The Changing Regime of Indian Demographics and Scope of Reverse Mortgage Loan

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Abstract
Currently, one of the most valuable assets in the hands of India is the human resource with the largest percentage of the young generation. But it can turn out to be a major threat for India in the time to come, in the form of a great proportion of the elderly population and as per the current status, very less percentage of senior citizens are covered under any formal pension scheme, and the rest is financially dependent over the family members. Here Reverse Mortgage Product can play a great role in working as an potential option of post-retirement financial needs as it allows senior citizens to get money at the time when they may not be eligible for any other loan because it is the ownership of the House Property that matters the most and not the financial soundness of the borrower. Also, the gradual changes in India's way of thinking and living due to globalization, technological advancement, improved literacy, higher degree of urbanization, etc., reflect being more aware and concern about post-retirement social and financial independence in the long-run rather than having the only option of bequest of the title of the house property (the giant asset, a great number of senior citizens possess as their life time earnings and savings) and here RML gets a substantial act to perform.

Keywords: Reverse Mortgage Loan, Senior Citizens, Ownership of House Property, Financial Independence, Aging of India, Post Retirement monetary needs, Potential of RML

Introduction

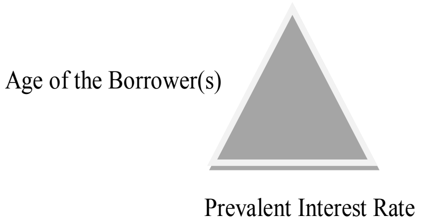
A reverse mortgage is an innovative financial arrangement through which senior citizens can liquidate their housing wealth and get the much-needed cash inflows at the time when they need it the most. This is done by mortgaging their house property with a lending institution. The most enticing feature regarding Reverse Mortgage Product is that it allows senior citizens to get money at the time when they may not be eligible for any other loan because it is the ownership of the House Property that matters the most and not the financial soundness of the borrower. They also get the life time right to stay in their own house. Reverse mortgage thus has the potential to become an important option of financing the post-retirement life of the significant and fast-growing population and proportion of senior citizens in India.

The Conceptual Framework of Reverse Mortgage

- Reverse Mortgage Loan (RML) enables a Senior Citizen i: e. above the age of 60 years to avail of periodical payments from a lender against the mortgage of his/her house while remaining the owner and occupying the house. Here, the Senior Citizen borrower is not required to service the loan during his/her lifetime and therefore does not make monthly repayments of principle and interest to the lender, unlike forwarding Mortgage.

- There are multiple stakeholders associated with this product such as prospective Senior Citizens, their Family Members, Scheduled Bankers, Housing Financing Companies (HFCs), Insurance Companies, National Housing Bank (NHB), Counsellors, HelpAge (who educate and help the borrower in getting RM loans), Government and others.
- The loan amount is dependent on the following three factors;

Value of the House Property



Which can be provided through monthly/quarterly/half-yearly/annual disbursement for a maximum period of 20 years or by making lump-sum payment by the lender to the insurance companies and fetching annuities for a life-time, which is termed as Reverse Mortgage Loan enabled Annuities (RMLeA). This amount of loan may be used for varied purposes, including up-gradation/ renovation of residential property, medical exigencies, etc. excluding speculative, trading, and business purposes.

- The quantum of the loan may undergo revisions based on such re-valuation of property at the discretion of the lender, to minimize the risk of "No Negative Equity'' or "Non – Recourse" guarantee. That is, the borrower(s) will never owe more than the net realizable value of their property.
- The borrower(s) will continue to use the residential property as his/her/their primary residence till he/she/they are alive, or permanently move out of the property, or cease to use the property as a permanent primary residence. That's how the loan amount becomes payable after the death of the borrower(s), or when they permanently move out or sales that mortgaged property.

Review of Literature

1. The fundamental theory behind Reverse Mortgage was developed during the 1950s by France Modigliani. According to the life-cycle model, developed by Modigliani and Brumberg (1954), Friedman (1957) and Ando and Modigliani (1963), individuals make their saving choices to smooth consumption over their lifetime, and house property is the largest component of senior citizens savings accumulated during their working life in most countries, and that housing equity can be used for financing post-retirement financial needs. However, most research doesn't support the hypothesis that the elderly are likely to release their housing wealth in old age.
2. Menchick and David (1983); Anerbach and Kotlikoff (1987); Hubbard, Skinner, and Zeldes (1994), Venti and Wise (2004), suggests that elderly households do not use their savings much in the old age and their wealth accumulation continues after retirement when they should be reducing their savings.
3. Gibler and Rabianski (1993) stress that most elderly have a strong attachment to their house, and for them, the house is an emotional and psychological resource.
4. Leviton (1998), observed that most homeowners wished to leave a financial inheritance to their family and hence look upon Reverse Mortgage as a last resort.
5. Bardhan and Barua (2003), identifies the prospects for Reverse Mortgage in India and caters it as a potential financial product due to changing demographics such as increasing life expectancy and decreasing family size, in the country. At the same time, they also identified the major problems and risks associated with Reverse Mortgage from both the demand as well as the supply side.
6. Shah (2005), in a study on Indian Pension Reforms, observed that India has been experiencing the breakdown of traditional support structures where geographical mobility of the young population is one of the important factors, emphasizing upon the importance of home equity to the "uncovered sector" of senior citizens.

7. Kasbekar (2008), in an article related to the failure of Reverse Mortgage in India, declared that as we have borrowed this concept from the west and our culture, traditions, customs are different. So, the product must be suitably adjusted to meet the local conditions and to create a wider acceptability of this product.
8. Suresha and Naidu (2012) primarily focused upon the need for a change of psyche from the traditional aspect to the financial aspect because it is hard to adopt the collateral culture in financing the retired life of senior citizens in India.
9. Daptardar & Dasgupta (2014) primarily focused upon understanding the financial needs of older Indian and to what extent Reverse Mortgage adequately address their needs.
10. Dr. Anurag Pahuja (2016), in an article "Reverse Mortgage: An Empirical Study in Indian Perspective" observed the role of demographical variables in shaping attitude towards Reverse Mortgage and extracted five key determinants namely Financial Independence, Revenue Returns, Risk Involvement, Complex Structure, and Ownership.

Demographical Shifts in India/Greying of India

According to the 2014 State of Elderly in India report, India will be the youngest country by 2020 with a median age of 29 years.

As at present, India is poised for strong economic growth, and none of the opportunities shall be missed to accelerate or support the growth momentum because this is the period that indeed can turn India into the developed country from a developing country, with the strength of demographic dividend that we possess today.

But "India's strength of demographical dividend could turn into India's disadvantage by 2030," SBI warned in a recent report.

The better health care services and increasing life expectancy over the years have increased the population of the elderly. While the overall population of India will grow by 40% between 2006 and 2050, the population of those aged 60 years and above will grow by 270%. (Source: www.livemint.com; Nikita Doval)

A report released by the United Nations Population Fund and HelpAge India suggests that the number of elderly persons is expected to grow to 173 million by 2026, which is estimated to be 143 million by 2021.

Also, the government recently stated in Parliament that India would have 34 crores (340 million) people above 60 years of age by 2050, which would be more than the total population of the United Status.

Why Reverse Mortgage?

The government of India spends around 0.032% of our GDP on a pensi,on and there is about 10% population only that is covered under any Formal Pension plan.

A 2016 survey by the Agewell Foundation with 15,000 rural and urban respondents showed 65% reported themselves as either financially dependent or facing a financial crisis. Nearly 80% of those in financial trouble said it was due to medical costs. Another survey conducted by AISCCON (All India Senior Citizens' Confederation) in 2015-16, shows that 60% of elderly people living with their families face abuse and harassment, 66% are either very poor or below the poverty line, and 39% have been either abandoned or live alone. (Source: indiatoday.in)

The data in itself proves the deteriorating conditions of vulnerable senior citizens indicating lack of retirement planning on their part.

Also, Census records on old age population projection, increasing longevity, collapsing joint family system, etc. are necessary enough to impress upon the point that India has all the necessary conditions that favor the development of a reverse mortgage market.

Thereby, there is a great need to gauge the marketing potential of Reverse Mortgage Product because home is the largest asset available to many old age people and with the help of comprehensive study of opportunities, threats, challenges, current and future trends associated with RML Product, Home Equity can be portrayed not as an Investment but as return on Investment to the vulnerable senior citizens for their social security (use your home, to stay at home).

Studies conducted on this topic so far have examined the characteristics of senior citizens on affecting the purchase of RML Product, and these evaluations focus on a particular attribute (s), somehow ignoring other multiple determinants such as family members' perspective, that is prevailing as a major constraint in reality. Consequently, the results are very limited in generalizability. Here it is important to understand that the family members' attitude and different educational as well as standard of living reflecting varied financial needs, retirement planning, debt and bequest motives, family structure, social and cultural structure, etc., also play a critical role in gauging the marketing potential of Reverse Mortgage Loan in highly diversified and complex structure of Indian demographics.

It has been observed that the life style gap between the last two generations is more than that of the preceding generations due to globalization, urbanization, and technological advancement. Also, the Indian traditional family structures are in the process of transformation from the traditional hybrid structure to nuclear structure due to multiple reasons. It indicates in one way or the other that India's value system is being influenced and it may lead to choosing financial security over bequest motives, avoiding multiple risks associated with this scheme on the part of senior citizens (such as moral hazard risk, longevity risk, Interest rate movement risk, crossover risk, property value risk, etc.) in the time to come.

Conclusion

Though Reverse Mortgage Loan, has a great potential to serve the purpose of fulfilling the monetary needs of vulnerable senior citizens both from the perspective of financial as well as emotional angles, but, to serve this purpose it is important to understand the fact that the country has varied demographics in the form of income structure, standard of living, education level, size of the family, family composition, Income earners in the family, urban or rural area of residence, residential status of the house property, value range of the house property, debt or bequest motives of segmented senior citizens, awareness about RML product, etc. And to make this product more target centric, it is a must to consider segmentation while portraying this scheme as an alternate option of retirement planning, because NO ONE SIZE FITS ALL, especially when it comes to INDIA, a highly diversified and complex market structure.

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