Innovate
Implement
Impact

Financial Health and the Elderly

Lessons from China

MetLife Foundation

UNCDF
Unlocking Public and Private Finance for the Poor

Executive Summary

China is one of the most rapidly ageing countries in the world. As of 2010, approximately 12.4% percent of the country's population was aged 60 or above. That percentage is projected to reach 28 percent by 2040 (WHO, 2015). And while it took France 115 years, Sweden 85 years and the United States 69 years for the percentage of their population aged 60 and over to double from 7 percent to 14 percent, China needed only 34 years (United Nations, 2015).

While increasing longevity is to be celebrated as an achievement, governments and societies are less prepared for the challenges associated with ageing. In rural areas of China, where health and care infrastructure are limited, the population is ageing more quickly than in urban areas and many elderly communities are at risk of exclusion. Steady rural-to-urban migration among younger Chinese means that traditional care arrangements, such as children caring for parents, are no longer practical. Older Chinese face financial challenges as they stretch their life savings to meet expenses when their income declines or ends, cope with health care expenses and keep pace with China's digital revolution.

This report explores the financial lives of older people in China and summarizes key findings from secondary research and UNCDF's primary research in Yangzhou and Guangdong Province. The financial sector, including financial institutions, insurance companies, fintech companies, policymakers and regulators, could benefit from the report's insights and apply them to the design and delivery of interventions that improve the financial health of China's elderly.

Key findings

Older adults face the challenge of living on savings that are depleted over time. As people age and become more reliant on pensions, they confront new age-related expenses. This creates opportunities for the financial sector to design and deliver tailored financial products and services, such as savings, credit and liquid investments, and help prepare people for ageing.

What can work: Low-risk, liquid investment products could meet the liquidity preferences of older customers, while helping them grow their money. This would help them smooth consumption as they age. China's CITIC Bank offers low-risk savings and investment products to its older customers that are designed with their preferences and attitudes toward money in mind. By designing products that provide flexible entry and exit points, CITIC appealed to the older demographic, who tend to be more risk-averse and seek highly liquid, interest-bearing products. Their mindfully crafted financial services also helped CITIC grow its customer base. At the end of October 2019, CITIC Bank had 12.64 million elderly customers and 1.04 trillion RMB in assets under management (AUM), accounting for 52.62 percent of total retail AUM.

China's elderly face an increased risk of chronic diseases, which result in high health care expenditures. While China has expanded public insurance schemes, those programmes remain inadequate. Financial institutions could leverage data to offer relevant and patient-centred services including one-stop solutions that combine digital platforms, financial and health care services.

What can work: Using big data approaches to build digital health models for users can make different health options available to older adults. For instance, WeDoctor, a digital health platform, uses big data from commercial insurance companies to build innovative products and customized insurance solutions. Expanding the model could help users access other health services including prevention, medical treatment, payments, and rehabilitation costs. Banks like China's Construction Bank and Citic offer bundled solutions for their older customers. Construction Bank's mobile banking app allows older customers to book appointments to tour nursing homes and Bank of China offers health education through its "online university for seniors" on its mobile banking app.

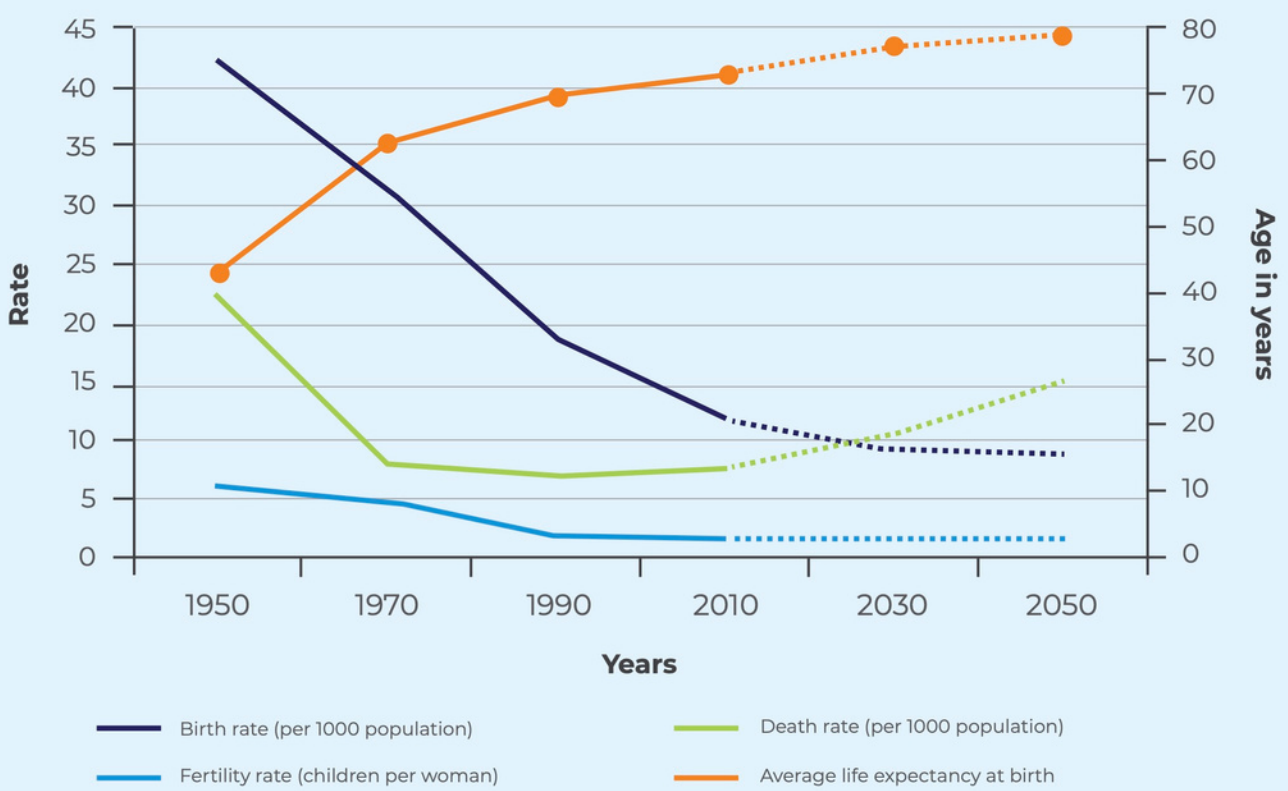
China's elderly, like seniors elsewhere in the world, struggle with digital financial services (DFS). Trust is often a factor. Lack of digital literacy compounds the problem, leading to financial abuse and fraud, particularly among older adults. However, given China's significant strides into the digital age, older people are increasingly embracing DFS, although within a narrow range of services. This offers the financial and non- financial sectors an opportunity to use physical and digital elements in designing and delivering age-appropriate products and services.

What can work: Some banks are leading the way in designing digital and physical services tailored for the elderly. Shanghai bank, for instance, uses a simple, intuitive mobile banking interface that features more graphics than text and a simpler navigational structure. Its one-touch click-to-call feature also allows older customers to access staff support from employees who speak multiple Chinese dialects. In an effort to cater to the elderly's specific needs, in 2020, BOC launched a special section for elderly customers on its mobile banking app with three functional areas: wealth management, quality of life, and Bank of China university for seniors. On the physical services front, CITIC bank offers an early example of an elderly-friendly approach. In 2012, it modified more than 1000 of its branches to better serve older customers.

Background

Many countries are experiencing a demographic transition. This ranges from declining fertility rates to improved life expectancy at birth. The result: higher proportions of ageing populations globally. China is one of the world's most rapidly ageing countries[1]. As of 2010, 12.4 percent of its population was aged 60 or above. That percentage is projected to reach 28 percent by 2040. According to the World Health Organization (WHO), a person who reaches the age of 60 in China can soon expect to live longer than prior generations.

Figure 1: Demographic transition in China, 1950-2050



Source: WHO (2015)

While increasing longevity is to be celebrated as a remarkable human achievement, governments and societies are underprepared for the challenges associated with ageing. For example, rural China is ageing faster than urban China. By 2030, the proportion of seniors aged 60 or over in rural and urban areas will be 21.8 percent and 14.8 percent, respectively. Most of this divide is explained by rural-to-urban migration among younger Chinese. As a result, traditional care arrangements — such as children taking care of elderly parents — are no longer practical as children move into cities for jobs, leaving elderly parents behind to avoid the higher cost of living in urban areas. Further, commercial elderly care services, particularly in rural areas, are inadequate and cannot meet the growing needs of China's ageing population.

[1] As per article 2 of the Law of the People's Republic of China on Protection of the Rights and Interests of the Elderly, the elderly are defined as citizens at or above the age of 60 (Source). For the purpose of this report, however, the primary study has taken into account people under 60 years as well. People in the age group of 50-60 years are expected to be in the elderly category soon, and their perceptions add value to the findings of this report.

China's GNI per capita has also not caught up with the country's rate of ageing. For example, in 1989, when 11.4 percent of Japan's population was 65 years or older, GNI per capita stood at US$27,000. China reached that same 11.4 percent in 2019 – but its GNI per capita was only $10,390 (World Bank, 1989, 2019). Thus, older people, including the next generation of China's older adults, will face significant financial challenges. Rural residents who rely on limited income and savings will be particularly affected.

Additionally, as they age, older people are less likely to earn additional income. However, to meet their ongoing financial commitments, most of them, particularly low-income individuals, continue to be employed or pursue entrepreneurship. Support from children or family is limited, as most Chinese families have one or two children, who cannot meet all of their parents' needs. Thus, the elderly draw down their lifetime savings and use their assets to meet their financial obligations as they age. This can be challenging, as they must smooth consumption in the face of limited or no income.

Health-related challenges also come with age. According to the 2015 WHO country assessment report for China, the incidence of chronic non-communicable diseases among the elderly is substantial. In 2013, close to half - more than 100 million of China's 203 million elderly - had at least one such illness, such as heart disease, cancer or dementia, and many had more than one. And although the Chinese government has made progress in providing coverage for a majority of its citizens, public insurance is often limited and does not cover a significant portion of inpatient and outpatient costs[2]. Commercial health insurance in China is still nascent and is typically preferred by higher-income Chinese. This creates financial difficulties for China's ageing population, particularly those living in rural areas and those who lack adequate income or savings. They must deal with both illness and the inability to pay for treatment.

This report uses both primary and secondary research from China to highlight the financial lives of older people in the country. The primary research examines the extent to which they lead financially secure, resilient and free lives. It also assesses their engagement with financial services, including digital services, and their unique preferences and needs.

[2] Harun, Nurfarahin, Ali, Noraliza Mohamad, and Khan, Nur Layali Mohd Ali. 'An Experimental Measure of Malaysia's Gig Workers Using Labour Force Survey'. 1 Jan. 2020: 969 – 977.

Objectives and Data

The purpose of this study was to understand the needs of older people in China and make recommendations to improve and enhance their financial health. Older people face unique financial challenges: their financial needs and priorities shift as they age; they must find a way to smooth consumption, relying on their life savings with the prospect of little or no income; and their ability to process financial information may not be adequate in an increasingly digital world. These challenges could significantly affect their financial health in terms of financial security, control and freedom.

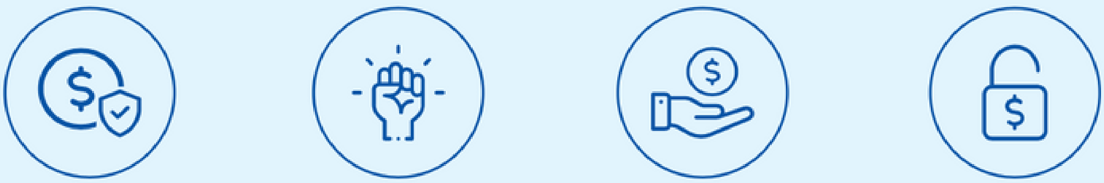
The paper makes research-based recommendations to the financial sector in China, including banks, insurance companies and fintechs. It highlights the use of both physical and digital elements in the design and delivery of products and services for older people and the need for financial and digital literacy, particularly regarding potential financial frauds as this population gradually catches up with China's digital transformation. Last, it also focuses on the life cycle needs of older people, ranging from immediate post-retirement needs to late-life care.

The UNCDF study asked these questions:

- What are the financial challenges, including potential challenges, that older Chinese people face and that could impact their financial health? How did COVID-19 impact their financial health and how did they respond?
- How will China's rapid digitization affect its older citizens? How do China's older consumers interact with digital financial services? What barriers do they face in expanding their use of technology and financial services?

The Dimensions of Financial Health

Financial health is a state in which an individual can meet his or her current needs, absorb financial shocks and pursue financial goals. Financially healthy individuals also feel secure about their finances. The elements below capture the four dimensions of financial health:



Financial Security
The ability to meet one's ongoing commitments in the present.

Financial Resilience
The ability to cope with and recover from shocks.

Financial Control
A feeling of control of one's finances.

Financial Freedom
The ability to meet one's future financial goals and enjoy things one values.

Methodology

This study is based on a three-pronged methodology:

- **Literature review:** The study team reviewed more than 40 publications related to China's ageing population and financial services for older consumers both in China and globally.

- **Expert interviews:** The team conducted 20 interviews with leading researchers and representatives of financial institutions in China who are researching this segment of the population or providing services to them.

- **Primary research:** UNCDF conducted a survey of older people in Guangdong Province and Yangzhou, in partnership with Huizhou Financial Consumer Protection Association and Yangzhou Rural Commercial Bank. This report presents an analysis of the 537 responses received.

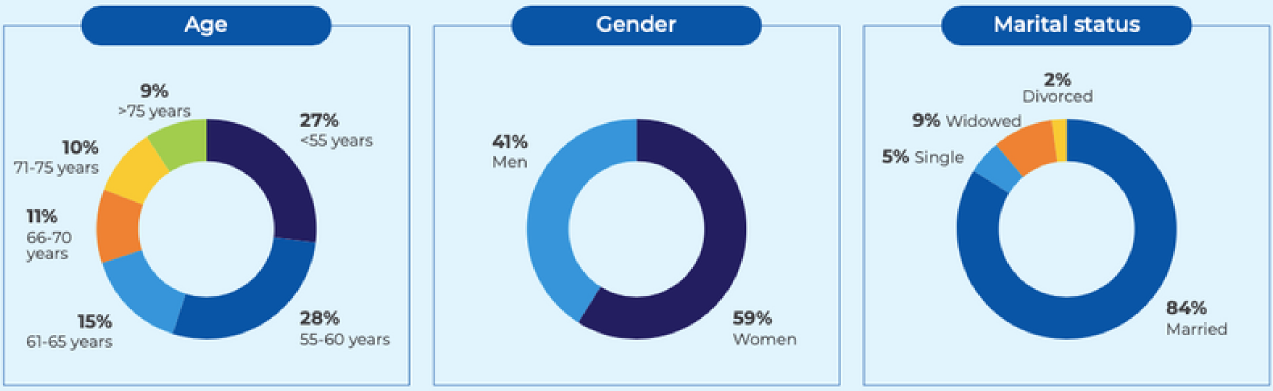
- **Limitations of primary research:** The survey with the respondents was conducted digitally due to the movement restrictions following the Covid-19 pandemic. The provinces selected were dependent on our partners' presence in the respective areas. Hence, the sample may not be representative of China's overall ageing landscape. However, in combination with the secondary data, the findings present the broader needs of the elderly in China and the recommendations are relevant to the different stakeholders in China.

Study Group Characteristics

Age, gender and marital status

Of the 537 respondents, more than half (54 percent) are between 55 and 70 years of age and most (84 percent) are married. Women outnumber men (59 percent to 41 percent). Nearly 75 percent of the children have one or two children and 81 percent of respondents cohabit with a partner or a partner and children.

Figure 2: Age, gender, and marital status of sample respondents

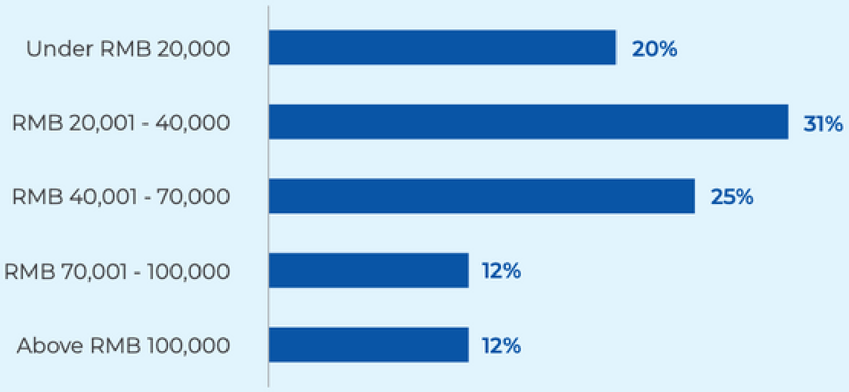


Source: UNCDF Survey; N = 537

Assets, income and pensions

A majority of respondents (86 percent) own a house. Less than one-third own other assets, such as a car (31 percent), land (24 percent), investments (16 percent) and jewellery (11 percent). Pensions are a major source of income for respondents above retirement age (60 years for men and 50-55 years for women[3]). Men and people under 60 are more likely to have business income compared, respectively, to women and people over 60. Respondents over 70 receive approximately 15 percent of their income from remittances.

Figure 3: Total income from all sources in the past 12 months

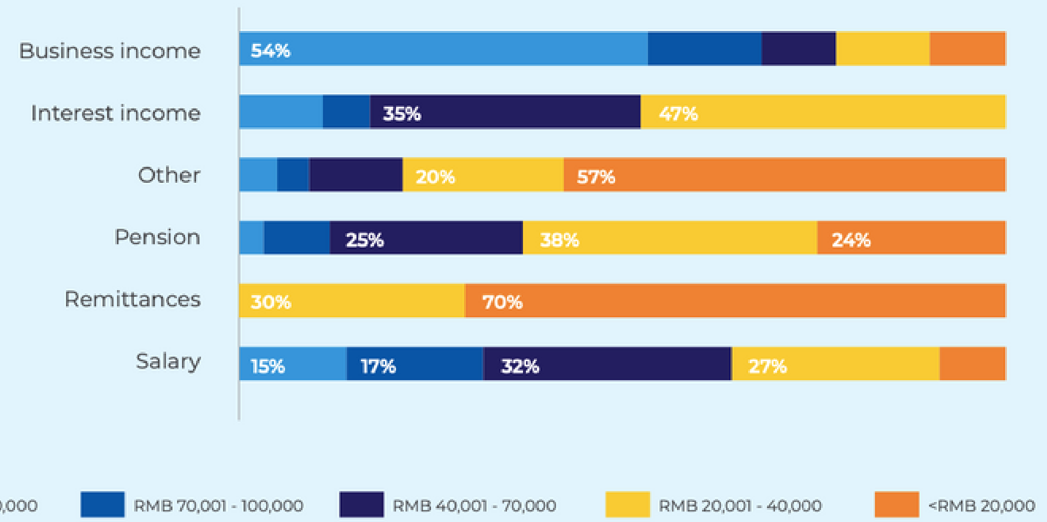


Source: UNCDF Survey; N = 537

[3] The retirement age for women in China is 55 years for managers (those working in state-owned and public institutions) and 50 years for workers.

The annual income of more than half of the respondents ranges between RMB 20,000 and RMB 70,000. Respondents who own a business are likely to be in the high-income range.

Figure 4: Total income by source



Source: UNCDF Survey; N = 537

Employment

While full-time employment declines with age, involvement in business and part-time employment remain more or less constant. More elderly men than women own a business. Longer work hours correspond to higher incomes; most of the business owner and employee respondents work 6 to 10 hours a day.

The two main reasons to work are the need for income (40 percent) and the desire for economic independence (38 percent), although the two should not be conflated. People over 60 and those earning lower incomes are more likely to choose "I want to socialize" as their key reason for working.

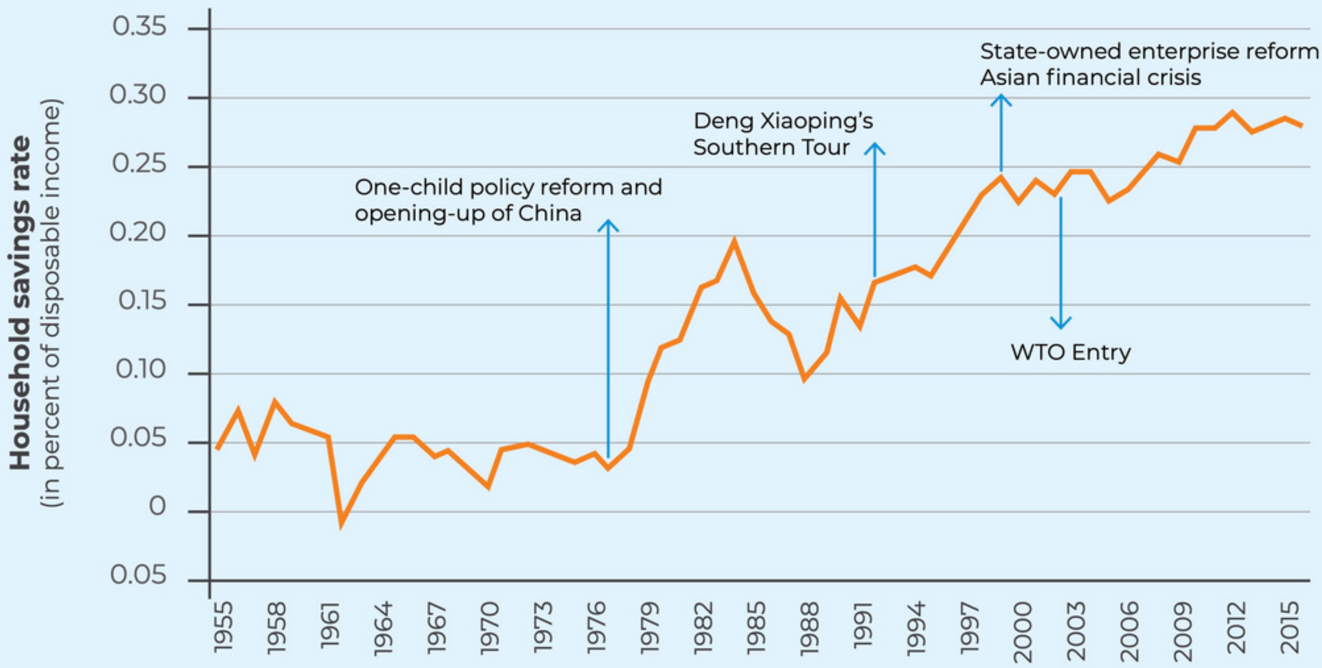
Detailed Key Findings:

FINDING #1

China's older adults face the challenge of living on savings that are depleted over time. And as people age and become more reliant on pensions, they confront new age-related expenses. This creates opportunities for the financial sector to design and deliver tailored financial products and services, such as savings, credit and liquid investments, and to help prepare people for ageing.

China's 2019 GNI per capita was only $10,390, yet it has one of the highest household savings rates in the world. Many factors contribute to this high rate, including demographics and the policies the Chinese government has pursued in past years. A recent paper (International Monetary Fund, 2018) notes that China's rising household savings rate coincided with the one-child policy, which led to fewer child-related expenditures and higher savings, a series of socio-economic reforms, such as the expansion of social security, and an export boom following China's entry into the WTO.

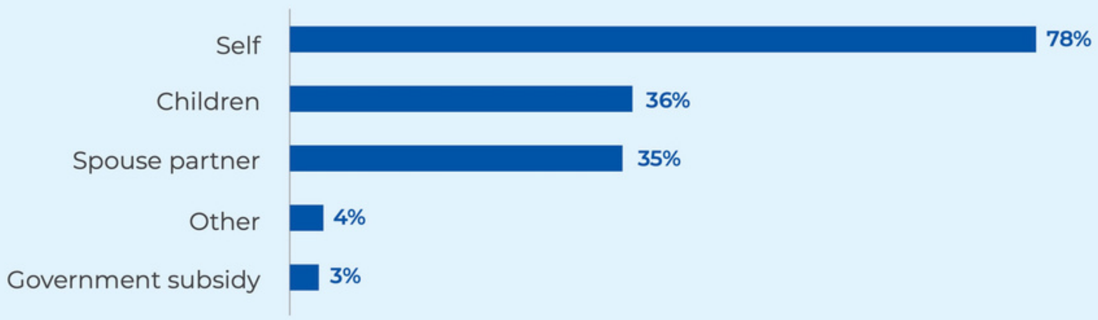
Figure 5: Changes in China's household savings rate, 1955-2015



Source: Household Survey and Modigliani and Cao (2004)

As a result of the one-child policy, most Chinese parents spent less because they had fewer children (the two-child policy was followed by the one-child policy). However, they receive less old-age support from their children (in the form of transfers). As a result, although those parents — today's elderly — were able to save significant amounts, they are now experiencing a substantial drawdown of those savings. For example, our study found that 78 percent of respondents self-fund their day-to-day expenses, indicating that their savings decline considerably as they age.

Figure 6: Who pays for your day-to-day expenses? Select all that apply.



Source: UNCDF Survey; N = 537

Savings and income are related. Those with higher incomes also have higher savings balances, as most Chinese traditionally save, often as a precaution. Lower-income people are particularly vulnerable because both their savings for old age and their support from children are limited. Therefore, most older people continue to earn an income and remain economically independent to maintain stable savings so that they can pay expenses. One-third of our respondents were still employed or in business post-retirement up to the age of 65. (This proportion is much smaller for those between the ages of 65 and 75.)[4]

COVID-19 impacts

China's elderly experienced financial setbacks due to the COVID-19 pandemic. Forty-nine percent of respondents reported that their income had fallen; this was most pronounced among those operating businesses. More than half (52 percent) indicated that COVID-19 had put a strain on their finances, with 54 percent reporting financial anxieties. However, older age groups — individuals above 65 — reported less financial anxiety.

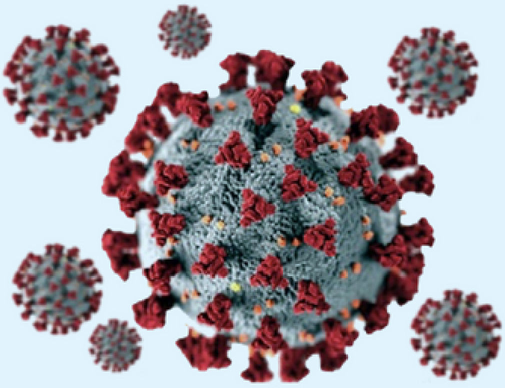
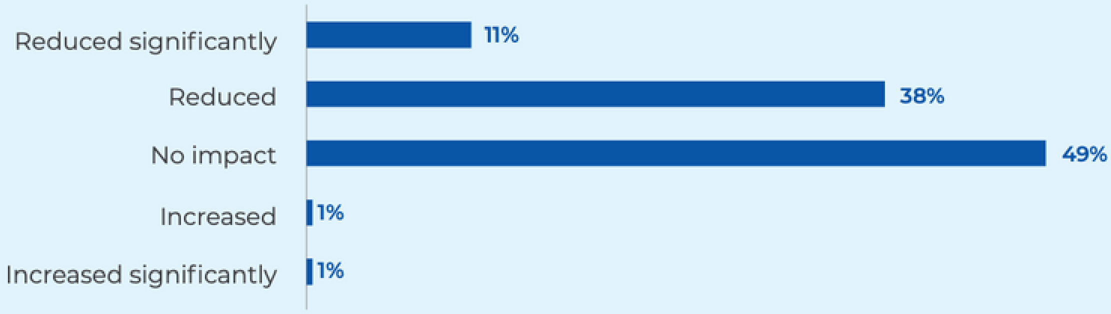


Figure 7: COVID-19 impacts on income



Source: UNCDF Survey; N = 537

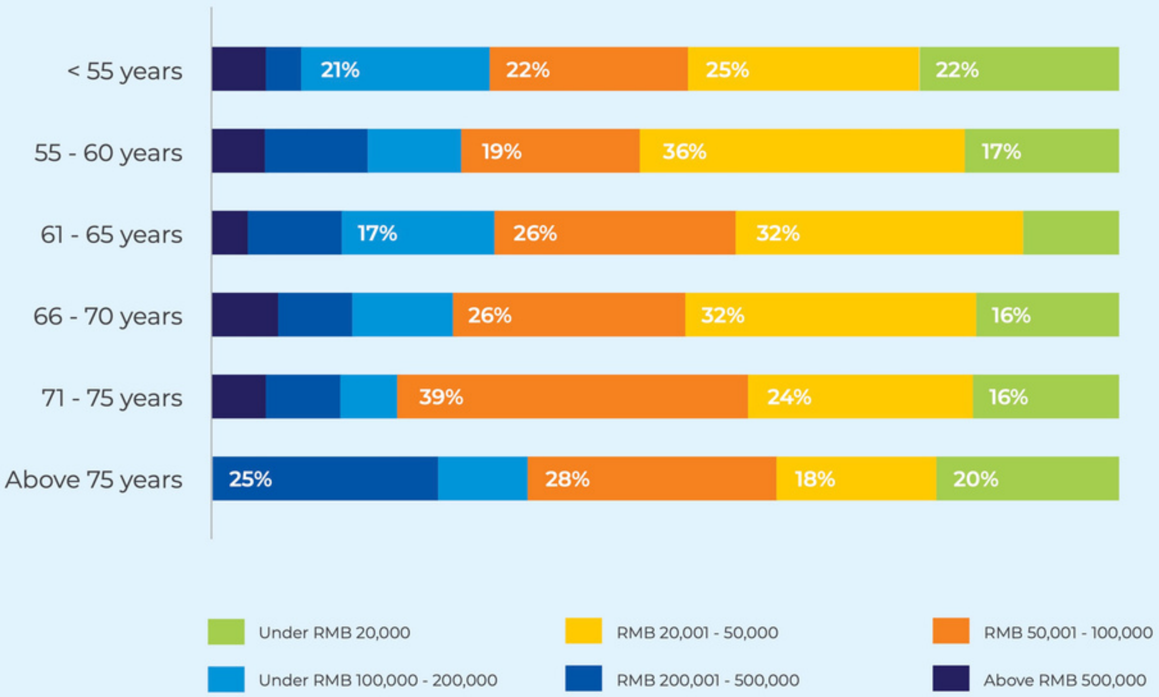
Most elderly people relied on their savings to respond to COVID-19-induced income cuts (66 percent). A lower percentage (21 percent) had to pare down essential spending to cope. Very few respondents borrowed or sought government assistance to mitigate the financial impacts of the pandemic. This suggests that the elderly are self-sufficient when it comes to managing financial exigencies. However, this may require them to draw down their savings, although they face limited income.

[4] Several countries have dealt with this by increasing the retirement age and pegging it to (increasing) life expectancy, thereby allowing older people to continue to earn income and subsequently higher pensions as they grow older.

Age and savings show a non-linear trend, reflecting the changing life cycle needs of the elderly. As people age, their savings shrink in the face of limited or declining income. When asked how they would respond to a financial emergency, 70 percent of respondents indicated that they would use their savings, rather than rely on family or outside help. And while 90 percent are financially secure today, 58 percent noted that they are worried that their funds will be insufficient or will run out.

Our study showed that savings balances[4] tended to be low for the 61-65 age group, high for those between 66 and 70, and low again for those above 75. A plausible explanation could be the differing life cycle needs of older people as they age. For example, those between 61 and 65 are in the immediate post-retirement phase. Typically, they are paying for their children's higher education and wedding expenses, or even paying off accumulated debt, thereby significantly drawing down their savings. Those between 66 and 70 save at a higher rate by readjusting their income-expense flows. For example, some older people might earn extra income, in addition to receiving a pension, or reduce their expenses in order to recalibrate their savings[5]. However, as one ages further, reaching 70 and older – a period characterized by restricted mobility and cognitive decline — the level of savings falls due to limited income and higher expenditures, specifically for health care.

Figure 8: Savings balances by age



Source: UNCDF Survey; N = 537

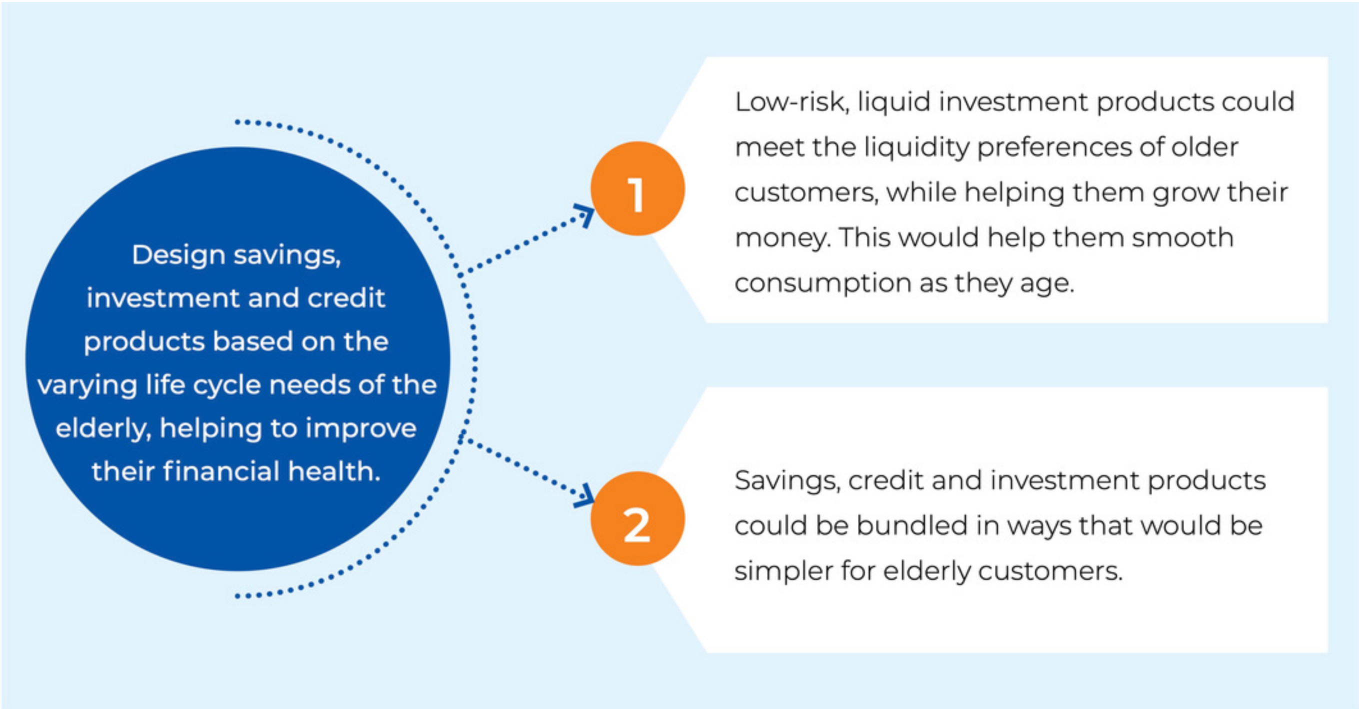
5 Tackling age stereotypes is also an important measure. Incentives could encourage firms and gig platforms to be more age-friendly in their hiring/matching policies. These measures, which can improve the employability of older people, also improve the fiscal sustainability of the pension system.

Study Group Characteristics

Since 1991, China has made significant progress in developing a multi-pillar pension system, with extensive coverage and the participation of multiple parties, including the government, private sector and employees. The first pillar is a public pension system with components for urban and rural residents. It is funded by employers, through a pay-as-you-go approach, and employees, via individual accounts, and covers 70 percent of retirement assets.[4] The second pillar offers voluntary enterprise and occupational annuities to employees of state-owned enterprises and government employees, respectively. The third pillar is still nascent but is similar to a system of individual retirement accounts with accompanying tax benefits.

While a multi-pillar system is both complex and comprehensive enough to ensure sustainability and risk-sharing among governments, individuals and enterprises, it may not operate efficiently enough to address ageing in China.[5] For example, the Chinese Academy of Social Sciences warns that China's urban worker pension fund (part of the first pillar) could be exhausted by 2035 (Zheng, 2019). The country is considering multiple solutions to these sustainability challenges. Keyong Dong, Secretary General of China Ageing Finance Forum 50, proposes addressing the system's complexity - and the resulting fragmented payment models and associated calculations - by standardizing and unifying it (McKinsey, 2019). In addition, the second and third pillars should be expanded further. This could be done by offering fiscal and tax incentives that promote participation. The financial sector could also offer a diverse range of long-term, convenient pension products.

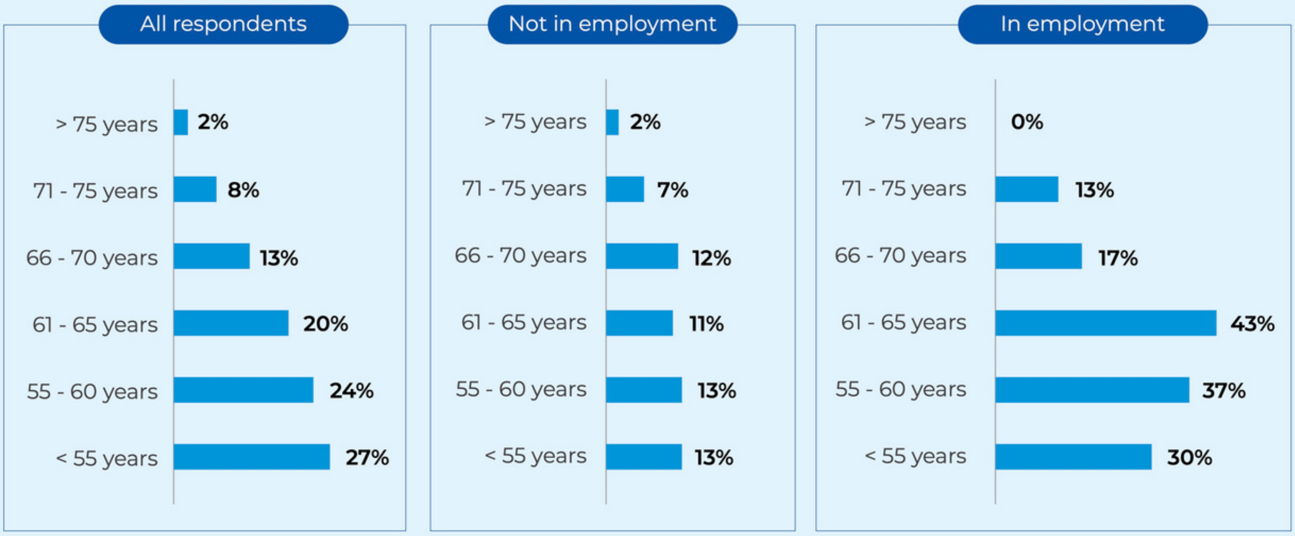
Recommendations: What can the financial sector do?



The findings presented above offer opportunities to the financial sector to design tailored products and services for the elderly. For example, those between 50 and 60 who are still working could be prompted to save more to amass funds that they may need post-retirement, building their financial security and strengthening their feeling of financial control at a later stage. People between 61 and 65 could be offered borrowing options that would help them avoid using their lifetime savings to pay off debt. For example, short-duration loan extensions would allow older customers to make smaller, more frequent mortgage payments and invest the rest of their savings, allowing them to be financially resilient in the event of any financial distress. At the same time, policymakers and the financial sector should encourage long-term pension and retirement products for those below the age of 50, encouraging early financial preparation for ageing. Many countries use default opt-ins to encourage savings for later life. This method addresses several behavioural biases that impede thinking about the future, such as present bias and procrastination.

Low-risk, liquid investment products could meet the liquidity preferences of older customers, while helping them grow their money. This would help them smooth consumption as they age, thereby enhancing their ability to manage day-to-day expenses. Our study found that 70 percent of respondents have fixed deposit accounts, while only 20 percent have any kind of investments. The younger segment of elderly customers in the cohort are more likely to have invested in the past. Additionally, older customers who are working are more likely to invest than those who are not. This may be because older people, particularly those with limited or no income, prefer liquidity because they may face large, out-of-pocket health expenses late in life. Financial institutions could offer investment products, such as money market funds, that provide high liquidity and enable older customers to continue growing their savings and build their ability to cope with and recover from future financial shocks.

Figure 9: Proportion of older customers using investment products by employment status



Source: UNCDF Survey; N = 537

China CITIC Bank offers low-risk savings and investment products to its older customers that are designed with their preferences and attitudes toward money in mind. In 2016, CITIC launched Yue Yue Xi, a new certificate of deposit (CD) with monthly interest payments. In 2019, the bank launched Tian Tian Li Cai, a pledge-style repo with daily interest payments[6]. These products provide flexible entry and exit options. They appeal to an older demographic, who tend to be more risk-averse and seek highly liquid, interest-bearing products. CITIC Bank's growing older customer base speaks to its thoughtfully crafted financial service offerings. At the end of October 2019, CITIC Bank had 12.64 million elderly customers and 1.04 trillion RMB in assets under management (AUM), accounting for 52.62 percent of total retail AUM.

Finally, savings, credit and investment products could be bundled in ways that would be simpler for elderly customers. However, bundled products are double-edged swords. While they can be accessed more easily, if not designed and delivered properly they could be more difficult for older customers to understand, leading to underuse or, worse, misuse. Financial institutions should consider the complexities that unfamiliar new bundled products would create and the implications of their use by older customers.

[6] Pledge-style repo (repurchase agreement) is a short-term financing instrument that uses bonds as a pledge of rights. The repo party pledges bonds to the reverse repo party and the two parties agree on an appointed repo interest rate at which the repo party will repay the reverse repo party and receive its pledged bonds.

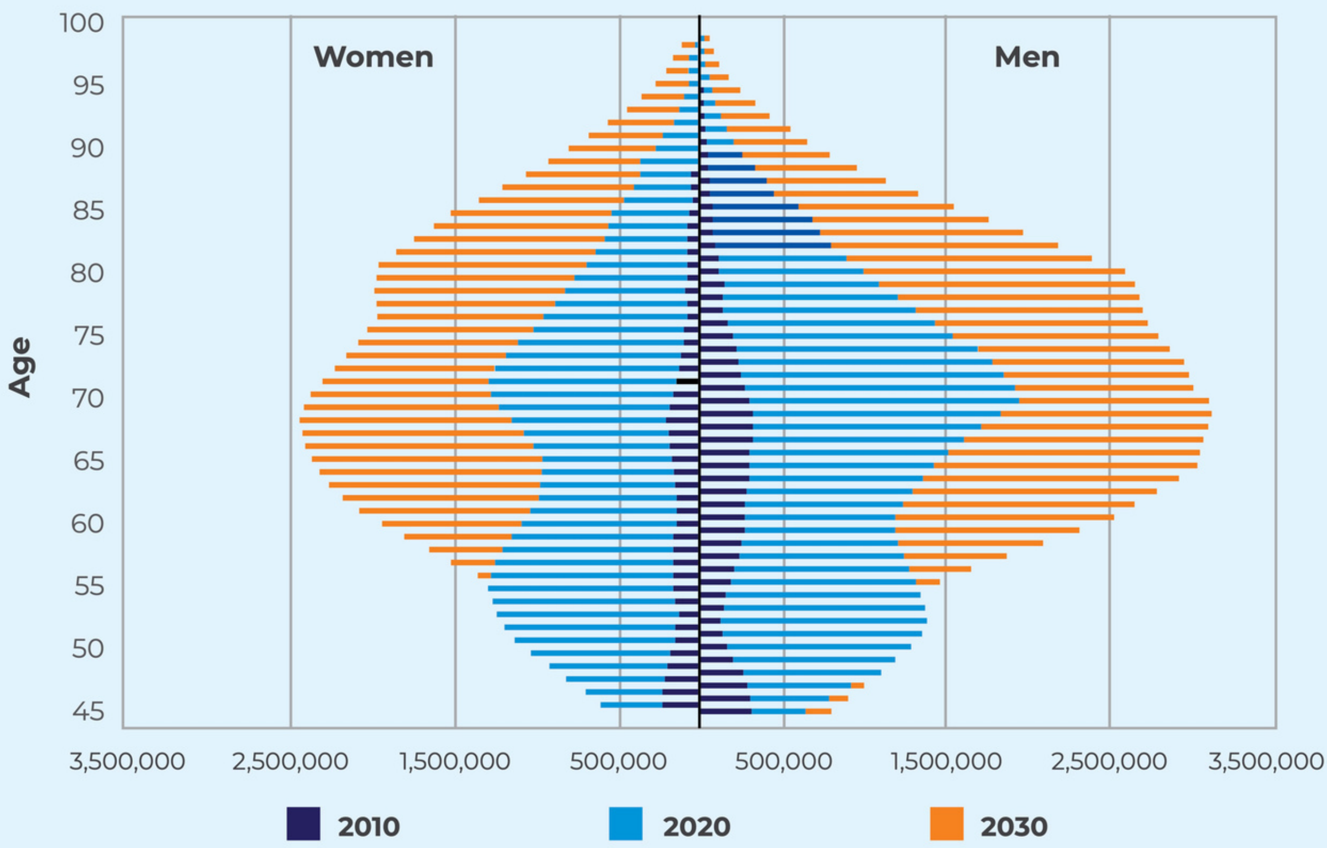
Detailed Key Findings:

FINDING #2

China's elderly are at increased risk of chronic disease, with accompanying high health care expenses. While China has expanded its public insurance schemes, they remain inadequate. Financial institutions and insurance companies could supplement China's recent venture into commercial health insurance with tailored health insurance products and health care literacy programmes for China's elderly, particularly the low-income.

The rapid ageing of Chinese society is accompanied by a health or epidemiological transition. According to WHO's country assessment of China, the burden of chronic non-communicable diseases among China's ageing population is set to increase. According to some projections, ageing is expected to be accompanied by a 40 percent increase in the burden of such diseases, including heart disease, cancer and dementia, by 2030.

Figure 10: Effect of ageing on the number of people suffering from at least one chronic non-communicable disease in China, by sex, in 2010, 2020 and 2030.



Source: Wang, Marquez & Langenbrunner, 2011

China's health care system has been transformed in response to these developments. With the elderly receiving limited support from the younger generation, the Chinese state has assumed partial responsibility for age-related health care expenses. Approximately 95 percent of the population is covered under one of the three public insurance schemes. Our study found that 60 percent of Chinese elders, across income groups, used public insurance to cover their health care-related expenses in the past 12 months.

Public Health Insurance in China

Nearly 95 percent of the Chinese population is covered by three public insurance schemes:

01 Urban Employee Basic Medical Insurance (UEBMI)

- Covers employees and retirees in both the public and private sectors.
- Administered at the municipal level and funded by 8 percent deductions from employees' wages; employers pay 6 percent and employees pay 2 percent.
- Enrolment is low cost for the insured.

02 Urban Resident Basic Medical Insurance (URBMI)

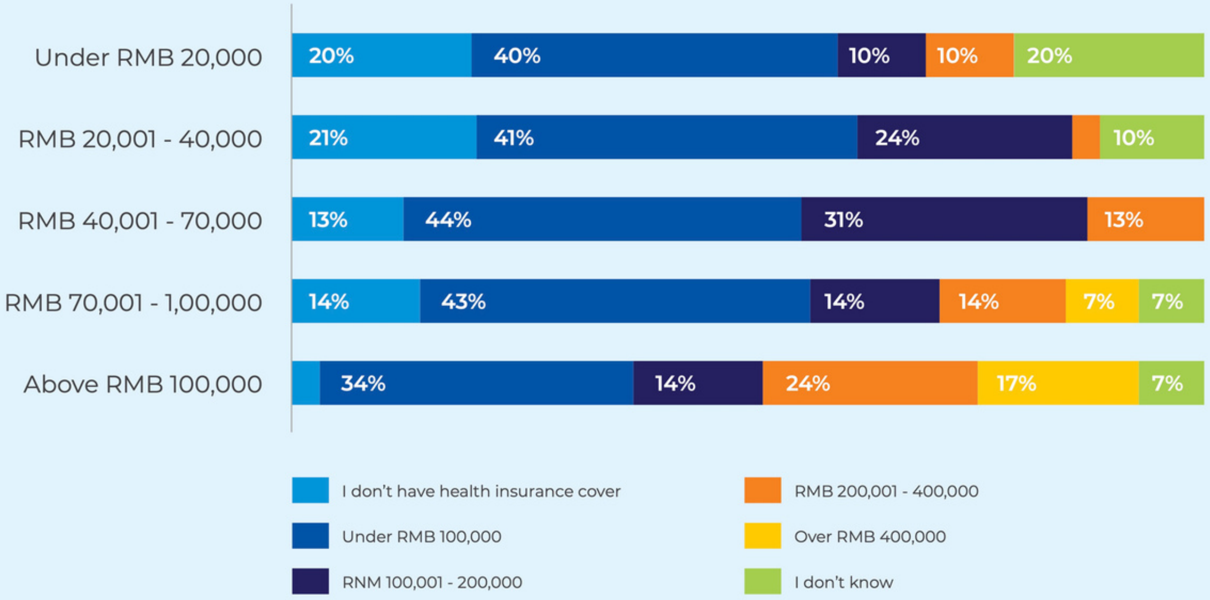
- Subsidized voluntary public health insurance programme for urban residents not covered by UEBMI, such as those without formal employment, including the elderly, children and students.
- Both individuals and local and provincial governments are responsible for paying into the funding pool.

03 New Rural Cooperative Medical Scheme (NCMS)

- Voluntary insurance scheme designed mainly for rural residents.
- Financed with the cooperation of individual, local, and central governments; one rural county has a risk pooling unit.

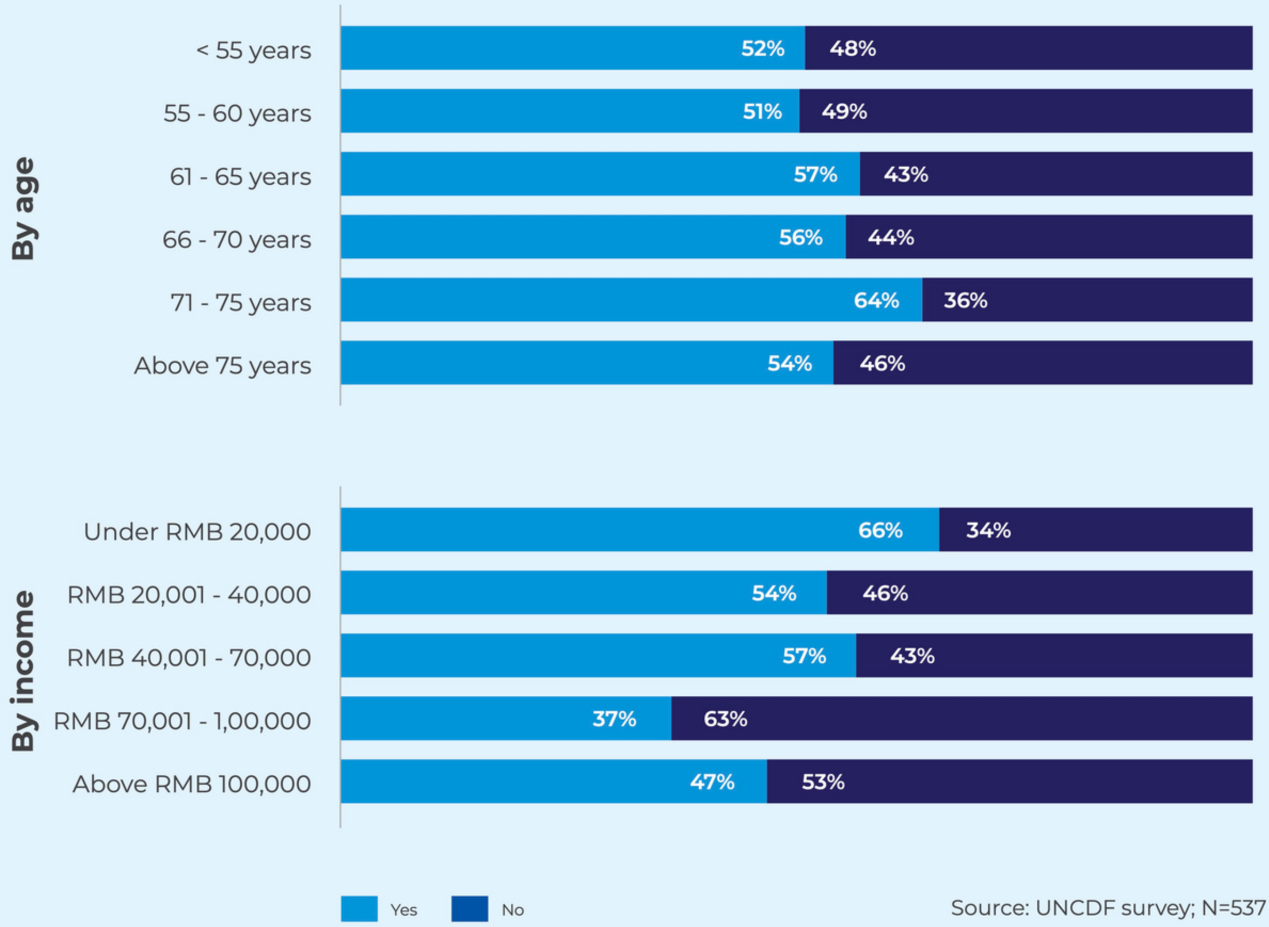
However, health care utilization (public or private) and insurance coverage are linked to income. For example, our study showed that in the last 12 months, a higher proportion of people with lower incomes (below RMB 70,000) incurred health care expenses compared to those with higher incomes. Additionally, those with incomes above RMB 70,000 have higher insurance coverage. Since public insurance for outpatient and inpatient services is limited, this could mean that more higher-income elderly Chinese people purchase commercial health insurance than their lower-income elderly counterparts. While this study did not examine health care utilization for public and private insurance, these findings show that lower-income elderly Chinese have access only to public insurance, which may not be sufficient to cover their health care needs.

Figure 11: Health insurance cover, by income



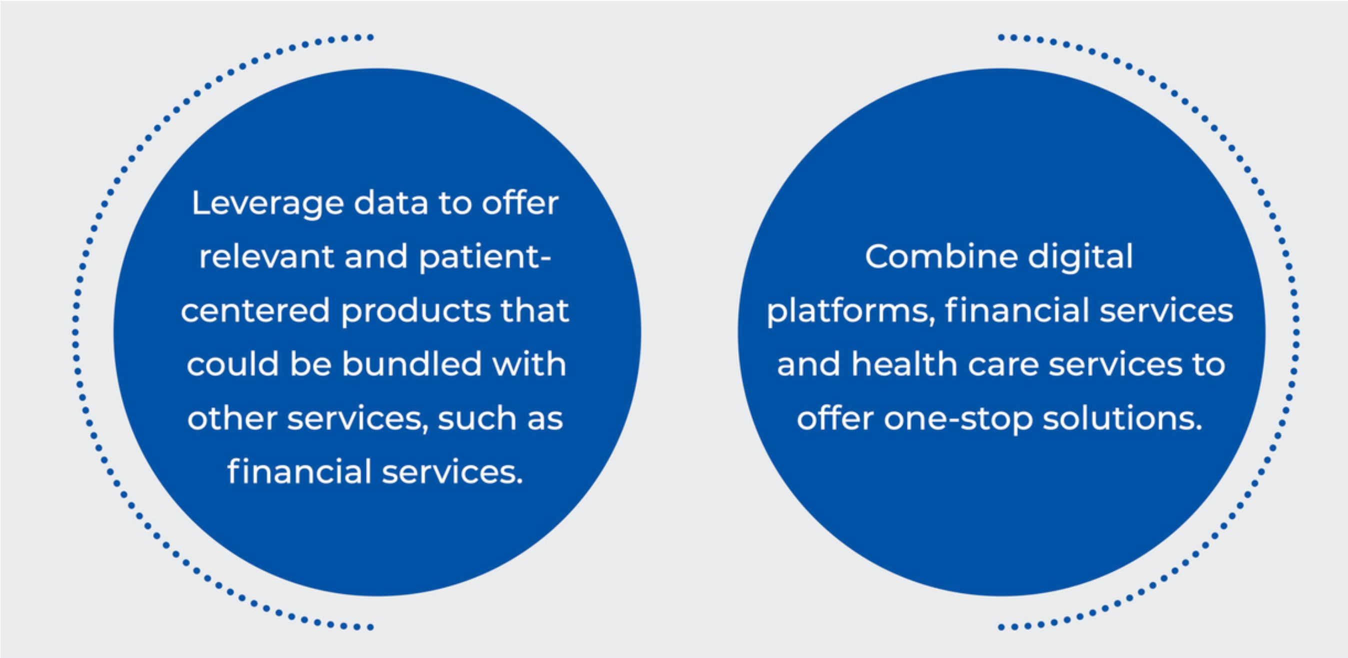
Source: UNCDF survey; N=537

Figure 12: Health expenditures incurred in the past 12 months, by age and income



Source: UNCDF survey; N=537

Recommendations: What can the financial sector do?



Leverage data to offer relevant and patient-centered products that could be bundled with other services, such as financial services: Health-related challenges and their associated expenses pose significant risks to the financial health of the elderly, particularly the low-income who could experience significant out-of-pocket expenses. They need patient-centered health care options that are relevant to their needs and that can help them meet their health care expenses in cost-effective ways.

One way to ensure that patient-centered health options are available to older adults in China is to use big data approaches to build digital health models for users. For example, WeDoctor, a digital health platform, uses big data from commercial insurance companies to build innovative products and customized insurance solutions. It could also provide users with a full, closed-loop health service covering prevention, medical treatment, payments and rehabilitation costs.

Commercial health insurance (CHI) is only now gaining momentum in China. Studies have shown that China's elderly – particularly those with higher incomes and education levels - are particularly interested in CHI. That said, financial institutions and insurance companies could offer insurance products customized to different income levels, such as micro-insurance products bundled with savings or investment options for lower-income older customers which help them reduce health-induced financial risks. Moreover, for low-income people, healthcare-related costs, especially for emergency procedures, can often translate into a debt trap for the entire family. Such insurance-based solutions can pave way for long-term financial resilience of families and, in turn, make them feel secure about their finances.

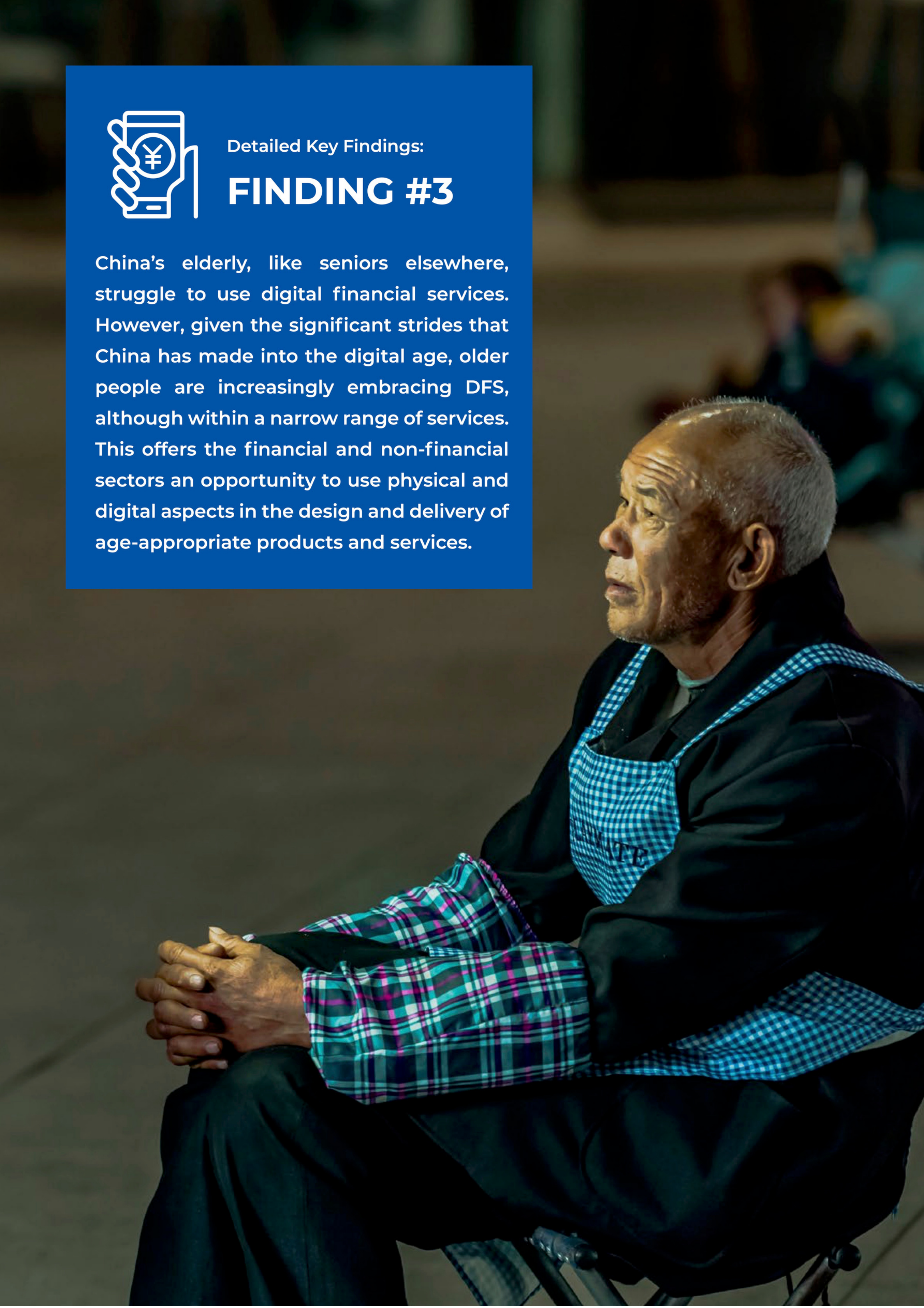
Combine digital platforms, financial services and health care services to offer one-stop solutions: Financial institutions could partner with health care providers and insurers to develop platforms that offer health consultations, convenient payment options and health insurance-related information for China's older people - a one-stop shop for the health needs of the country's elderly. In addition to making payments easy and quick, this initiative could be a convenient entry point for older customers to transition to more frequent and broader use of DFS. A platform of this kind could also create much-needed awareness of health insurance for older customers, who could benefit from important information consolidated in one location.

Some banks already offer such a solution for older customers. China's Construction Bank and CITIC Bank offer health-related services on their platforms or mobile banking apps. China Construction Bank's mobile banking app allows older customers to book appointments to tour nursing homes and CITIC Bank's credit card customers can access free medical consultations available around-the-clock. Bank of China offers health education through its "online university for seniors" on its mobile banking app.

Detailed Key Findings:

FINDING #3

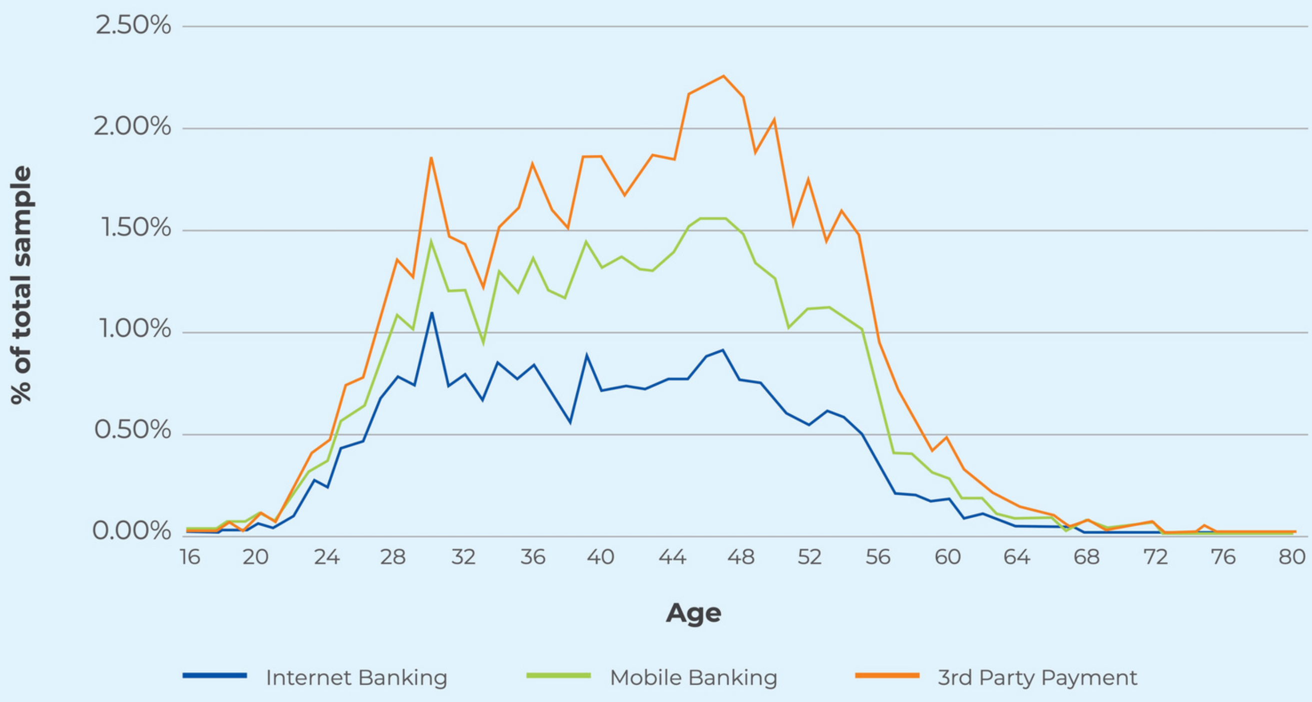
China's elderly, like seniors elsewhere, struggle to use digital financial services. However, given the significant strides that China has made into the digital age, older people are increasingly embracing DFS, although within a narrow range of services. This offers the financial and non-financial sectors an opportunity to use physical and digital aspects in the design and delivery of age-appropriate products and services.



China is the poster child for the digital financial revolution that is unfolding today. In the last decade, China has accelerated peer-to-peer (P2P), retail and business transactions via QR codes, digital wallets, and e-commerce. Alipay and WeChat Pay, China's dominant payment service providers, have approximately 1.4 billion active monthly users (Consultative Group to Assist the Poor, 2019). In addition to digital payments, other technology-enabled models, such as internet financing, digital insurance and wealth management, have also drawn Chinese customers in recent years.

DFS can help older customers overcome age-related challenges, such as limited mobility, by enabling financial transactions from home. This could contribute to the financial health dimensions of increased financial security and financial freedom. However, the elderly have not necessarily benefited from China's digital financial revolution. A study based on a sample from 14 counties in China's Zhejiang Province (Chinese Academy for Financial Inclusion, 2018) found that the use of DFS through internet and mobile banking is common among those aged 25-60 but fairly limited among those over 60.

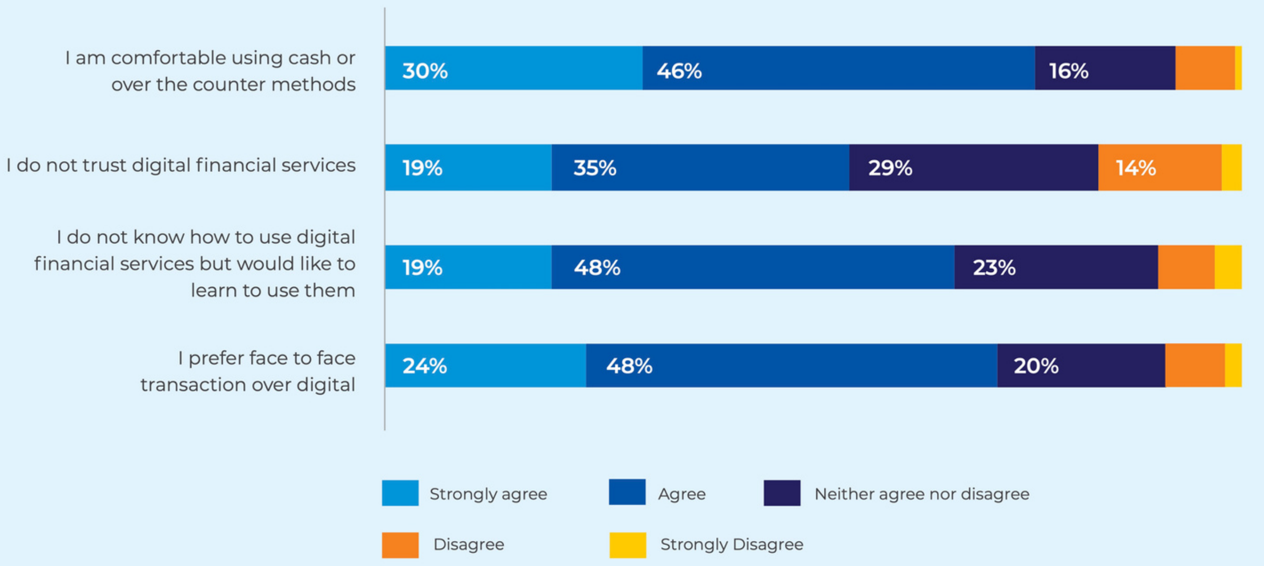
Figure 13: Use of digital financial services by age in Zhejiang Province, China



Source: Chinese Academy for Financial Inclusion, 2018

Older customers cite several reasons for not using DFS more extensively. In our study, 76 percent of respondents noted that they are more comfortable with cash and 72 percent prefer face-to-face banking to digital banking. Fifty-four percent do not trust DFS. Interestingly, however, 67 percent note that while they do not know how to use DFS, they are willing to learn. The lack of trust could result, in part, from the elderly's lack of understanding of how to use DFS.

Figure 14: The elderly's perceptions of digital financial services



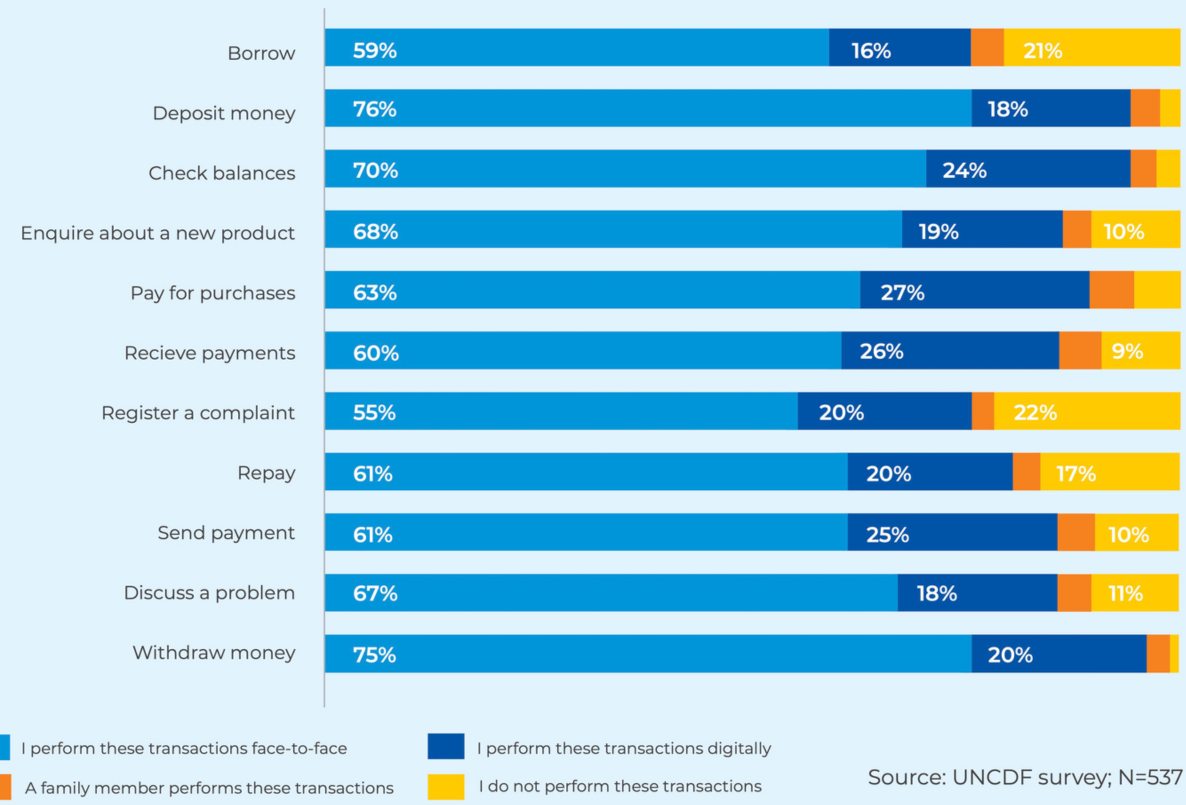
Source: UNCDF survey; N=537

The elderly do not use the internet extensively and their use tends to be limited. Only 15 percent of our sample stated that they are expert internet users; those who did are more likely to be under 60. The top reasons to use the internet are to communicate with family and friends and stay abreast of the news. Only 35 percent indicated that they use it for financial transactions.

Older customers use DFS only for limited kinds of financial transactions. We found that digital transactions popular among older customers (about a quarter of our sample) include sending and receiving payments, checking balances and making purchases. Older customers prefer face-to-face banking rather than ATMs or cash deposit machines to deposit and withdraw money. They also prefer personal interactions when asking about a new product or seeking advice on financial problems.

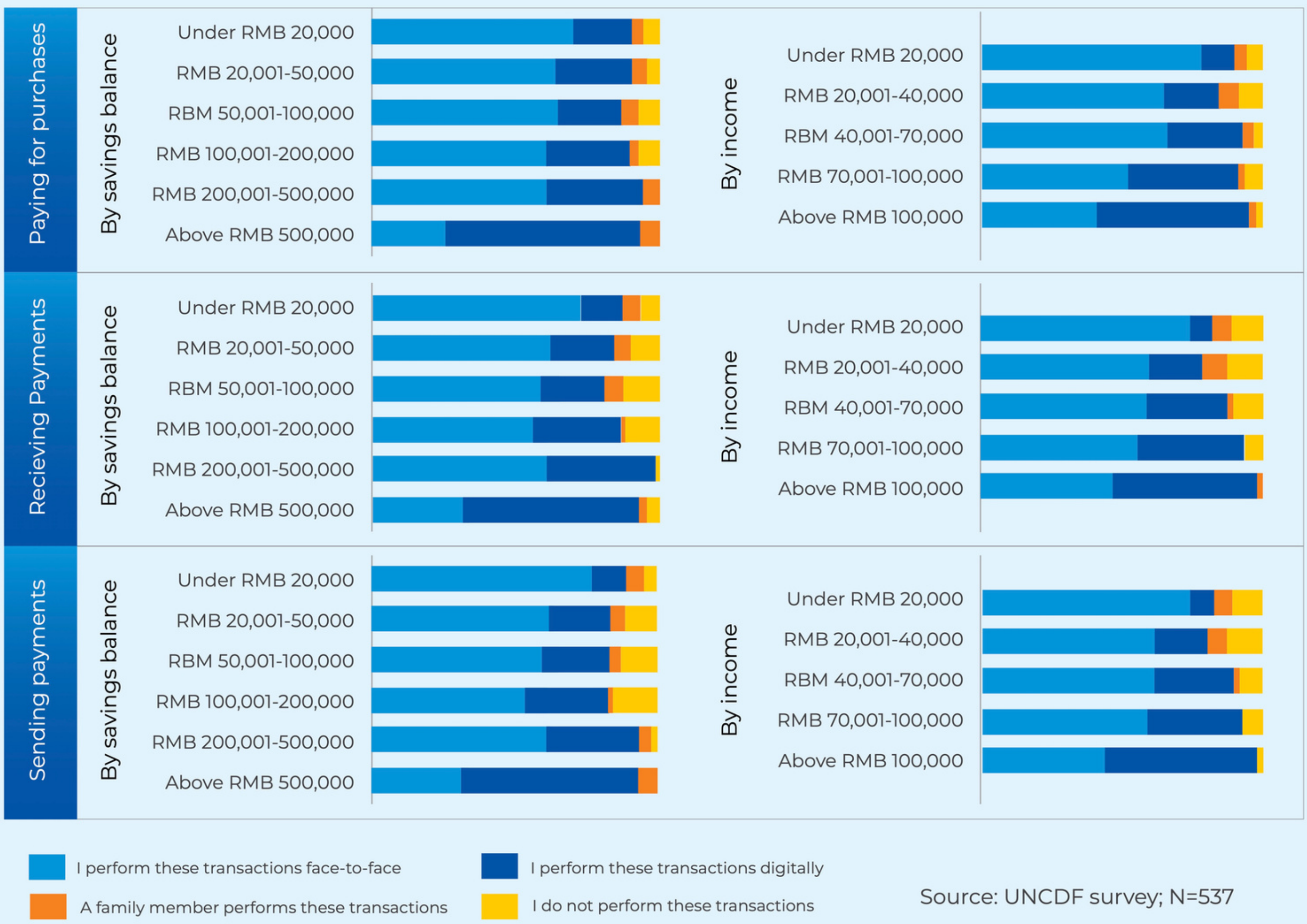
We also observed correlations among income/savings balances, age and the use of DFS among older customers who use digital banking to send or receive payments and make purchases. Those with a higher income or higher savings balance tend to use DFS more and a higher proportion of those under 60 use DFS.

Figure 15: Use of digital financial services by older customers



Source: UNCDF survey; N=537

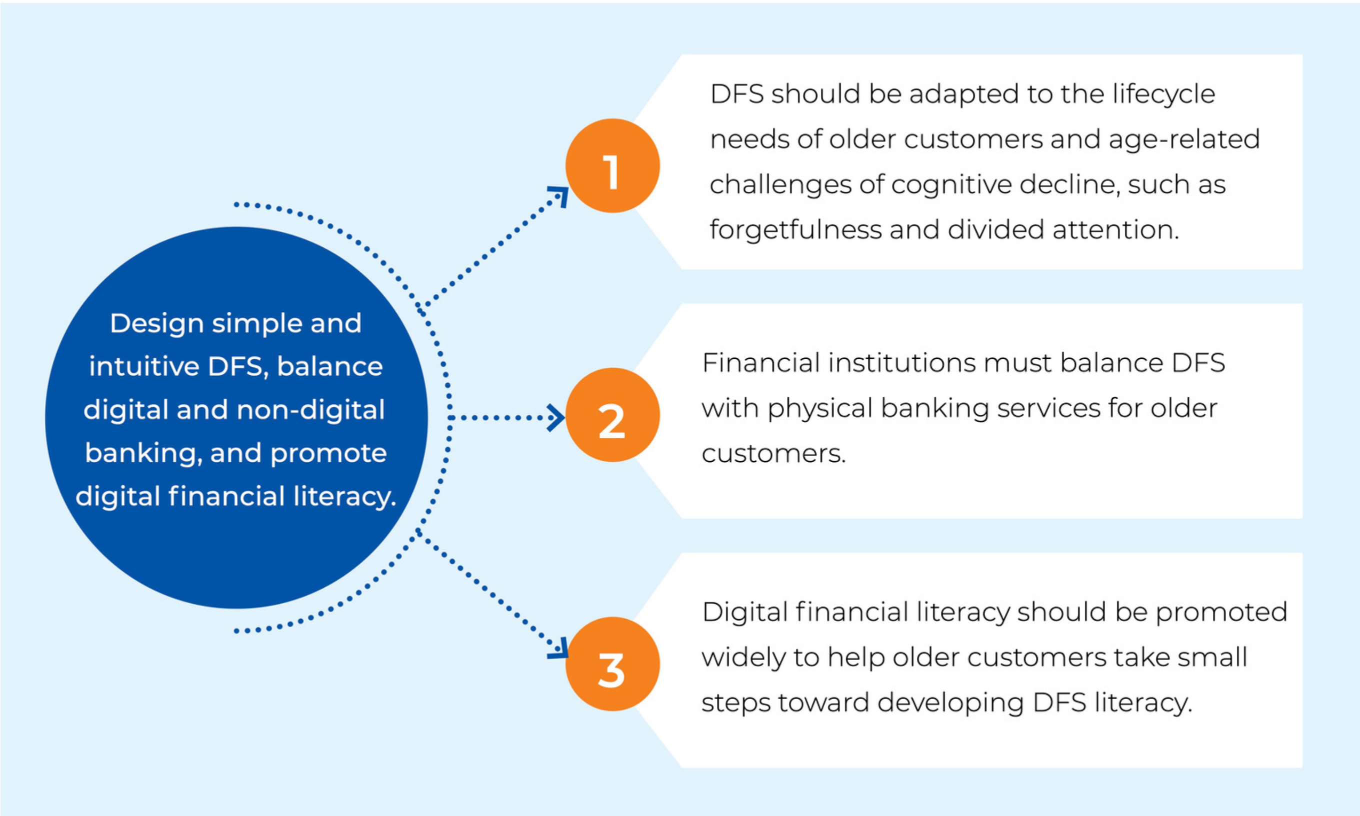
Figure 16: Paying for purchases, receiving and sending payments



Source: UNCDF survey; N=537

The use of DFS is related to cognitive abilities and comfort level, which change as people age. A young person who uses DFS today — and Chinese people under 60 tend to use them more than those over 60 — will not necessarily continue to do so later in life unless the technology meets his or her needs and comfort level. A report on the ageing mind commissioned by the United Kingdom's Financial Conduct Authority highlights the implications of ageing for banking and financial tasks, particularly complex and unfamiliar tasks (Edgar, 2017). As part of the normal ageing process, "fluid abilities" - the capacity to process information in new ways and in new situations - decline. The report recommends that DFS and other banking services and innovations take this into account and adapt their services to the needs and abilities of older customers.

Recommendations: What can the financial sector do?



We identified three key areas of focus to help older customers manage their financial lives better by using DFS.

First, **DFS should be adapted to the lifecycle needs of older customers and age-related challenges of cognitive decline, such as forgetfulness and divided attention.** These adaptations could include the following:

- Apps and interfaces could be designed with limited information or clutter on the screen, using pleasing colours and larger fonts.
- The path or journey of a financial transaction could be shortened and streamlined. For example, sending a payment could involve fewer clicks and limited questions.

- Passwords, which older customers often have difficulty remembering, could be eliminated in favour of iris or voice recognition.

- For queries regarding new services or complaints related to financial accounts, financial institutions could use phone or video banking, rather than automated voice systems or emails/messages. This would provide older customers a sense of physical banking conducted via digital channels.

Some banks in China are leading the way in integrating their digital and physical service offerings to suit the needs and preferences of older customers. For example, Shanghai Bank uses a simple, intuitive mobile banking interface that features more graphics than text and a simpler navigational structure. Its one-touch click-to-call feature also allows older customers to access staff support from employees who speak multiple Chinese dialects. Bank of China (BOC) also considers older customers' needs, including non-financial ones, such as groceries, in its product design. In 2020, BOC launched a special section for elderly customers on its mobile banking app with three functional areas: wealth management, quality of life, and Bank of China university for seniors. Older customers can manage their accounts, seek shopping and travel support, and gain skills and knowledge on a range of topics.

Second, **financial institutions must balance DFS with physical banking services for older customers**. As noted earlier, a majority of those customers in our research study prefer face-to-face banking. However, rapid changes in China's financial landscape, driven largely by the use of financial technology, mean that the preferences and abilities of older customers could be overlooked. Considering the customer base that China's growing elderly population represents, financial institutions should invest in a welcoming branch infrastructure. For example, branches with a significantly higher proportion of older customers could provide quiet banking corners where environmental and time pressures are minimized, allowing older customers to perform financial tasks more effectively and safely. Decision aids could be available to help these customers perform financial tasks more easily, such as providing notepads so that they can write down information they want to recall later. Additionally, banks could create café and book corners where older customers can socialize while they carry out banking tasks.

CITIC Bank offers an early example of this elderly-friendly branch approach. In 2012, the bank modified more than 1,000 of its branches to better serve older customers, with special and reserved seats, reading glasses and, even, blood pressure meters to provide a seamless banking experience.

Last, **digital financial literacy should be promoted widely to help older customers take small steps toward developing DFS literacy**. Physical interactions should incorporate the first phases of the transition to DFS. For example, financial institution staff could assist the elderly in using ATMs or other digital kiosks to conduct their financial transactions. Additionally, financial institutions and regulators should educate the elderly and their family members on potential financial fraud and how to protect against it. Consumer protection measures, such as third-party mechanisms, two-factor authentication and facial/ iris recognition, should also be taken to help guard the elderly against potential financial abuse.

A Note on Financial Fraud and Abuse in China

A study conducted in community settings found that financial abuse is the second-most prevalent form of exploitation of older adults (Yon, et al., 2017). Levels of financial fraud and abuse against older people are quite high in China. In a global survey by HSBC that included five Chinese regions, 61 percent of mainland China respondents surveyed stated that their parents had been victims of financial fraud. This was 30 percentage points higher than the global average. Older adults' limited financial knowledge of the range of financial products now available in China and their general discomfort with DFS make them vulnerable to financial scams.

Most of these scams involve Pyramid and Ponzi schemes, fuelled by P2P lending and virtual currencies. Others include charging older adults exorbitant fees online to be admitted into an elder care home, distributing uncertified food supplements via websites and selling other illicit health care products. The Chinese government has cracked down on these schemes, bringing perpetrators to justice, disseminating information widely on these scams, and exposing their modus operandi and scale.

As a long-term response, the Chinese government and the financial sector are tightening consumer protection measures, including third-party control of financial accounts held by elderly people. The elderly have also responded positively to financial/digital literacy programmes. While the government issues widespread warnings about financial scams, the financial sector provides educational content through multiple channels, including about digital technologies that can be manipulated easily for fraudulent purposes. For example, the China National Committee on Ageing recently issued a plan titled 'Artificial Intelligence Helping the Elderly.' It addresses digital literacy and proposes solutions to problems the elderly face using smartphones and other digital services (Zhong, 2020). CITIC's mobile app also offers content and courses on financial abuse. Further, combining physical and digital banking for the elderly, as noted earlier, could make it more convenient for them, their family members and bank staff to detect fraud.

Conclusion

This paper analyses the financial lives of older people in China. It highlights the challenges they face as they draw down savings in the face of limited or no income, incur increasing health care expenses and keep pace with China's digital transformation. The elderly are not a homogenous group. Rather, they exhibit different lifecycle needs, from immediate post-retirement to late life. They also have special needs and preferences related to savings, investments and the use of digital financial services. The financial sector, including banks, fintechs and insurance companies, should design and deliver products and services that meet the lifecycle needs of the elderly and consider their preferences at every stage of ageing, thereby contributing to their financial health.

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The Centre is implementing programmes in different countries called Living Labs, in-country platforms which support players with a combination of high quality financial, advisory and networking support to design, test and scale financial health solutions.

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