The Role of the Banking Industry in Long-term Care and Possible Service Innovations

Mandated by: The Bankers Association of the Republic of China

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Abstract

This study mainly looks at the experiences of Germany, the UK, and Japan in developing long-term care (LTC) as a response to aging. It then explores Taiwan's and China's LTC policies and service systems, practices for financial institutions, resource gaps to be filled, and related policies, laws and regulations. It further analyzes possible roles and innovations for Taiwanese banks in the industry chain, and the effectiveness of schemes like housing endowments and retirement trusts, and offers other proposals worthy of consideration, including financial asset securitization, retirement family trusts, guardianship trusts, and bank insurance policies.

As aging becomes predictable and irreversible, it drives rapid growth in healthcare demand and spending. Based on the experience of OECD countries, that demand will continue growing. LTC holds an importance place in national healthcare demand. The Ministry of Health and Welfare (MOHW) estimates that the average person requires 7.3 years of long-term care over his/her life, but Taiwan's system is still incomplete. The government must work with civil society to support the industry chain to overcome its financial challenges in the nation's LTC system. The purpose of this study is to understand the role banks can play in service innovation.

Research Findings

1. The role of Taiwanese banks

(1) Demand classification

With the rapid growth of the elderly population and limited resources available for LTC, core service providers must adapt their services to be available at broadly affordable prices. A system to solve complex and enormous problems using limited resources is bound to break down traditional barriers and innovatively integrate service models. Aside from the government, the LTC industrial chain includes (1) The first tier: retirement homes, hospitals, and medical equipment; (2) The second tier: the retirement service industry and caregivers; (3) The third tier: IT and construction; and (4) The fourth tier: finance and insurance. The concept of the first level is that because LTC serves people with physical and mental disabilities, as opposed to acute care, it focuses on improving the quality of care for healthy and sub-healthy seniors.

The concept of the second tier, meanwhile, is to protect the dignity of seniors' lifestyle and improve the convenience of their medical care. Many families require care, but the manpower supply is disproportionate to the number of disabled people, so support from other industries is required. For the third level, the IT industry is developing technologies like cloud computing and big data analytics through wearables, and building intelligent homes for seniors or other beneficiaries through the high-tech concept of aging in place. The fourth level provides tools to link various financial services. Although financial institutions are the core industry of the fourth level, they also provide funding to support smart accessories, remote care, and at-home services.

(2) Financial services in line with the government's LTC policies

Medicine and care for seniors and the mentally/physically disabled are welfare services, not general services. Their quality is a life-and-death matter. The 10-year Plan for Long Term Care and Long Term Care Service Network Plan have been passed since 2008. The Long Term Care Services Law, passed in June 2015, covers all aspects of LTC services, staff management, institutional management, beneficiaries' rights and interests, and service development incentives. Guaranteeing sufficient financial resources and reducing the financial burden on the government, however, remain key points to ensure the continuity of LTC services.

In November 2015, Taiwanese banks started launching commercial housing endowment mortgages. At the age of 65, participants can apply for loans of up to 80% of their mortgage. Borrowers are not only allowed to remain in their homes, but can also use the proceeds to fund care or medical services. Practices vary. Aside from integrating resources like trusts and wealth management, some banks have cooperated with insurance companies, combining medical and annuity insurance with LTC. Financial services compatible with LTC policies also include retirement trust products, which allocate assets or retirement funds into a trust which is managed by the bank in accordance with a contract. The beneficiary can agree to receive fixed monthly living, medical, at-home nursing, and nursing home allowances, and to designate trusted relatives or social welfare groups to jointly supervise the fund.

Furthermore, without government LTC insurance for the entire population, a few insurance companies have already created insurance products. For recipients who meet the definition of “disabled” and lack the ability to manage their daily life or use tools, retirement funds can provide cash for services, and fill in the gaps in the government’s LTC policies. The difference between the two is that the government provides physical services like nursing and transport, but commercial LTC insurance premiums are higher than those of general life insurance and health insurance. In August 2014, the Financial Securities Commission (FSC) opened up insurance policies, allowing traditional life insurance policies to be functionally transformed into annuity, medical, and LTC insurance.

Moreover, Taiwanese insurance companies have recently introduced in-kind insurance products linked to funeral services, and health management policies to reduce the financial risks of medical care. More citizens are facing financial risks from longevity, and realizing the importance of health, care, and pension insurance. As mentioned above, in a retirement trust, the beneficiary puts their assets or funds into a trust, and agrees for the bank to allocate them. In addition, they can also consider in-kind insurance for old age and funeral services.

2. LTC Innovation for Banks

(1) Financing structure

In general, corporate funds come from sources including government grants, counseling funds, financial institutions, capital markets, and venture capital, in addition to self-funding. The financing models vary by companies’ growth stage. However, companies’ industries, risk characteristics, and capital requirements are also important factors, as well as the characteristics, demands, and dilemmas of the long-term care industry. In fact, the financial needs of the elderly, the decline in their physical and mental functions, and third-party fraud, embezzlement, and seizure of managed assets including retirement trusts and housing endowments are all receiving increased attention. Banks must analyze their senior clients' characteristics, planning appropriate products, marketing models and platform interfaces for their special needs, and establishing relationships with them at appropriate occasions.

Innovations in LTC financing structure – the application of existing financing mechanisms to LTC – include real estate investment trusts and prepaid trusts. In the former, the beneficiary packages its securities via solicitation or issuance to an unspecified person, or private placement to a specified person, and invests them in a long-term care facility (LTCF) with stable income or one with a formal plan for development, construction, reconstruction, or renovation. The trust can be used as a source of funds for the construction of new care facilities or to improve the quality of care services. The latter collects annual fees or advance receipts for the LTCF. Because the transaction type is prepaid, in contrast to the housing pre-sale, gift certificate, gym membership, and funeral service advance payment and monitoring models, the receipts can be paid into a trust in full or by a set ratio to avoid the risk that the institution is unable to carry out its duties to the consumer and caregivers. This makes the bank not only an intermediary, but also an asset manager. Using these financial resources, it provides integrated services to the LTC industry.

(2) Other financial innovations

① Retirement family trusts

Family trusts are trusts established for the benefit of family members. The principal uses a trust structure for the benefit of their family members, relatives, or possibly themselves to deliver important assets such as equities, real estate, or cash in a specific structure. The assets are delivered to the trust manager to guarantee living allowances, as well as to carry out family inheritance planning. Senior welfare, disability welfare, welfare guardianship support, and minor maintenance family trust types can be used for elderly, disabled, or minor family members. They are retirement (welfare) family trusts by nature, supplementing adult guardianship or assistance systems. As for Taiwan's current legal system, in order to guarantee the property rights of those with physical or mental disabilities who are unable to manage their own wealth, the national government, along with relevant organizations, should encourage trustees to handle property trusts for the disabled. For example, they can promote retirement family trusts and encourage individuals with more capital to establish trusts for seniors, the disabled, or minors, in terms of living costs, education and care.

② Guardianship Support Trusts

Guardianship support trusts make use of the guardianship system in property management. They are not based on a specific legal system, but rather mainly rely upon special instructions from family courts, whereby a certain deed trust is established between the guardian and trustee. After the trust is set up, deposits of a certain amount are periodically remitted to the deposit account, and the guardian guarantees their security. Because the interests of the principal and guardian are not aligned, the latter may not use, substitute, or consent to dispose of the assets. The guardian may not invest in the property of the trustee. In the past, however, relatives often acted as guardians and embezzled the assets, or took advantage of mentally disabled or mildly handicapped seniors, using their likeness to obtain credit cards or cash cards. Alternatively, they could be abducted to sign loans or dispose of real estate.

Issues in the guardianship system include that Taiwan still lacks a court supervision mechanism to prevent guardians from disposing of the beneficiary's assets (including those delivered to trusts.) Only after interested parties discover the guardian's damages to the trustee's interests and file a lawsuit can the courts intervene, which often makes the damages irrecoverable and complicates the legal relationship. Japan's guardianship support system targets cases of incapacity, as determined by the court. If the principal owns assets, the practice of the court is to first assign an expert guardian to assess how the property is entrusted to ensure that the assets are not abused by others. Taiwan's Judicial Yuan is studying how to amend the Family Incident Law, improving living support and property security by selecting expert guardians to assist the court in assessing possible trust structures.

③ Financial securitization

The LTC industry also makes use of financial securitization. For LTCFs on the first tier, when the senior, or mentally/physically handicapped person, the beneficiaries and their families sign a contract with the institution. Aside from paying a living allowance deposit, they also pay a fixed monthly maintenance or care fee to the LTCF. This fee makes up its fixed cash flow, an account receivable claim. The trust and entrusted institution (the bank) issue beneficiary securities to investors, and the LTCF obtains the funds, which can be used as a financing channel for M&A, construction of new facilities, or to improve the quality of their services. Furthermore, industries classified under the second and third tiers of the industry chain can securitize assets when the accounts are charged. This is different from raising the funds by cash, issuing corporate bonds, or borrowing from banks, in which borrowing becomes more difficult due to collateral quality and credit ratings, etc. With securitized asset trading, assets can be packaged into a portfolio, and acquired through trusts and credit. It should be noted that the trust and trustee structure or special purpose company is designed to isolate the originator's credit and bankruptcy risks for the securitized asset.

Results

1. Conclusions

(1) LTC systems and industry chains in major countries

The goal of long-term care policy in Germany is to make "assisted living better than institutional care." The social insurance system supports beneficiaries' independence based on the principles of "joint liability" and "subsidy support." The reason the system was introduced was to address the rising costs of the system, affecting the fiscal imbalances of local governments, caused by the increasing number of care recipients and higher fees from institutions. British LTC services are jointly administered by the National Health Service (NHS), at the national level, and the Social Services Departments (SSD) at the local level. The former provides medical and related services such as primary care, geriatric hospitals, assisted living, and community mental health services, mainly funded by taxes; the latter, funded by local taxes and broad subsidies from the central government, is responsible for the management and provision of various sorts of social welfare services such as day care, food delivery, housework assistance, and elderly housing.

The problem of aging is more severe in Japan than in Europe and the US. In addition to responding to the needs of the retired population, the government has also established social security, long-term care, and insurance systems. The Ministry of Health, Labour, and Welfare is responsible for planning welfare policies and formulating laws, and each municipality is responsible for implementation. Prefectures are responsible for coordination between cities, towns, and villages. For care insurance payments, daytime care services have grown the fastest, because most seniors wish to remain in their houses. With demand for nursing care increasing, the Ministry has promoted a "regional coverage system," strengthening service scope and quality through inter-industry cooperation.

China, meanwhile, has long implemented family planning policies. Although China remains a developing country in some ways, its population is already aging. It has grown old before becoming rich, putting a heavy burden on its social welfare and system and family pensions. With the aging of the population and the weakening of family care functions, elder care will become an increasingly prominent problem. Starting from the 12th Five-Year Plan, therefore, China has focused more on sectors relating to aging, but social insurance for long-term care is still in the research and pilot stage, only including pension subsidies mainly for civil servants. Commercial insurance is available on the market, but due to the lack of actuarial data, the service coverage is not broad.

(2) The role of Taiwan's banks in the long-term care industry chain

The aging of the population is driving demand for LTC services, and linking medical care industries into a new chain. This study has divided the chain into four tiers. The first is the basic core tier, including LTCF, medical institutions, and auxiliary devices. The second is composed of the assurance industry, caregivers, and living services. The third is communications technologies and construction, which mainly combines tech with the concepts of aging-in-place and universal design. The fourth is finance and insurance. Although financial institutions make up the core of this level, the financial instruments they provide link various industries through by cash flows, and support beneficiaries for smart assistive devices, remote care, and in-home lifestyle services, making the financial sector a key player. In fact, banks are not only intermediaries, but also asset managers, meeting beneficiaries' asset management and care maintenance needs through care trusts products and housing endowments, even becoming family asset managers, providing comprehensive financial services. Because the trust structure is an effective tool for those unable to manage their own assets, the purpose of both a retirement trust, and housing endowment combined with a trust mechanism, is to ensure property security.

(3) Banks' innovations

Due to the massive burden of aging and consequent LTC needs, it is impossible to rely solely on fiscal support from the government; rather, the latter must be combined with private sector resources and attention from specialized organizations. With the government planning to promote the introduction of the financial industry to help develop the industry and drive the industrial chain, banks should consider an intermediary role as asset managers and innovate to meet demand. In fact, as banks, acting as financing platforms, provide housing endowments and retirement trusts to seniors, they also provide financial services for LTCFs, hospitals, assistive devices, and the construction industry. Regarding the former, retirement trusts are designed to assist seniors in managing their finances. Before the FSC encouraged their development and listed them as an important mechanism, banks had already invested in trust products meeting the needs of seniors, mainly because Taiwanese seniors and physically/mentally disabled require such care, and are growing older by the year. By cultivating this market, they are fulfilling their social responsibilities.

2. Recommendations

As aging gradually gains attention, forming a predictable and irreversible trend, and it drives a rapid increase in medical insurance spending, based on the experiences of OECD countries, those expenditures will keep increasing. LTC forms a key part of domestic healthcare demand. The MOHW estimates the long-term care needs of an individual over their lifetime at 7.3 years, but Taiwan's system remains incomplete. With the fiscal difficulties of the government, how to bring civil society in to support participants in the LTC industry chain remains a critical question. The role banks can play in this industry chain and the innovations they can create is not only the topic of this study, but also important issues which they should carefully consider. Recommendations on these points follow.

(1) Improving the incentives for banks to handle housing endowments. The government should set up a special agency and allocate funds to set up an insurance fund bearing the risk that the borrower cannot pay off the difference between the principal and interest. Alternatively, reverse mortgage subsidies could be provided. In order to prevent the risk of greater longevity, the 30-year maximum mortgage of the Civil Law can be extended, while also providing information on borrowers' relocation and death to a financial linkage center for tracking.

(2) Encouraging LTCFs to set up pre-paid trusts. In order to protect the interests of both consumers and caregivers, LTCFs can collect annual fees or advance receipts. Because it is a prepaid transaction, in contrast to the housing pre-sale, gift certificate, gym membership, and funeral service advance payment and monitoring models, the receipts can be paid into a trust in full or in a set ratio for management.

(3) Encouraging social welfare groups to supervise trusts for seniors and the mentally/physically disabled. Guidelines can be set up for institutions supervising trusts, and courses on trusts can be incorporated into training for their personnel.

(4) Improving the use of asset securitization. For example, LTCFs obtain funds as creditor rights on accounts receivable through financial securitization and through trustees issuing beneficiary securities to investors, which can be used to build facilities and improve the quality of services. Real estate trusts in Taiwan mainly target real estate with fixed cash flow. The government can assess policy initiatives to encourage banks to issue securitized real estate instruments for institutions.

(5) Evaluating investment to senior care. Japan is one of the initiators of investments related to senior care. Through cross-industry resource integration, banks can understand the development of Japan's aging society, end the services model with just fund management and planning, and realistically grasp the potential needs for senior material care. Banks can evaluate investment in senior care within the scope of equity holding quotas in non-financial businesses, and provide relevant integrated financial services.