in a housing purchase. Consumer can only choose one-off payment or by installment. Likewise, exit method for consumer depends on articles in the insurance policy, which is less flexible than those for homeowners.

Participating annuity insurance policy is similar to a financial product, and individual tax-deferred preferential policy has not been implemented as it should be. Moreover, the investment return, i.e. the insurance benefit depends on earning and loss of the annuity portfolio, and people will be more than skeptical on its profitability if, in the short run, performance of annuity management links to the earnings of the senior living community.

The guarantee within the insurance product only covers a residency right and a continuing payment of proceeds after the insured retires. However, more details as to the rate for rental, living expense and care service in the senior living community are to be clarified. As a result, it still remains uncertain whether consumer can enjoy a no extra-payment living in the community.

Consumer should consider the difficulty of implement a nation-wide network of senior living residency. While real estate price and consumption standard in first tier cities like Shanghai and Beijing are higher than the others, and residency demands in busy season for those hot destinations like Hainan and Yunnan will increase hugely, insurance companies may face a far more complicated situation to ensure abundant resident rooms for people who choose to live periodically in other cities, and in the meantime, also to reimburse them with the differences in the living expenses between different cities in terms of insurance benefit.

Current senior housing models for insurance companies are mostly high-ending ones, which is undoubtedly a huge challenge for the investors to operate and profit from the senior housing projects, given the fact insurance companies merely have any experience in the field. So cooperation with third party operators is inevitable, and whether consumer can expect a quality-assured service is a question mark.

Undoubtedly, investment in senior housing can meet the business orientation of insurance companies, whose capital is born with the appetite for longer payback period and safety. Involvement of insurance companies is catering to the demand from government as well—it can provide citizens with more senior care beds. Consequently, several local government are trying to provide preferential policies to attract investment in the senior housing, while ignoring some developers only intent to acquire large parcel of lands at lower prices. A warning therefore is definitely necessary for the industry.

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