

The Increasing Investment of Senior Housing for Chinese Life Insurance Companies: Reasons and Motivations

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Abstract

In China, there has been a notable growth in the practice of life insurance companies investing in senior housing projects, which has gained significant popularity. 8 out of 10 largest life insurance businesses are actively engaged in the life insurance market. The senior housing firm with the highest market share is owned by a life insurance company, which has successfully sold 190,000 products through its investments in senior housing. This article seeks to present the business model and elucidate the underlying rationales. A thorough review of the current body of literature is conducted, followed by the use of the case study methodology. This study concluded that life insurance products, such as the happiness guide, play a crucial role in the economic model of life insurance and senior housing. The reasons were categorized into internal and external factors. The expansion of liabilities is an internal factor that is influenced by the leverage effect of a senior housing projects. Moreover, the features of insurance capital exhibit compatibility with the investment of senior housing. Additionally, external factors such as a poor income replacement rate and insufficient availability of high-quality senior housing might also contribute to the condition.

Keywords: senior housing, life insurance, CCRC, pension, population aging

1. Background

Currently, the senior housing industry is experiencing rapid growth and development. The number of beds in senior housing experienced a significant increase from 1.2 million in 2003 to 5.0 million in 2021. The compound annual growth rate was determined to be 7.8%. Please refer to Figure 1.

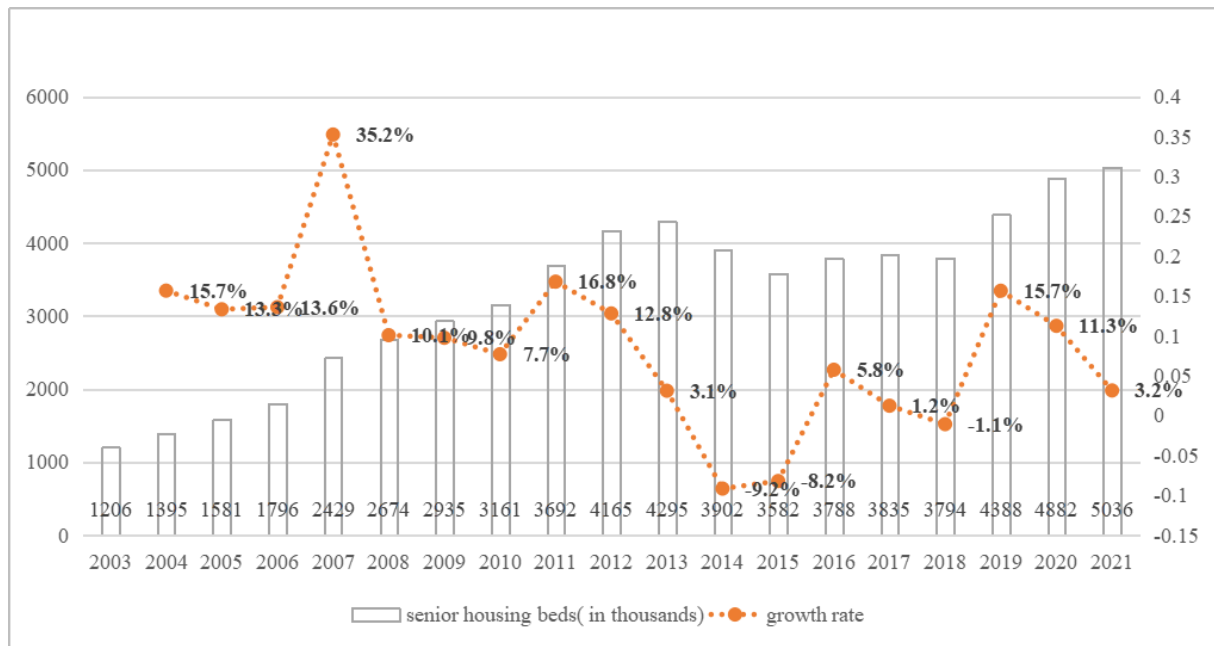


Figure 1. Change in senior housing beds (2003-2021)

Source: National Bureau of Statistics of China (2022).

In developed countries, the senior housing business is mostly driven by professional senior housing owners and operators. Based on the findings of the American Seniors Housing Association (2022), the leading owners in the United States are Welltower Inc., Ventas Inc., and Brookdale Senior Living, in that order. Similarly, the top operators identified are Brookdale Senior Living, Atria Senior Living Inc., and LCS.

However, numerous studies have consistently identified Taikang Community as the leading senior home provider, which operates as a wholly-owned subsidiary of Taikang Insurance Group Inc. (Taikang Group), a prominent life insurance firm in China.

Table 1. The top Senior Care Brands in China

Rank	Senior Care Brands	Beds of Senior Housing	If belongs to life insurance companies
1	Taikang Community	83,150	√
2	Joru Group	34,936	
3	Everbright Health	33,293	
4	China Health And Elderly Care Group Co., Ltd	19,000	
5	Renshoutang	17,952	
6	CPIC	17,654	√
7	Yanda Group	15,000	
8	Huabang	14,536	
9	Brighttown	13,044	
10	Shengquan Group	12,850	
...	
14	Foresea Life	10,461	√
...	
17	CTPI	9,900	√
...	
27	China Life	7,141	√

...	
29	NCI	6,560	√
...	
49	J.K. Life Insurance	4,375	√
...	

Source: 2023 China digital health & wellness conference of 7th reis.

Taikang Group has made an official announcement on the sale of 190,000 insurance products known as “happiness guide” at a price of 2 million RMB (equivalent to around 275,000 U.S. dollars) during the course of the past decade. The sales exhibited a robust correlation with their investments in senior housing.

Taikang Group serves as a notable illustration due to its ownership of a significant number of senior housing units in comparison to other life insurance firms. It is worth noting that 8 out of the 10 largest life insurance companies have also ventured into the senior housing market. Please refer to Table 2. There are approximately eleven life insurance companies that have made direct investments in senior housing. However, this article will not examine those companies that have participated through cooperation or other means but not.

Why does it exhibit significant divergence from other nations? What is the primary objective of these entities, only for the purpose of financial investment? This topic warrants further discussion.

Table 2. Ranking of Life Insurance Companies in China (By Premium Income)

	Abbreviation	Full name	Premium income of life insurance (in Billion RMB, 2022)	If invested in senior housing (√ means yes)
1	China Life	China Life Insurance Company Limited (2628.HK, 601628.SS)	615.2	√
2	Ping An	Ping An Insurance (Group) Company of China, Ltd. (2318.HK, 601318.SS)	439.3	√
3	CPIC	China Pacific Insurance (Group) Co., Ltd. (2601.HK, 601601.SS)	225.3	√
4	Taikang	Taikang Insurance Group Inc.	170.8	√
5	NCI	New China Life Insurance Company Ltd. (1336.HK, 601336.SS)	163.1	√
6	CTPI	China Taiping Insurance Holdings Company Limited (0966.HK)	154.0	√
7	PICC life	PICC Property and Casualty Company Limited (2328.HK)	92.7	√
8	China Post Insurance	China Post Life Insurance Company Limited.	91.4	-
9	Sunshine Insurance	Sunshine Insurance Group Company Limited (6963.HK)	68.3	√
10	AEON LIFE	AEON LIFE INSURANCE COMPANY, LTD.	52.9	-
...
16	Guohua life	Guohua Life Insurance Co., Ltd.	37.82	√
...
31	China Merchants Life	China Merchants Life Insurance Company Limited	15.404	√
...

No rank	Foresea Life	Foresea Life Insurance Co Ltd	No data	√
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Source: China Banking and Insurance Regulatory Commission.

2. Literature Review

2.1 Senior Housing Industry

Existing research by scholars has predominantly focused on examining the fundamental reasons that contribute to the substantial expansion of senior housing, while also identifying potential barriers and challenges that may hinder its progress.

Within the realm of social context, a number of scholarly research (Metsch LR, 1994; Achenbaum WA, 1986; Kobrin, 1973) have yielded valuable perspectives into the determinants that underlie the expeditious expansion of senior housing. The elements encompassed in this analysis consist of population ageing, economic prosperity, and urbanisation.

Tang (2015) presented a comprehensive overview of the contextual elements that impact the expansion of the senior care industry in China. These elements involve various social, demographic, and economic considerations. Furthermore, the author analysed the challenges faced by the senior care industry.

Within the realm of CCRCs, the term CCRC refers to a prevalent framework of senior housing that offers a range of care services for older individuals, encompassing independent living as well as nursing care (Barnett, 2010).

According to Lynn and Wang (2008), an analysis was conducted to evaluate the level of attractiveness within the senior housing segment. The findings indicated that active adult community and independent living were perceived as more attractive compared to skilled nursing and CCRC.

In their study, Hu et al. (2019) provided a comprehensive overview of the obstacles hindering the progress of the Chinese CCRC business, identifying a total of 21 impediments. In their study, Hu, Xia, Hu, Skitmore, and Buys (2019) conducted an analysis on the market of CCRCs in China. They found that while this market has significant potential, it also faces substantial constraints. Building upon this research, Zhi (2021) provided a summary of the critical success factors that contribute to the success of CCRC projects in China.

Numerous scholars have conducted investigations on the behavioural patterns exhibited by elderly individuals in order to understand the factors influencing their inclination towards relocating to CCRCs or senior housing facilities. In a recent study conducted by Fyfe and Hutchison (2020), it was observed that older individuals sought housing options throughout their retirement years, with a specific emphasis on factors such as the proximity to local amenities, ease of access to shopping facilities, establishment of social connections with neighbours, and the overall interior design of the residence.

From a payment perspective, Gao and Wang (2022) concluded the income replacement rate were pretty low in China. According to Yu et al. (2020), individuals can achieve a substantial rise in their pension replacement rate by their involvement in the Personal Tax Deferred Commercial Pension Insurance, as determined by the application of an actuarial model.

2.2 Life Insurance Industry

Feyen, Lester, and Rocha (2011) provided an elucidation of the primary external factors that influence the life insurance industry, encompassing per capita income, population size and density, and demographic compositions.

According to the SERVQUAL model, which was developed by Zeithaml, Berry, and Parasuraman (1988), tangible service was identified as the key determinant in attaining customer satisfaction and therefore impacting purchase intention. This model is widely used as the predominant tool for assessing service quality.

The importance of tangible variables on the quality of service in the life insurance industry has been highlighted by Siddiqui (2010) and Ramamoorthy et al. (2016).

According to the study conducted by Gera (2011), there was a considerable impact of service quality and overall satisfaction on future behavioural intentions in the context of life insurance.

Swiss Re Institute (2020) found insurers have high demand for long-term investments.

2.3 The Relationship Between the Two Entities

According to the findings of Hoesli, Lekander and Witkiewicz (2003), investing in senior housing can lead to an increase in the return of life insurance capital for insurance companies.

Feyen, Lester and Rocha (2011) highly found that income and high old dependency are key drivers to life insurance.

Steele (2019), an expert consultant specialising in senior housing, provided assistance to Taikang Group in the establishment of their inaugural Continuing Care Retirement Community (CCRC) initiative in Beijing.

According to Ou and Zhao (2013), insurance companies possess distinct competitive advantages when compared to other investors in senior housing. These benefits include brand name recognition, financial strength, a large client base, and the ability to integrate resources effectively.

2.4 Limitation of Existing Literature

The current body of scholarship primarily focuses on analyzing the senior housing business and insurance industry as separate entities, rather than investigating their confluence or interplay. The examination of the amalgamation carries substantial importance and practicality, especially considering the growing participation of many life insurance firms in the senior housing industry, with certain entities even establishing themselves as prominent providers in China.

3. Method

In order to conduct a comprehensive analysis of the underlying reasons, it is important to first provide a detailed description of the phenomena and business model. This entails examining pertinent data from the life insurance and senior housing industries to elucidate the interrelationship between the two.

The rationale behind this can be attributed to a complete range of factors, encompassing both internal and external dimensions, including the social, industrial, organizational, and customer factors.

Hence, the primary sources of information utilised in this study are official data from reputable international organisations and authorised Chinese entities. This study incorporates several points that have been synthesised by different authors.

In light of the design, it is important to gather secondary data and conduct an analysis of the relationship between them. The data have been acquired from:

- 1) The data pertaining to population and senior housing can be obtained from several authoritative sources, including national statistics, the Regulatory Commission, as well as databases maintained by the United Nations (UN) and the Organization for Economic Co-operation and Development (OECD).
- 2) The present discourse pertains to an overview of China's life insurance firms, specifically focusing on industry reports, industry conferences, and yearly financial reports.
- 3) In addition, several authors within the field of study have compiled and synthesized valuable data that is pertinent to the analysis.

The current study employs a data analysis approach that involves doing a comprehensive literature review encompassing both industrial practice/research and academic perspectives. In addition, the research methodology employed in this work involves the utilization of a case study approach, wherein a selection of representative corporate samples are thoroughly analyzed.

The primary area of examination will encompass the following:

- 1) relationship between the life insurance industry and the senior housing.
- 2) external factor, namely social background, and customer needs and behaviour influenced.
- 3) internal motive behind why these companies are inclined and driven to engage in such activities.

The research has been designed as follows:

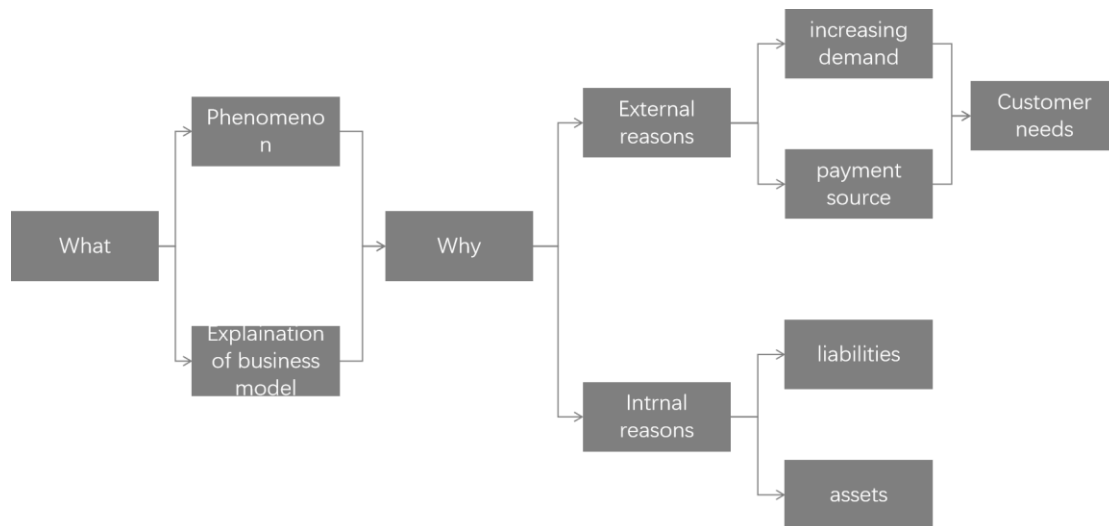


Figure 2. Research Routine

This article will primarily concentrate on the rationale and impetus underlying the business model, with limited discussion on the operational details or specifics of insurance products.

4. Introduction of Business Model — Life Insurance + Senior Housing

4.1 Model Overview

The business model of “Life Insurance + Senior Housing” in China has reached a high level of maturity. Please refer to Figure 3. The following is a condensed overview:

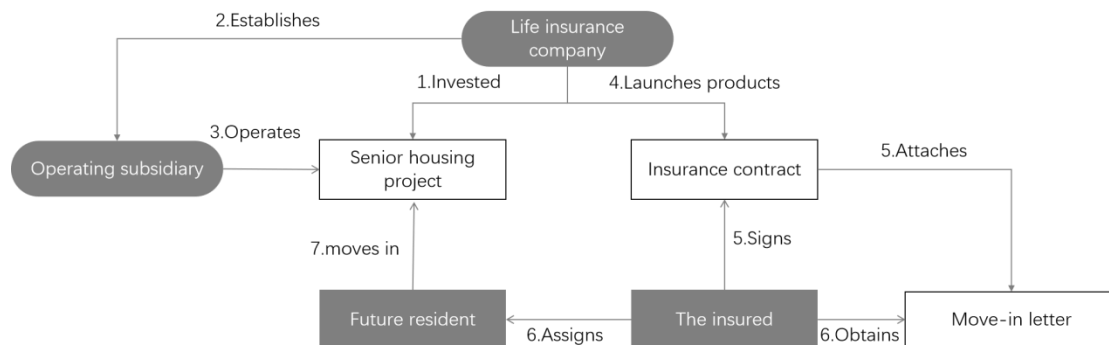


Figure 3. “Life insurance +senior housing” business model

Step 1: A life insurance company made an investment in a senior housing project.

Step 2&3: It establishes an operating subsidiary with the purpose of effectively managing the project. The subsidiary provides senior services to the residents of the project.

Step 4: The life insurance firm introduced a new product to the market, which entails providing a move-in letter to the senior living project.

Step 5: Upon completion of the payment for the insurance contract, the customer proceeds to sign the contract and thereafter receives the letter.

Step 6: The insured utilises the letter to choose a prospective resident.

Step 7: Upon moving to the project, inhabitants are required to remit a recurring monthly payment to cover the costs associated with both the residence and the services provided.

In this particular arrangement, the clientele effectively resolved their concerns pertaining to senior living, all the while deriving financial benefits from their insurance agreement. Life insurance firms derive benefits from liability contracts and generate investment returns through senior housing assets.

4.2 Insurance Product Introduction

Using Taikang Group as an illustrative case, it is worth noting that their insurance products, commonly referred to as the “happiness guide,” provide clients with guaranteed move-in letters and Priority move-in letters. These letters grant individuals the right to reside in the senior housing facilities constructed and operated by Taikang Group.

The distinction between a guaranteed move-in letter and a Priority move-in letter lies in the level of assurance provided to customers. The former ensures that customers can secure residency in a senior housing project upon meeting specific entry requirements, such as reaching a minimum age, maintaining a satisfactory health condition, and possessing no criminal record. On the other hand, the latter merely grants customers the privilege of bypassing the regular queue and obtaining preferential treatment in the housing application process.

In general, the payment of larger insurance premiums by a client is associated with increased entitlements, reduced restrictions, and the ability to access more and higher-level move-in letters. The utilization of these letters is limited to particular individuals, including policyholders, the insured, their offspring, parents, parents-in-law, and spouses. The range is increased when the premium plan progresses to higher tiers. In order to satisfy the eligibility criteria for receiving the letters, a policyholder is required to make a cumulative payment of up to 2 million RMB, unless the insured individual is below the age of 19.

Please refer to Table 3.

Table 3. The relationship between insurance plans and move-in letters

products	age of assured	Minimum Annualized premium equivalent(in	Premium payment term	letter offered				
				guaranteed move-in letter			Priority move-in letter	
				amount	right holder	limitation	amount	right holder
teenagers	not older than 18y	50	20y	1 letter	the insured person only	move in before 80y	2	the insured person and his/her spouse
	100	Single payment/3y/5y/10y/15y						
youth	19-39y	100	20y	1 letter	insured person or policyholder	move in without maximum age limitation	2	parents and parents in law of insured person
plan 1	no limit	150	15y/20y					
plan 2		200	1 letter,priority right to choose room type					
plan 3		500	Single payment/5y/10y/15y/20y	2 letters, and priority right to choose room type	○insured person, his/her parents and spouse ○policyholder, and his/her parents,spouse,children,parents in law			
plan 4		1000		4 letters, and priority right to choose room type	○the insured person, and his/her parents,spouse,children ,parents in law, ○policyholder, and his/her parents,spouse,children ,parents in law,			

Note: y represent “year” or “years”.

4.3 Investment of Senior Housing

The majority of life insurance companies have engaged in the senior housing sector through direct investments in and operation of CCRCs. A common characteristic of CCRCs is their location in suburban areas next to major cities represented by the projects invested by Taikang Group. These CCRCs are frequently situated in close proximity to parks, natural landscapes, hospitals, and public transportation hubs. Moreover, it is worth noting that the scale frequently exceeds 1000 beds.

Following their first contributions, the CCRCs were often managed by senior service companies that developed dedicated service teams and implemented operational systems.

Table 4. Typical CCRCs invested by life insurance companies

Type	Owner	Project	Operating Subsidiary	City	Distance From Center	City	Beds
Suburbs	Taikang Group	Taikang Community Yanyuan	Taikang Healthcare Investment	Beijing	35km		3000

	CPIC	Pacific Care Home	CPIC Senior Investment	Chengdu	25km	2500
Urban Area	NCI	NCI Home	Senior Department of NCI	Beijing	Urban Area	360
	Ping An	Zhen City Shekou	Ping An Zhen Living	Shenzhen	Urban Area	700

Source: Author.

5. Reasons and Motivation Analysis

5.1 External Reasons

5.1.1 Social Background

(1) High Demand but Low in Amount and Quality

According to the United Nations data from 2019, the elderly population in China has reached a staggering 166.37 million individuals. The data indicates that China possesses the most substantial ageing population, about equivalent to the combined total of countries with the second, third, and fourth greatest ageing populations, namely Japan, India, and the United States. (Refer to Table 5)

This Figure represents around 11.5% of the total population. Projections based on data from the Organisation for Economic Co-operation and Development (OECD) indicate that by the year 2050, the proportion of elderly individuals in China is predicted to increase significantly to approximately 21.6%.

Table 5. Aging Population in OECD Countries

Rank	Country	# 65+(in million, 2019)	% 65+(of total population, 2019)	% 65+(of total population, 2050)	% Deference
1	China	166.37	11.5	26.07	14.57
2	India	84.9	6.4	13.75	7.35
3	United States	52.76	16.5	22.03	5.53
4	Japan	35.58	28.4	37.68	9.28
5	Russia	21.42	15.0	24.02	9.02
6	Brazil	17.79	9.5	21.87	12.37
7	Germany	17.78	21.5	28.05	6.55
8	Indonesia	15.16	6.0	15.10	9.10
9	Italy	13.76	22.9	33.70	10.80
10	France	13.16	20.0	27.78	7.78
	OECD38	-	17.3	26.70	9.36

Source: OECD.

Elderly individuals are confronted with the predicament of insufficient housing accommodations. According to Li and Otani (2018), it has been proposed by numerous regional governments in China to allocate senior institutions to accommodate 3% of the aged population. However, as of 2021, the actual number of beds available in senior institutions is only 5.04 million, falling short of the anticipated 6.02 million by a margin of 1 million. The pace of ageing continues to accelerate, hence posing an ongoing challenge in terms of the disparity in bed numbers.

Furthermore, in term of quality, it is worth noting that the current senior institutions exhibit an inadequate level of quality. In the city of Beijing, it has been observed that there exists a limited number of 5-star senior care institutions, specifically 12 out of a total of 543. It is worth noting that these institutions have a scarcity of available beds. The majority of senior institutions operate as non-profit organizations, focusing primarily on meeting the fundamental care needs of its clientele and complying with regulatory standards.

Based on the official website, it is evident that the services (see Table 6) offered by a five-star senior housing facility in Beijing are very commonplace, let alone the lack of such quality in other projects.

Table 6. The service highlights of a five-star senior housing project

Third level medical security	Equipped with a medical clinic, connected to community health service stations, and specialized cooperation with tertiary hospitals
Professional life care	Professional nursing services such as bowel care, nasal feeding care, and gas cutting care
Healthy and nutritious diet	Hired a team of professional chefs to have five meals a day, including three main meals, and two extra meals
Rehabilitation assistance support	Developed a rehabilitation plan based on the elderly's condition, and have the nursing team assist in executing rehabilitation training to slow down physical decline
Cultural and entertainment activities	Painting, handwriting, dancing and travel, etc.

Source: Author.

Regarding the residential setting, it is common for the majority of rooms to be equipped with two beds, implying that customers typically share their living space with an unfamiliar individual. A portion of the rooms lack toilet facilities. The primary residents of this establishment consist of individuals requiring nursing care, those with limited incomes, and empty nesters.

As a result, senior individuals, particularly those belonging to the high-income bracket, tend to opt for these facilities solely when they require nursing care, rather than choosing to reside there when can live independently or with assistance.

According to the Hurun wealth report for the year 2022, there are over 5.2 million households categorised as 'Affluent Families' with a fortune of CNY 6 million or more. It is noteworthy that a majority of these households reside in economically developed regions such as Beijing, Shanghai, Zhejiang Province, Guangdong Province, and Jiangsu Province.

Hence, the conspicuous presence of conflict arising from the significant disparity between the high demand for senior housing and its limited supply, both in terms of quantity and quality, has resulted in the emergence of a substantial market for high-quality senior housing.

(2) The Issue of Insufficient Retirement Income

There is a noticeable gap in the requirement for financial support during the later stages of individuals' lives in China, hence other payment sources are needed such as life insurance.

Feyen, Lester and Rocha (2011) thought a large social security system can hinder the demand of life insurance. Conversely, it is well acknowledged that the pension system in China exhibits significant imperfections. The current amount of income is insufficient to maintain the same standard of living as before to retirement, and it is even less likely to cover the potentially greater costs of healthcare and nursing. Retirees have a pressing need to acquire commercial pension and insurance goods in order to sustain their senior life, particularly among individuals belonging to the high-income bracket.

The disparity can be seen on the data of income replacement rate and pension replacement rate. The former encompasses all forms of income both prior to and after to retirement, whereas the latter solely examines wages earned and pension. This implies that the former more accurately reflects the level of real-life circumstances.

In accordance with the findings of Gao and Wang (2022), it was evident that China's income replacement rate was relatively lower when compared to the average index of OECD developed countries, which ranged from 70% to 90%.

Based on the OECD pension model of 2018, it is observed that the net pension replacement rate in China is comparatively high, reaching 69%. The range of the European Union (EU) index spans from 29% in the United Kingdom to 99.3% in India. (Refer to Figure 4)

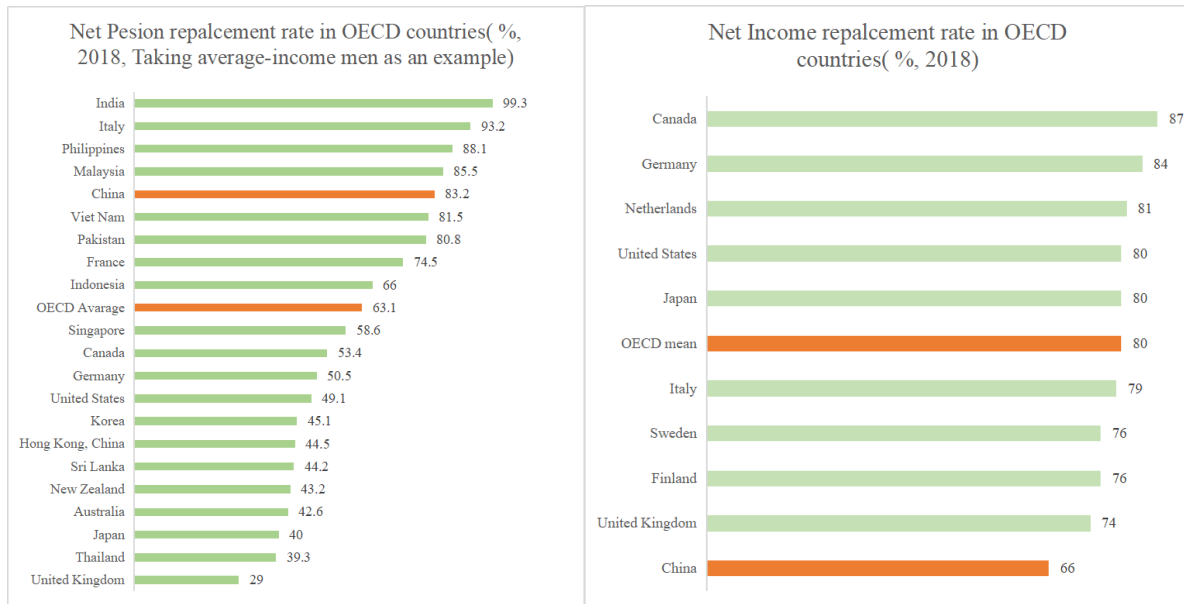


Figure 4. Net income and pension replacement rate in OECD countries

The absence of a well-established multi-pillar pension insurance system in China can be attributed to the disparity between the high pension replacement rate and the low income replacement rate. Retirees predominantly depend on the first pillar as their primary source of income, with limited alternative sources to sustain their pre-retirement standard of living.

Yu et al. (2020) stated that individuals belonging to high-income groups have the potential to see greater growth in personal pension wealth compared to those with lower incomes. Hence, it is advisable for a financially prudent people with high incomes to go for commercial pension or insurance plans in order to provide financial support for their retirement expenses.

According to a survey conducted by Hurun in 2020, a significant majority (77.6%) of individuals with high incomes opted to get pension or permanent life insurance. Furthermore, the monetary worth of these insurance policies constituted approximately half of their overall insurance assets. This poll comprises a sample of 800 affluent respondents, each with an average asset of 77 million RMB. Please refer to Table 7.

Table 7. The structure of insurance the sample customers invested

Insurance type	Percentage of those who have already purchased	Percent based on insurance value
Pension/permanent life insurance	76.60%	42.70%
Critical illness insurance	69.60%	25.50%
accidents insurance	67.30%	18.40%
Medical Insurance	44.40%	13.40%

Source: Hurun research (2020).

5.2 Internal Reasons

From a balance sheet perspective, a life insurance firm can be analyzed based on two factors. One aspect to consider is the expansion of liability, which necessitates the sale of more insurance products. The second aspect pertains to investment, when the objective is to provide a secure and consistent return to fulfil financial obligations.

5.2.1 CCRC: The Leverage of Liability

The primary incentive for life insurance companies to invest in senior housing is the leverage effect. Based on the current practise, it can be asserted that CCRC is indeed effective for the marketing of insurance products to promote the expansion of liabilities. Currently, the extent of senior housing investment by Taikang Group has

reached a total of 83,150 beds, equivalent to around 45 thousand rooms. The number of customers consuming the happiness guide product has surpassed 190,000. In practice, CCRCs are typically evaluated by room number. As a result, the Leverage ratio stands at 4.2, indicating that for every senior living space invested, 4.2 happiness guide contracts will be sold. The data shown in Figure 5 indicates a significant positive association between the number of projects invested and the quantity of happiness guide contracts sold.



Figure 5. the leverage effect between senior housing and happiness guide (Taikang Group)

Source: Author.

What factors contribute to the ability of CCRCs or senior housing developments to effectively facilitate the selling of insurance products?

First and foremost, it is important to note that tangibility is a significant determinant that influences consumer purchasing behaviour.

A senior housing project provides a real product that is anticipated to meet the pressing need for older living among clients. Fan and Cheng (2006) said professional knowledge played a very important role in life insurance sales. This business model presents an ideal senior lifestyle situation through carefully crafted promotional language and skilled sales personnel.

Here are some of the key highlights:

- 1) Scarcity of high-end units available.
- 2) Several move-in letters that insure family numbers also can live in when old.
- 3) Travel around various senior projects in different cities.
- 4) High-quality room service, medical service, and healthcare service.
- 5) In close proximity to the urban center and national forest park.

Hence, it is more probable that clients will opt to acquire insurance contracts that attach move-in letters, as opposed to those lacking such a letter.

Among all kinds of senior housing, CCRCs have successfully achieved a balance between leveraging the insurance products and customer elderly care demand.

According to the American Association of Retired Persons (AARP) (2022), a CCRC is a viable long-term care alternative for elderly individuals seeking to remain in a consistent environment throughout various stages of the ageing journey. Independent living constitutes the predominant component of a typical CCRC.

Based on prior studies, it has been observed that older individuals exhibit a preference for residing in their own residences. Turcotte and Sawaya (2015) found 78% of seniors lived at home but not Care facility or supporting housing in Canada. There seems to be a consistent pattern across countries, indicating that a tiny subset of individuals possessing move-in letters opt to transition to a CCRC while still maintaining their independent

living status.

Given a specific number of rooms, it can be argued that CRCC exhibits superiority over alternative forms of senior housing due to its potential to leverage more sales of insurance products.

In addition, it provides clients with an improved sense of community, facilitating the concept of “age in place” whereby individuals can reside in a regular and familiar environment. CCRCs hold particular appeal for elderly individuals who are deliberating on choices regarding their long-term care prospects. Senior individuals are granted the opportunity to convert their home equity or other assets into housing arrangements that provide them with daily living services and healthcare. This arrangement aims to maintain a more consistent level of monthly spending.

5.2.2 Senior Housing — A Type of Real Estate that Is Deemed Eligible for Investment by Insurance Capital

Life insurance firms consistently maintain substantial long-term capital, which is essential for investing in senior housing. The most important objective factors in the success of CCRC in China is having a stable and sustainable source of funds to ensure long-term capital investment, according to the research (ZHI, 2021).

Many researchers thought the main risk of CCRC is large occupation of capital and long term to recycle the money invested. Lynn and Wang (2008) thought CCRC is less attractive compared with other segments of senior housing because it is complex to operate, difficult to develop and low liquidity. Hu et al. (2019) concluded that the top barrier is high risks due to the large investment, long development and operation cycles.

Nevertheless, insurance capital has the potential to mitigate these drawbacks. According to Huber (2022), the typical duration of life insurance obligations is approximately 20 years. Furthermore, Swiss Re Institute (2020) has reported that the duration gap in China has remained elevated for a period exceeding 8 years. Hence, insurance companies see a significant demand for long-term investment options, resulting in a scarcity of available long-term investment alternatives.

Also, insurance firms possess the capacity to provide financial protection for CCRCs and clients. The dangers associated with CCRCs in the United States were examined in a report by the U.S. Government Accountability Office (GAO) in 2022. This paper elucidates that individuals who choose to relocate to a Continuing Care Retirement Community (CCRC) will encounter substantial financial and emotional commitment, with a considerable amount of money at stake.

Initially, inside this particular business model, the payment of an entry fee is not necessary for clients; rather, they are expected to purchase insurance as a means of fulfilling the entrance cost, which implies that the funds are allocated to an insurance firm rather than a company specializing in senior living.

In accordance with the China Insurance Law, it is typically prohibited for insurance companies to engage in bankruptcy. The life insurance firm was required to transfer its contracts to other entities upon its bankruptcy. Insurance provides a secure, reliable, and sufficient source of funds for policyholders to meet their financial obligations in their later years, alleviating concerns about potential loss of their initial investment.

5.2.3 The Large Existing Customer Base

Life insurance companies typically maintain a substantial client base consisting of individuals who are potential purchasers of insurance products associated with senior housing.

For illustrative purposes, let us consider the case of Ping An. Ping An has a customer base of 2,270 million individuals. In addition, it is observed that customers with higher levels of wealth tend to exhibit a greater propensity to purchase a larger quantity of things (refer to Figure 6). The duration of a customer’s presence within the Ping An system positively correlates with their propensity to purchase further products. (Refer to Figure 7)

This implies that clients that possess higher income levels and exhibit longer retention periods are more inclined to enter into additional contracts. In a similar vein, the current clientele presents a significant potential market for the purchase of insurance products associated with the move-in letter, particularly in light of the pressing need for elder care.

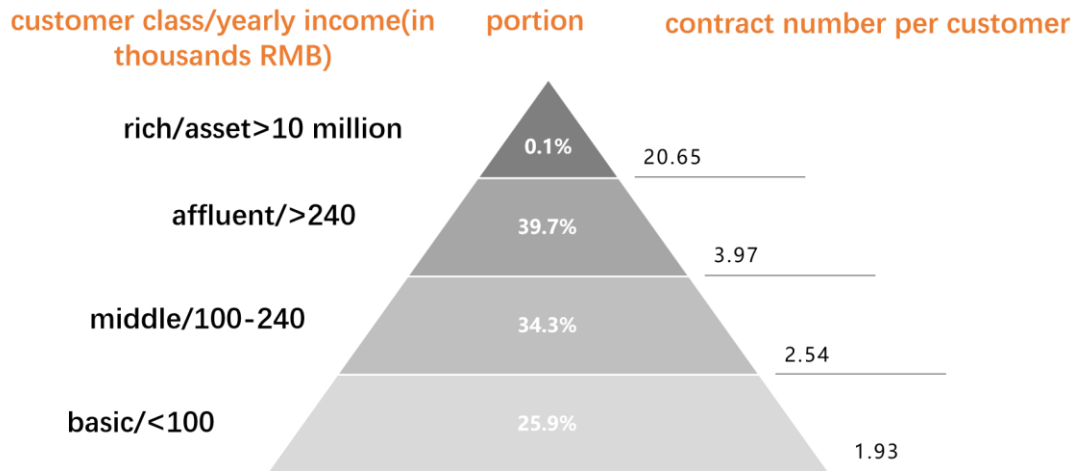


Figure 6. The relationship between customer class and contract number

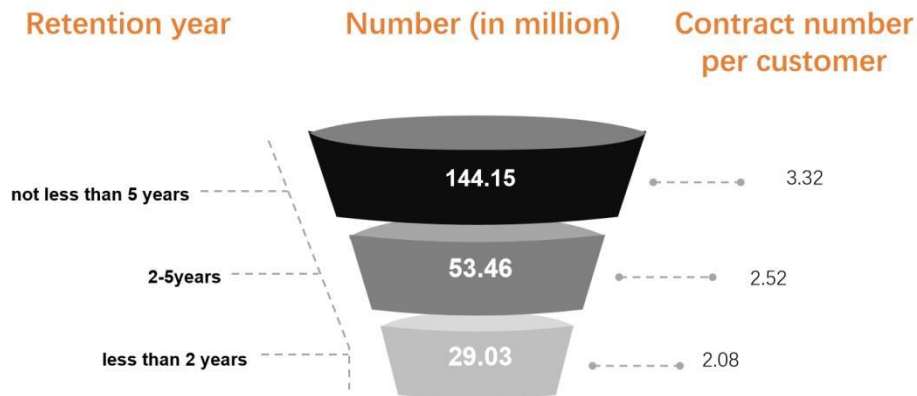


Figure 7. The relationship between customer retention year and contract number

Note: Ping An is a large comprehensive finance group, in which life insurance contributes the most income, but the figure above is still the data of entire of group because customer of life insurance cannot be distinguished.

Source: Annual financial report 2022 of Ping An group.

6. Conclusion

Upon careful observation, it has been noted that life insurance companies have been actively engaged and have played a significant role within the senior housing market. The Taikang Group has achieved the top ranking among all senior housing brands, boasting a substantial size of 83,150 senior beds.

The introduction of the mature business model is discussed. Life insurance companies commonly invest in senior housing projects and provide insurance plans that are accompanied by move-in letters. The policyholder has the right to pick the individual or individuals who possess the privilege to occupy the residence.

The primary driving factor is in the ability of CCRCs to leverage liabilities. The leverage impact has considerable significance, as indicated by a leverage ratio of 4.2. This ratio signifies that for every investment made in one senior housing room, approximately 4.2 insurance contracts will be signed. Senior housing provides a tangible product and service that effectively meets the increasing demand for long-term care among the senior population.

Another internal reason is that insurance capital is suitable for senior housing investment because to its long-term investment recycling and the financial protection it provides to customers.

Additionally, external factors such as social background make an essential part. There is a significant disparity between the strong demand for senior housing and the insufficient supply, both in terms of quality and quantity. In China, the income replacement rate is considerably low, prompting individuals to explore alternative means of financial support throughout their elderly years. The external factors contribute to the market demand for life insurance as a supplement to senior life and high-quality senior facilities.

The integration of insurance and senior housing has become a prevalent operational practice and established business model in China. However, it remains a relatively nascent area of inquiry within academic research. This article presents an overview of the business model and provides an analysis of the underlying factors that contribute to its development and implementation.

7. Limitations and Future Research

However, the intriguing business model exhibits a notable level of complexity due to its association with two distinct businesses and the implementation of diverse policies. Premium income used in this article may not be the most suitable indicator for assessing the impact of a particular insurance product or service. Instead, it proposes that NBEV (New Business Embedded Value) is a more appropriate measure.

The current body of literature in this relatively new topic is insufficient to establish a complete framework. There is a significant amount of work that has to be completed.

For instance, this inquiry pertains to the manner in which an insurance company develops its operational capabilities. This inquiry pertains to the evaluation of CCRCs or senior living from the perspective of a life insurance company.

This inquiry pertains to the assessment of investment in CCRCs or senior housing from the perspective of a life insurance company. Specifically, the question revolves around the company's willingness to endure poor or potentially negative returns in order to secure a substantial income stream from insurance premiums.

This inquiry pertains to the challenges encountered by insurance companies in relation to regulatory issues. It seeks to explore effective strategies for mitigating regulatory risks and proposes potential solutions to address these concerns.

Taikang Group has made an investment in excess of 45,000 senior care rooms, while simultaneously achieving sales of 190,000 happiness guide products. What factors are taken into account in the actuarial model and what are the associated risks?

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