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Welcome to EY's inaugural China pension report. In 2021, China's top policymakers set out their vision of what needs to be done in response to the country's aging demographics in its latest five-year plan. This quickly led to more detailed discussions by various government departments and regulatory agencies – a clear sign that pension reform is now a top priority and a national one. Though detailed operational guidelines are yet to be fully developed, there is now consensus that the third pillar pension should lead the growth of China's pension system. And some of the more progressive companies have started preparing for these imminent changes.

In this report, we interpreted the recently announced pension-related policies, reviewed the latest development of the industry, and analyzed several strategic trends that will likely fuel future growth. The three key takeaways are:

1. **Responding to demographic challenges is now a national priority.** This means that the pension reform in China will accelerate and be more nationally driven.
2. **Various government and regulatory agencies have pointed to the third pillar as the reform focus.** This means China's pension system may move from its current institutional setup to become more retail centric.
3. **The changes urge all participants to prepare by investing in six strategic pillars:** a distribution model that combines traditional channel with disruptive ones, customization of product and service, recreated customer experience, upgraded risk and compliance, digital capabilities that allows quick scaling up of the business, and a platform that maximizes the use of existing licenses and is fully compatible with future options.

At 13.5%, China is quickly approaching the threshold of an **aged society**

New paradigm

Responding to aging demographics is now a national priority

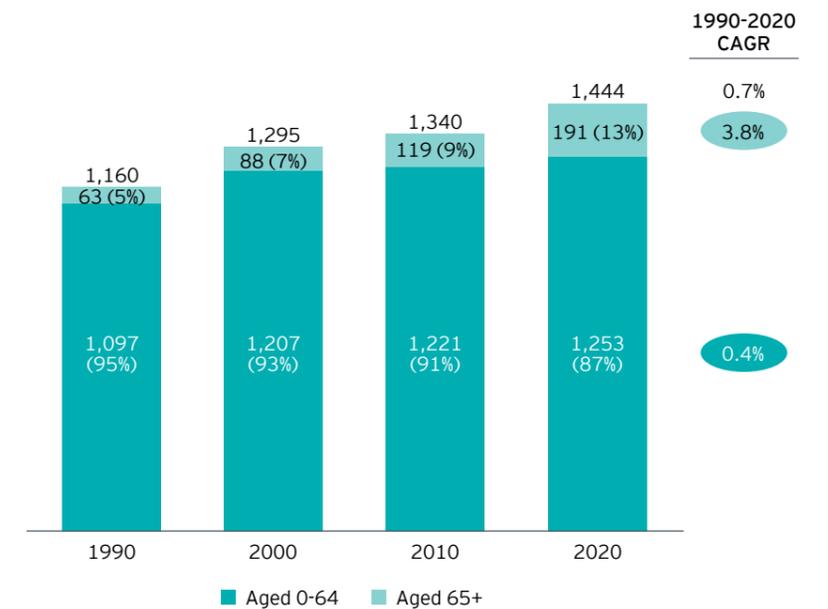
In May 2021 China announced the results of its 2020 national census. The national census takes place in China every 10 years and the 2020 one was the seventh. The census reported a total population of 1.41 billion and a population of people above the age of 65 was 190.64 million, or 13.5% of the total. Compared with 2010, China's total population has grown by 7.7%, but the number of people aged 65 or above has grown by 60%. The World Health

Organization defines a country as an aging one, if more than 7% of its total population is above 65 years old; and aged if above 14%. At 13.5%, China is quickly approaching the threshold of an aged society.

Shortly after the census result was released, the government announced a raft of new measures to cope with the challenges, including the plan to extend the retirement age, as well as allowing families to have three children.

Demographics of China

China's total population by age group, 1990-2020
(million, % of total population)



Source: National Census, EY Analysis

Moreover, when China's National People's Congress ratified its 14th Five-Year Plan in March 2021, there was more systematic articulation of what will be done to China's pension system. Below is a summary with EY's interpretation.

The 14th Five-Year Plan for its pension reform and EY's interpretation

14th Five-Year Plan mentioning	EY's interpretation
Create a multi-layered social security system and boost the Public Pension Fund (PPF) participation rate to 95%; help people with disabilities to participate in the PPF	Currently the PPF's participation rate is 90%, which is in line with the target set out in the 13th Five-Year Plan. Extending the PPF coverage is unlikely to have material impact on the Fund's balance or growth. Aiming for balance rather than growth implicitly puts the priority on the other two pillars.
Expedite the development of service sectors, including pension, home care and senior care	Financial services players eyeing the pension reform should be prepared to work with players from other sectors, including senior care providers and real estate developers and managers.
Increase the supply of pension services	More licenses will be issued, possibly to privately-owned enterprises and multi-national ones.
Build more convenient and intelligent public service, including pension and senior care; apply technology enablement	Service providers will need to build a more robust distribution network, both physical and digital, and embed more technology features, to make the services more accessible.
Increase the centralization of the PPF management, as appropriate	Wording shows the national centralization will not be completed within this five-year plan. More provinces will likely see the same PPF contribution rate, and that will further suppress the growth of PPF fund size and put more pressure on the National Council for Social Security Fund (NCSSF).
Encourage the private sector's participation to increase the supply of senior care services	More licenses will be issued, possibly to privately-owned enterprises and multi-national ones.
Build a pension service industry that balances between commercial and social value; extend retirement age	Pillar 3 is expected to grow faster than Pillar 1 and 2. More financial incentives will be provided to boost participation.
Build senior care facilities at community level while supporting families to take care of the elderlies in need	Investment in the senior care service industry will be encouraged and real estate and healthcare companies' participation are welcomed.

Sources: 14th Five-Year Plan, EY Analysis

The importance of the five-year plan cannot be overstated. It is the country's master plan, acting as an overarching goalsetting and growth trail of China's social, economic, technological and even cultural aspects. For the first time, China has made direct mentioning of the pension sector in its 14th Five-Year Plan. Introducing the pension reform in the five-year plan is the confirmation that responding to the demographic challenges is now a national priority. It also suggests that some of the more systematic challenges, such as insufficient tax incentives, a multi-agency regulatory framework, and the absence of an individualized pension administration system, will be resolved soon.





Detailed plans for financial services players

Despite promising signs, given the scope of the plan, it will likely take another 12-18 months for the operational guidelines to be ready. The good news is that for financial services companies seeking business in China's pension reform, the Plan already offered more details around how each of the three pillars should develop, as we have summarized in the table below.

The 14th Five-Year Plan's details for three pillars and EY's interpretation

14th Five-Year Plan mentioning	EY's interpretation
Achieving long-term balance of the PPF	PPF will need to boost its investment return, possibly by delegating more assets to the NCSF for management. And on the other hand, the NCSF will need to make more transfer to the PPF. Long-term size growth of both are limited.
Further the participation of the PPF	Limited growth. For participation to grow from 90% to 95% in the next five years, the number of participants will be growing at 1% per year. Inflow into the fund will be even lower.
National centralization of the PPF management	China has completed the centralization of the PPF at the provincial level. Extending it to a national level will likely take more time.
Continue to expand the PPF benefits	Monthly public pension payment will continue to see growth, but at a declining rate.
Institutionalize the SOE shares transfer to NCSF	As the PPF runs into increasing deficit, the NCSF is expected to grow.
Build a multi-layered, multi-pillar pension system	Pillars 2 and 3 will grow faster in relation to Pillar 1, and Pillar 3 will grow faster than Pillar 2.
Expand the Enterprise Annuities (EA) and Occupational Annuities (OA) coverage; grow Pillar 3	Contribution rate under Pillar 2 might come down and/or divert to Pillar 3, to encourage higher participation.
Build a national social security platform	An administrative infrastructure that facilitates national centralization of the pension, and possibly an integrated individual retirement account that connects all three pillars.

Source: 14th 5-year Plan, EY Analysis



Industry growth trails

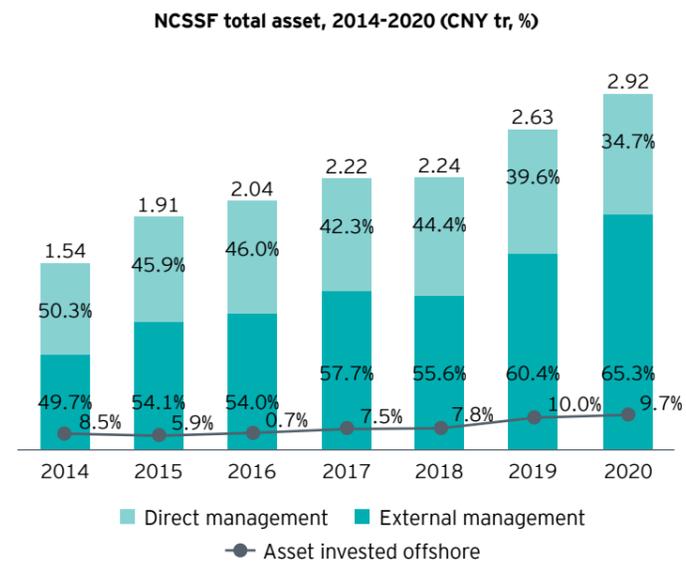
The call for reforms was made not only in anticipation of the rapidly aging demographics, but also in view of the current system's sluggish growth. The total size of the industry grew by 10% in 2020, by EY estimates, a low point in five years. While Pillar 2 managed to deliver strong numbers, both Pillars 1 and 3 need a further push.

Pillar 1 had a challenging year, but remains the largest pillar

The PPF was hit hard in 2020 as the government lowered the mandatory contribution rate. The adjustment was partly in response to long-term lobbying effort and partly to allow enterprises better fend off the pandemic. As a result, the PPF saw a sharp drop in its income during the year and reported a deficit for the whole year, the first time in its history. The year-end balance dropped from RMB6.3 trillion to around RMB4 trillion, by EY estimate.

Despite this setback, the PPF managed to realize most of its other, probably more strategic goals. Already the world's largest pension scheme in terms of participant base, the number continues to grow and exceeds 1 billion. Centralization of the administration also continues at the provincial level, paving the way for national consolidation. And on the investment side, all the provinces have started to engage the NCSF to manage their investment portfolios.

NCSSF's asset allocation and use of external managers



Source: NCSSF, EY Analysis

The NCSSF was created as a national reserve in case of a PPF deficit. But over time it has taken on more roles and now acts more like a gatekeeper for the country's PPF than merely a reserve. The NCSSF started managing pension surplus for several provinces by the end of 2016. Upon the end of 2020, it was managing RMB1.25 trillion of PPF money, from all 31 Mainland provinces. This is a 16% growth from end-2019.

Additionally, the NCSSF continued to build its external vendor network. It added two banks to its custodian list, and selected six more securities companies as its brokers, bringing the total number of securities companies it works with to 25.

As the most critical segment of the country's pension system, Pillar 1 was mentioned the most in the Five-Year Plan with three objectives. The first is to continue extending the PPF's breadth and depth. The second is to ensure its long-term sustainability. The third is to centralize its management. Given these professed goals, we should therefore expect Pillar 1 to remain an institutional business, and mostly an asset management one. Its size will probably see moderate growth but more likely remain stable. The NCSSF's role as the gatekeeper will be enhanced as the whole system moves towards a nationally unified model. In terms of its investment, the NCSSF seems comfortable with the current allocation of 60% being delegated to external managers, as well as the 10% allocation given to the offshore assets.



Despite all the bashing, Pillar 2 remains resilient

Pillar 2 has long been the sector of China's pension industry that practitioners love to hate, and others hate to love. Love to hate because, it is not as big as Pillar 1, and not expected to grow as fast as Pillar 3. Hate to love because it has very high entry threshold. And yet, despite all the bashing, Pillar 2 has managed to deliver strong growth over the last decade. The long-time least favorite, the EA sector even saw accelerating growth in 2019 and 2020. According to Ministry of Human Resources and Social Security, with EA and OA combined; Pillar 2 reports a 43% year-on-year size growth in 2020. EA registered a 27% year-on-year size growth, a jump from the 20% year-on-year growth rate in 2019. OA continue to rake in the windfall and have breached RMB1 trillion for the first time. Collectively, the size of the second pillar has now reached RMB3.5 trillion.

While the EA sector still very much relies on the wage increase and investment return for growth, several subtle changes suggest a more promising prospect. Firstly, the average size of participating enterprises continues to drop. This indicates that more small companies are setting up their EA plans. Second is that the investment returns continue to improve, showing managers successfully capitalize on the investment liberalization, and participating firms are adopting a more balanced approach towards the risk and return trade off. And improved returns will in turn boost participation and contribution. Lastly, more participating individuals now choose to draw from their EA savings in annuities as opposed to lump sum once they hit the retirement age - a sign that more thinking is going to the decumulation phase and possibly more ways for EA trustees and managers to create value for customers.

OA, on the other hand, will likely continue to see higher growth. Currently the program has about 30 million participants, and the goal is to have all the estimated 50 million public employees to enroll. The average individual account size of the OA program also has room to grow. Currently it is about RMB20,000, compared with RMB80,000+ of EA plans.

The only explicit expectation for Pillar 2 in the five-year plan is to grow its coverage. The number of EA employers has been growing at 10% over the last three years. It was an impressive rebound from the 2014-2016 period. But there is still plenty of potential given that the total number of enterprises in China is estimated to be more than 40 million.

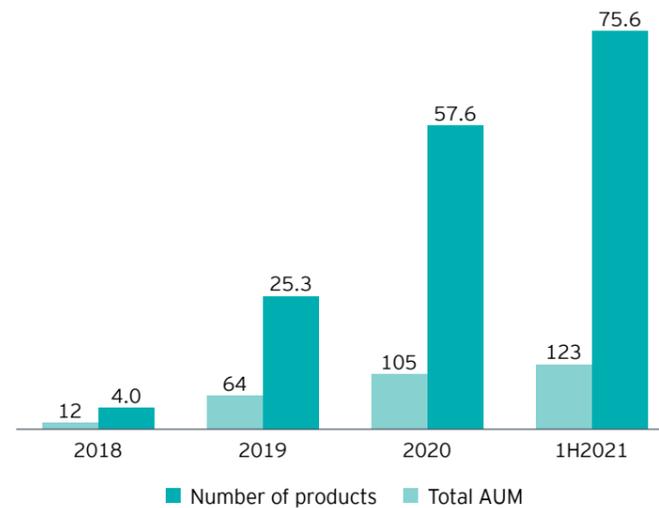
Pillar 3 yet to take off

The third pillar finished 2020 with limited growth in asset and participation.

Among the two existing types Pillar 3 products, pension target fund of funds (FoF) offered by fund management companies, is not entitled to any tax incentive yet but turned out to be the better performing category. It was introduced in September 2018 and finished the year of 2020 with 105 products, and a total assets under management (AUM) of RMB75.6 billion. With building a national platform now on the pension reform agenda, pension FoFs should expect to enjoy deferral or other forms of tax preferential treatments along with annuity plans soon.

Number and AUM of pension FOFs

Number of pension FOF Products and total AUM (2018-1H2021) (#, CNY bn)

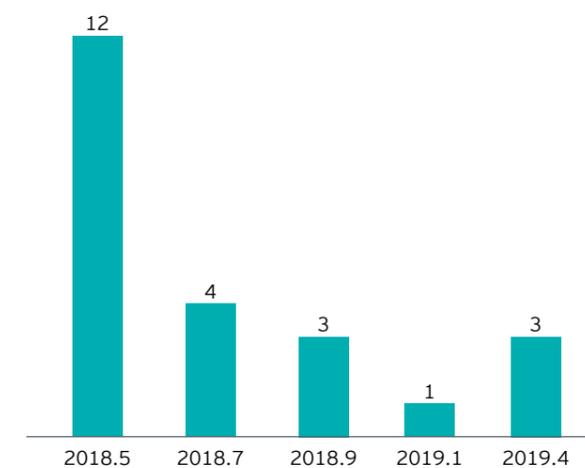


Source: Wind, EY Analysis

The other type is the tax-deferred annuities offered by insurance companies and introduced in May 2018, on a trial basis, in Suzhou, Shanghai and Fujian. Two and half years later, upon the end of 2020, only 48,800 individuals have bought these annuities plans, with an annual premium income of RMB426 million. In 2019, the number was 47,600 and 300 million respectively. By comparison, the total premium income of the insurance industry in 2020 was RMB4.5 trillion. In response to the tepid demand, the national rollout was postponed.

Tax-deferred annuities product table

Tax-deferred annuities products and approval date(##)



Source: CBIRC, EY Analysis

The apathy can be attributed to several factors. Firstly, the tax incentive is considered insufficient. Tax deferral is only available to the individual income that is subject to more than 7.5% of the individual income tax (IIT) rate.

Secondly, the complicated process and lack of visibility further discourages participation. To claim the tax benefit, the owner of the annuity will need to register with China Banking and Insurance Information Technology Management (a big data company created by the CBIRC), obtain proof every month and submit to the human resources department of the person's employer. And how much tax deferral can be claimed is linked to the participant's actual wage and will need to be adjusted every month.

Lastly, the lack of product selection and limited sales commission also suppress demand. There are only four types of tax-deferred annuities, and all offer comparatively low returns of 3.5-5% a year. These yields, while above minimum required by the regulators (2.5%), are still far below what the customers can get from alternatives (for example, EA accounts generate 5.36% and 6.34% annualized return for fixed income and equity portfolios respectively over the same period). And because these products are essentially investment management products, with no protection, at distribution channels they do not enjoy the typical preference enjoyed by insurance products.

The situation was so bad that instead of trying to reboot the annuities plans, the CBIRC launched a whole new type of Pillar 3 products. In May 2021, exclusive commercial pension insurance products were introduced on a trial basis in Zhejiang and Chongqing. Six insurers were admitted to the trial.

Exclusive Commercial Pension Insurance products

Insurer	Product
PICC Life	PICC Life Fushou Niannian Exclusive Commercial Pension Insurance
China Life	To be launched
Taiping Life	Taikang Zhenxiang Baisui Exclusive Commercial Pension Insurance
China Pacific Life	To be launched
Taikang Life	To be launched
New China Life	To be launched

Source: Company website, EY Analysis

Compared with the tax-deferred annuities, the new products have more pension-specific designs and feature two distinctions. First is that they have a mandatory decumulation period of at least 10 years, upon the beginning of which the insured can change the target asset allocation of the plan. Secondly, every insured will have an individual account.



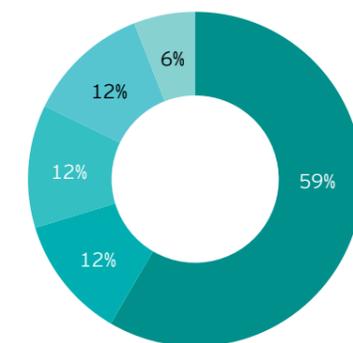
The third pillar will lead the growth

Pillar 3 is now the focus of regulatory development

To what extent these new products will help reboot the Pillar 3 insurance business is remains to be seen. They do seem more like an expedient than strategic solution to what have stalled the Pillar 3. Judging from various announcements from different government and regulatory bodies, they will likely keep trying until Pillar 3 achieved the critical mass.

That Pillar 3 is going to see the most reform and be the growth engine of China's pension system will appeal to multiple stakeholders: building the Pillar 3 will help funnel the retail saving to fund the pension gap; the experience with OA shows that, with the right incentives, it is possible to build a large and robust segment quickly; it will encourage better retail participation, and; it offers opportunities to leverage existing infrastructure of Pillars 1 and 2. It is against these premises that we expect Pillar 3 to be more like an open-ended ecosystem, as opposed to Pillar 2's exclusive, license-protected scenario. Perhaps the best example of what we mean by ecosystem is the newly launched National Pension Insurance Company, cofounded by several wealth management companies, insurance companies and holding companies of state-owned assets.

Shareholders of the National Pension Insurance Company



■ Bank Wealth Management Subsidiaries ■ Privately-owned Enterprises
■ State-owned Enterprises ■ Securities Companies ■ Insurance Companies

Source: Company announcement, EY Analysis

Pillar 3-led growth means industry pivot towards retail

While the growth prospect of Pillar 3 is stimulating, the change also presents its own challenges. China's pension industry so far has largely been an institutional business. Most of the assets reside within Pillar 1, where access to assets is achieved through a single point, NCSF. Pillar 2 is also an institutional business, with most of assets coming from the largest state-owned enterprises and multi-national companies.

To build a successful business under Pillar 3, pension service providers will need to solve several challenges that are unique to China. The first is to reach a vast population quickly. China's PPF currently serves one billion people. A fully developed Pillar 3 business will serve a similar number, where currently a typical commercial service provider will be engaging with several million retail customers. To reach so many customers will be a great challenge for various service providers, let alone within a short period of time.

Once the client is acquired, the service providers will need to upgrade the relationship. After years of being pampered by the world's most customer-centric technology companies, Chinese retail investors are notoriously demanding. To quickly build the relationship into a more trusted and long-term one, the core issue will be to offer customization to a large client base. And on top of that, Chinese customers will demand what they are getting from technology firms: intuitive interface, coherent customer journey, hybrid events and fee discount. In short, an excellent customer experience.

Lastly, the managers will need to make sure the same level of excellence is delivered consistently along time. Compared with asset management or regular insurance business, the pension customer journey is much longer and could cover the entire life of the individual. For the first time, various service providers will need to ensure the same quality and level of engagement are delivered across a time spanning over decades.



Recent announcements confirming Pillar 3 is the growth focus

Date	Document/ Meeting	Main content
Jun 2006	Opinions of the State Council on the Reform and Development of the Insurance Industry	Proposed to focus on develop commercial pension insurance; develop individual and group pension insurance business
Nov 2007	Administrative Measures for the Pension Insurance Business of Insurance Companies	The first regulation in China that specifically regulates the pension insurance business; area of regulation includes operating behavior of the pension insurance business in terms of business entities, product management, and operation management; The regulation also stated the legal responsibilities for non-compliance/ illegal operations
Dec 2008	Opinions of the General Office of the State Council on Providing Financial Support for Economic Development	Encourage specialised operation of commercial pension insurance
Sep 2010	Interim Measures for the Investment of Insurance Funds in Real Estate	Allowing insurance companies to invest in pension-related real estate
Sep 2013	Opinions of the State Council on Accelerating the Development of the Modern Insurance Service Industry	Formulated plans for the development of urban elderly care service facilities, and propose to develop a "stay-home" elderly care service network, such as strengthening the construction of elderly care institutions, rural elderly care services, and promoting the integration of medical and health services with elderly care services
Jul 2015	Administrative Measures for Pension Protection Management Services	Standardise and regulates the operation of pension insurance companies and protect the rights and interests of customers; encourage insurance industry to participate and building a "multi-layer" pension system
Mar 2016	Guiding Opinions on the Financial Institutions to Support the Accelerated Development of the Elderly Care Service Industry	Encourage banks, securities, insurance, funds and other financial institutions to actively respond to the development requirements of an aging society, and enhance financial service capabilities in the pension field
Jul 2017	Opinions of the State Council on Accelerating the Development of the Modern Insurance Service Industry	Innovation in commercial pension products; encourage participation in the pilot of individual tax-deferred pension products; encourage insurers to invest in pension business; promote the stability of pension funds; insurers should be prudent when investing offshore
Apr 2018	Announcement of the Pilot Program of Personal Tax-Deferred Commercial Pension Insurance	Pilot program of personal tax-deferred commercial pension insurance is launched in Shanghai, Fujian and Suzhou Industrial Zone. Tax allowance will be given on expenditure on qualified pension products. The investment income from the pension product will be taxed when the individual receive/ withdraw money from the pension scheme
Oct 2020	Annual Conference of Financial Street Forum 2020	CBIRC proposed specialised pension products including pension saving deposits, wealth management/ fund for retirement purpose and dedicated pension insurance policies
Nov 2020	Research Report on the Third Pillar of China Pension System	Proposed the target of growing the Third pillar into a 10 trillion sector by 2030 with 3 stages of reform <ul style="list-style-type: none"> ▶ Stage 1 (2021-2024): Focuses on the construction of the system with dedicated policies for pension enterprises ▶ Stage 2 (2025-2027): Leverage the tax system to promote pension and archive scale ▶ Stage 3 (2028-2030): Promote and make pension system the "default" and "standard" option for the general public
Dec 2020	CBIRC regular briefings on the State Council Policy	Answer queries on the development of life insurance and propose to launch new pension pilot scheme with more flexible wealth accumulation and collection services
Feb 2021	State Council Press Conference	MHRSS propose to establish an individual pension system with features including an account system, state fiscal and taxation holdings, and capital market-oriented investment operations
Feb 2021	Notice of Launching Pilot Programme of Designated Commercial Pension Insurance (Consultation Paper)	Plan to launch a pilot scheme for designated commercial pension insurance in Beijing and Zhejiang from 1st March 2021; Insurance companies include China Life, PICC Life, Taiping Life, CPIC Life, Taikang Life and Xinhua Life
Mar 2021	The Fourteenth Five-Year Plan of PRC and the Outline of the 2035 Long-Term Goals	Propose the development of a multi-layer, multi-pillar pension insurance system and standardise the development of Pillar 3

Source: CBIRC, MHRSS, Ministry of Civil Affairs, State Council, EY consolidation





New Strategies

To pivot towards the retail sector means that pension managers and the distributors will need to change their business models and make necessary operational preparations. We have identified six key aspects of a winning strategy in China's future pension market.

Six key winning aspects of a retail pension business in China



Distribution strategy

Distribution is far more important for the Pillar 3 business, due to its retail nature. For managers, securing customer access should be even higher a priority. Most of the pension insurance companies employ an army of salespeople. But very few of the existing salesforce can be immediately deployed to promote Pillar 3 products. Existing key account managers will need to be repurposed as channel managers, and a channel management force will need to be built.

When it comes to external distributors, a hybrid of traditional and disruptive distribution model is the key. On the traditional side, banks manage to remain at the core of the distribution business, although more like an anchor than an engine now. Banks have been increasingly active in the pension space since the beginning of the year. Ten of them have become the sponsor of the National Pension Insurance Company. And four have secured regulatory approval to sell pension products on a trial basis for a year. For product manufacturers, the banking channel will remain relevant to their distribution, but to what extent the banks will stay central now is increasingly subject to debate. Not only do banks have conflict of interest as a result of their recent incursion to the wealth management and pension management market, but also have yet to prove that they are as effective in nurturing trust as conducting transactions.

On the other hand, digital platform companies serve as a good complement to the banking channel. These companies have seen success in offering retail customers the fund purchase, payment and microinsurance services. Moreover, some of them have been sanctioned by the government to distribute health insurance products. Further leveraging these platforms to promote pension products and services seems to be a low-hanging fruit.

On the other hand, managers will need to invest in their proprietary channel to test out more innovative ways to distribute their products and services. This is where a combination of key opinion leaders, online to offline, interactive webinars and gamification can be used to build a deeper, stickier and more holistic relationship. With the increasing interactivity and connectivity across the whole value chain, this experience-based distribution model will allow companies to build better customer insight, which subsequently can be used to improve customer experience, inform the design of customer journey and fine-tune the products.

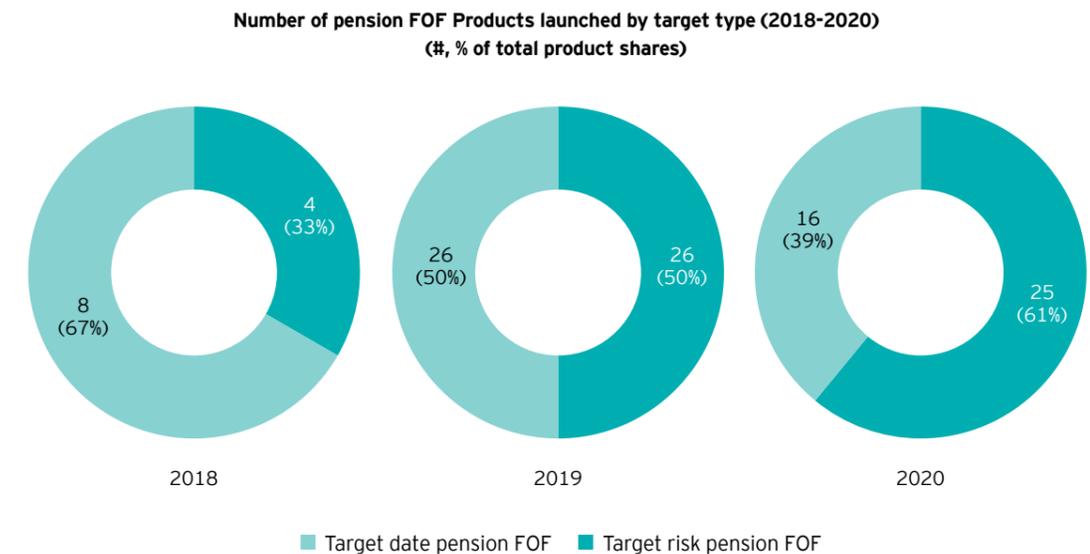
Product strategy

Managers and distributors alike will also need to diversify their product base to meet the diverging needs of a much bigger customer base. Currently, there are only two types of pension FoFs offered by mutual fund companies and three types of tax-deferred annuities from insurance companies available to investors. And there is little distinction among these products. None of the products carries the protection feature. And all the products invest in low risk, liquid assets, with short investment horizon.

The first step will be to offer more longer-term products. Having a longer investment horizon will allow managers to buy more equities, long-term bonds and other assets that are essential to help the clients meet their long-term goals.

As managers build out the product portfolio, they will also need to make sure that these products are standardized and modularized, so that they can be then used to create customized solutions to meet different needs. A suite of standardized products with transparency, long track record will also work as building blocks that retail customers can use to build customized portfolio for themselves.

Number of pension FoFs offered by fund management companies (FMCs)



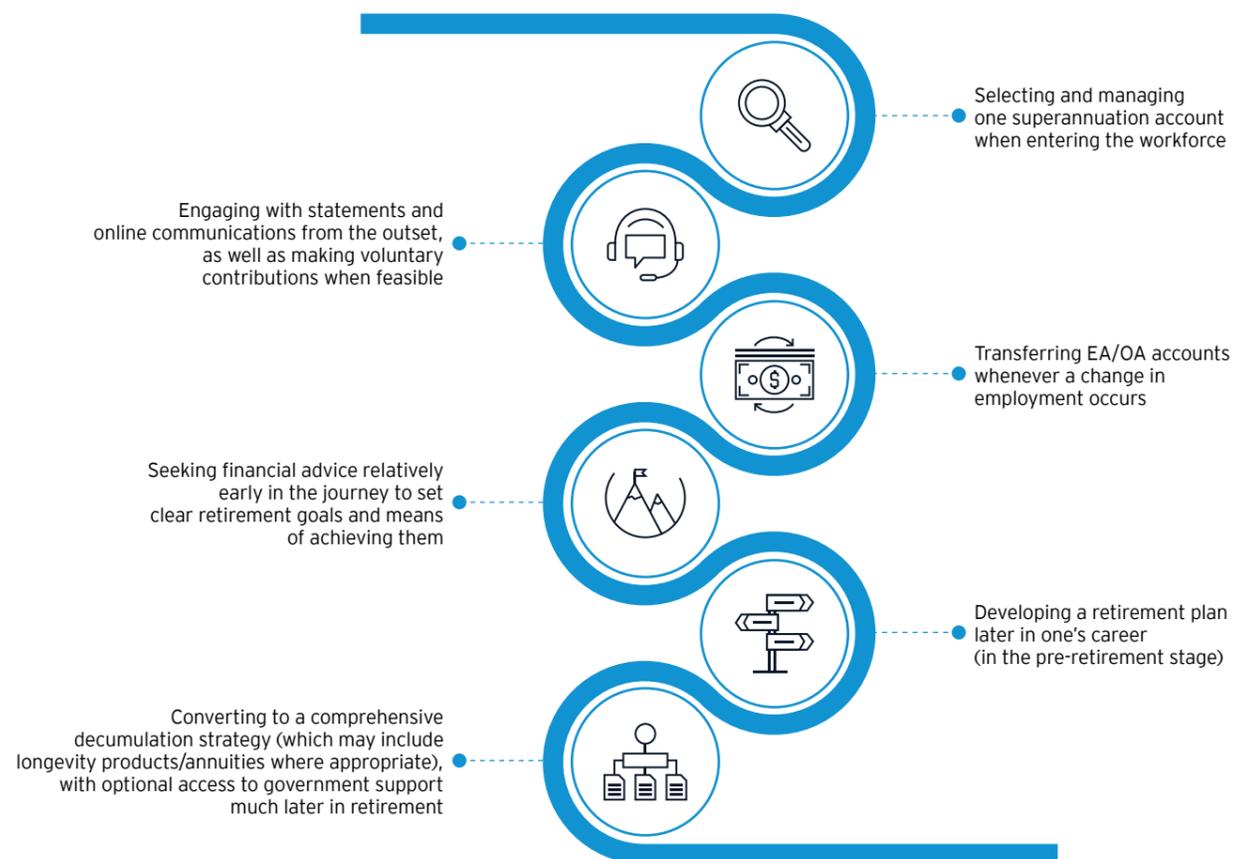
Source: Company reports, EY Analysis

Customer strategy

To make the abovementioned product and distribution strategy work, pension service providers will also need to redraw their customer journey map. Firstly, the retirement saving is typically a lifelong journey rather than a single event. Not only various service providers will need to engage the target customers at a much earlier stage, they will also need to keep the customers engaged for a much longer time. Secondly, pension products and services are relatively a new thing in China, as we have seen in earlier paragraphs. The target

clients of pension plans are likely less experienced and knowledgeable about what the pension saving takes and entails. It is therefore imperative for the new customer journey to embed investor education. Thirdly, the new experience should also be deep enough to allow the customers to manage a complex and long journey that will eventually lead to them fulfilling their retirement needs. Customers will demand better visibility, more advice, and more touchpoints, to name a few.

Typical customer journey of the retail pension business



Risk and compliance

Before any of this can happen, the service providers aiming for the growth need to bear in mind that to serve a large retail investor base means that they will be subject to higher regulatory requirements. Sales suitability has received much regulatory attention over the past few years. Both the China Securities Regulatory Commission (CSRC) and the CBIRC have been upgrading the relevant rules. The pension sector will likely be subject to even higher suitability requirements, given the long-term nature and, in some cases, the opacity of the business. In addition to sales suitability, other investor protection is also worth extra attention. For example, if service providers expect consumers to share more personal information with them, then a safeguard mechanism needs to be in place to protect client privacy.

Technology and data

Building a new business in China allows participants to choose from a broad range of technologies. Having a clear blueprint and the right way to choose and manage the vendors, this becomes a great opportunity to grow business quickly and improve operational efficiency. However, lacking a clear understanding of the end state and right governance, this may descend into a nightmare.

While companies of different background will approach the technology decisions from different angles, they will all need to be mindful of the unique characteristics of China's pension industry. The first is that the industry will move forward rather quickly (new product designed allowed, new tax incentive provided, new distribution channels opened, etc.), but not necessarily in a linear fashion. Having the agility and scalability is therefore more important than ever.

The heavy use of technology also means that IT risks will need to be managed more closely. Serving a large consumer base means pension companies' technology system will be subject to extra pressure on IT resilience and continuity.

It is worth mentioning though that applying innovative technologies in China's pension industry demands extra planning to make them more accessible to older users. Recently there has been encouragement from financial regulators to retrofit financial institutions' websites and mobile apps so that senior people may find them easier to use.

Platform strategy

Of course, to make the abovementioned happen, pension service providers will need an appropriate platform.

Pension licenses are difficult to obtain. Over the last decade, Chinese regulators have issued only three new Pillar 3 licenses. And it is unlikely that the frugality will change anytime soon. Thankfully, most of the incumbent players can use their existing platforms to overtake the Pillar 3 opportunities. Life insurance companies, for example, can offer annuities plans with tax deferral. Fund management companies can offer pension target funds. Even some wholly foreign owned enterprises (WFOEs) have managed to win advisory mandates to work with the NCSF. The contrast serves as a reminder how much potential is yet to be exacted from existing platforms.

The companies that follow this approach enjoy multiple dividends. Firstly, it will greatly reduce the lead time to bring a new product/solution to the market. Secondly, viewing license as a part, and not the entirety of the operational requirements, can better prepare them for the China pension business. Lastly, it allows the product manufacturers to better leverage existing capabilities to build up a track record and test the operational rigor.

Beyond the strategies

For various financial services companies, the accelerating pension reform is as much a strategic opportunity as a call of duty. As we have seen, new licenses and approvals alone are not enough to lift the market off. For the industry to rise to the challenges, product manufacturers, distributors, and advisors will all need to invest to create a new business model that truly centers around each individual customer. And only through the combined effort and a holistic approach can the retirement security of the whole society be achieved.

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