Assessment of benefits and risks of reverse mortgages in China

Aging is an inevitable trend for most of the countries. Increasingly, more and more country enters “old” era and discovers that public support system alone is not sufficient to ensure the welfare of the elderly. China is not an exception. As a last resort, reverse mortgages, introduced in the 1980s in the US, is a supplement to the public welfare system. The increasing popularity in the US and other countries like Australia has attracted Chinese scholars to study this financial product.

Early data analysis in the US indicated great potential of reverse mortgages. Through surveys, target groups were studied and the benefit reverse mortgages brought were analysed. Risks of reverse mortgages were identified and presented in 1994 and were left untouched since then. Empirical study of reverse mortgages is only limited in a few countries where such products exist. Like many other countries, researches on reverse mortgages in China remain theoretical.

This proposal is prepared to enhance the understanding of the existing knowledge of reverse mortgages and its impact on China. This research is critical in assessing the benefits and risks of reverse mortgages in China and in providing a way of analysing potential reverse mortgage markets. By creating Chinese economic scenarios with historical data and building proposed models to simulate individual spending behaviour, this study will examine reverse mortgages from both consumer and supplier perspectives.

This research is based on the well-established theory in finance, economics, and actuarial science. It builds on theories like utility theories, retirement planning and consumption theory, annuitization theories and risk management theories. It uses statistic modelling technique such as time series analysis to create economic scenarios and simulation method to analyse the impact of reverse mortgages to households and product providers.

This study generates several intellectual merits; the impacts will be substantial and can be categorized in two ways:

1. The assessment results will add to the growing literature in Chinese reverse mortgage field and will contribute to the understanding of how well the product will work and how to stimulate the development of reverse mortgage market.
2. The proposed method of analysing reverse mortgages will provide a new way to assess reverse mortgages in other countries and will also provide a method to evaluate new financial products.

The proposed research will be carried out over a 12-month period by the Principal investigator and a Co-Investigator. Primary steps include: 1) an ongoing literature review ( 1 month), 2) data collection and statistical modelling (3 months), 3) model development, programming, and simulation (4 months), 4) data analysis and summary of results (3 month), 5) publication (1 month).

The proposed research will provide extensive information on the potential of Chinese reverse mortgage market and is beneficial to academics who are interested in this area, reverse mortgage product providers as well as Chinese regulators.