Shanghai's Experience in Building a Financial Support System for the Smart Elderly Care Industry

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ABSTRACT. The development of Shanghai’s smart elderly care industry requires not only government policy support, but also related financial support. Therefore, summarizing the successful experience of the United States and optimizing the financial support system for the Shanghai smart elderly care industry are of great practical significance for meeting the diverse smart elderly care needs of the elderly in their later years and achieving the healthy development of the smart elderly care industry.

KEYWORDS: smart pension industry financial support system experience reference policy optimization

1. Introduction

The development of the smart elderly care industry is a new way for Shanghai to actively respond to the severe pressure of a deep aging population. In 2019, the number of registered senior citizens aged 60 and above in Shanghai was 5.81 million, accounting for 35.2% of the total registered population. How to ensure a dignified life for the large elderly group in their later years? With its rich economic, human and other social resources, Shanghai began to vigorously develop the smart elderly care industry in 2014. It has achieved initial results in the past six years, but it has also exposed some issues that must be improved. The problem is that Shanghai's financial support system still needs to be optimized during the development of the smart elderly care industry. In terms of financial support for the smart elderly care industry, the United States is at the forefront of the world. Therefore, summarizing the development experience of financial support for the smart pension industry in the United States has important reference value for Shanghai to explore the development of a financial support system for the smart pension industry with Chinese characteristics.

2. Lessons from the Experience of the Financial Support System of the American Smart Pension Industry

The smart elderly care industry in the United States started early. As early as 1999, major cities in the United States successively established fleets of smart medical services suitable for the elderly. In 2013, the fleet covered more than 1,000 cities in 50 states in the United States, including 12,500 intelligent medical institutions. In addition, according to Walderhaug et al. (2014), the market size of the U.S. smart elderly care industry will increase from US$2 billion (2012) to US$45 billion (2020) in 2020. Behind the rapid development of the smart elderly care industry in the United States, there is not only government policy support, but also financial support from financial institutions, capital markets, and currency markets.

2.1 Financial Support from Financial Institutions

Although the United States has a well-developed capital market and currency market, the proportion of smart pension industry financing through banks and other financial institutions is still relatively high. Before the emergence of the smart elderly care industry, the United States enacted the 1993 Banking Act in 1993, which clarified the division of labor between the securities market and banks and other financial institutions: the securities market mainly provides long-term funds for enterprises, and banks and other financial institutions mainly provide short-term funding. Therefore, banks and other financial institutions are the preferred method of financing for smart pension enterprises with short-term capital needs.

First of all, small and medium-sized smart pension enterprises apply for loans to the management agency. Second,
the management agency reviews the credit status of loan companies and provides credit guarantees to loan companies that meet the requirements. Third, the lending enterprise can apply for loans from commercial banks with the credit guarantee certificate issued by the management agency. Since the operation risk of small and medium-sized smart pension enterprises is greater than that of large-scale enterprises, the loan interest rate is also 20%-40% higher than that of large-scale enterprises. Finally, commercial banks extend loans to small and medium-sized smart pension enterprises. At the same time, the management agency and the commercial bank also need to agree that if the guarantee company is unable to repay the loan, generally speaking, when the company is unable to repay the loan, the management agency needs to repay at least 90% of the loan amount. Under these constraints, the management agency has very strict requirements for small and medium-sized smart pension enterprises to apply for loans. For small and medium-sized smart pension companies, commercial bank loans are not the mainstream of their financing channels. Commercial bank loans will only be chosen when loans are urgently needed in the short term.

On the other hand, private financial institutions provide loan financing services for smart pension enterprises. Compared with commercial bank loans, the loan services of private financial institutions have the characteristics of simple procedures, fast examination and approval, and flexibility. One of the most famous is the “community bank” established in the United States. In 2015, there were more than 9,000 community banks in the United States, accounting for approximately 60% of the total number of banking institutions. Community banks are generally established by individuals or enterprises in the community in accordance with the law, and have strong regional characteristics. The bank only handles short-term financing services for businesses or individuals in the community. Of course, taking into account the high risk of financing corporate loans, the interest rate of loans that need to be repaid by the company is relatively high, and the loan ceiling is also set.

2.2 Financial Support from the Securities Market to the Smart Elderly Care Industry

The US securities market provides financing channels for the asset securitization of smart pension companies. As far as the US Nasdaq market is concerned, in 1992, the Nasdaq market opened the Nasdaq small capital market for financing and listing of emerging companies. When smart pension companies need to raise funds to go public, the threshold is low, generally only tangible assets of 2 million U.S. dollars and more than 100 shareholders can be listed. In addition, the Nasdaq market not only has the function of financing the listing of smart pension companies, but also has established a safe exit mechanism for financial investment institutions to conduct venture capital. It can be said that the rapid development of US venture capital is largely due to the relatively complete Nasdaq market. In addition, smart pension companies can also raise funds from private investors by issuing corporate bonds and stocks.

3. Problems in the Financial Support System of Shanghai’s Smart Pension Industry

3.1 Insufficient Total Financial Support

The lack of total financial support in the development of the smart elderly care industry is mainly manifested in the shortage of medium and long-term financing funds. Similar to other emerging industries, the smart elderly care industry needs to invest a lot of resources such as financing, manpower, and material resources to innovate and produce. Moreover, the process of smart elderly care product research and development, technological improvement to final product production is accompanied by continuous large investment of funds. At the same time, smart pension products usually follow the development law of the product life cycle, and the time span of each stage will generate strong financial support needs. However, the current investment and financing volume of Shanghai’s pension industry finance is still low, and it is difficult to meet the financial needs of the rapid development of the smart pension industry.

3.2 Higher Corporate Financing Costs

In terms of investment and financing, smart pension companies rely too much on the investment and financing methods of bank credit services, and the flexibility of bank credit financing is poor. Smart pension companies are required to pay the principal and interest within the specified period, so the liquidity of funds for smart pension companies have higher requirements. Therefore, the inherent contradiction of higher financing costs for smart pension companies has gradually become prominent. The common practice of domestic banks is to increase the loan interest rate of emerging enterprises such as smart pension enterprises by 30% on the basis of the benchmark interest rate. If the fees paid to third-party institutions such as guarantee companies are added, the comprehensive interest rate for smart pension enterprises to obtain loans from banks The level is at least 50% higher than the benchmark interest rate, which increases the financial burden of smart pension enterprises..
4. Policy Optimization of the Financial Support System for the Shanghai Smart Elderly Care Industry

Currently, Shanghai lacks a risk investment guarantee system for the smart elderly care industry, and risk investment is an important financing channel for modern enterprises. Without a sound risk investment guarantee system, the financial support system for smart elderly care enterprises is bound to be imperfect. The government can start from the following aspects to establish a risk investment guarantee system for the smart elderly care industry:

First, establish a re-guarantee agency or re-guarantee risk fund organization to form a guarantee risk diversification mechanism. Consider allocating a piece of local fiscal funds or construction funds to establish a re-guarantee institution or re-guarantee risk fund organization for small and medium-sized smart elderly care enterprises, or apply to the central government for a pilot program for the establishment of a re-guarantee institution or re-guarantee risk fund organization.

Second, credit guarantee institutions must reach a certain contractual relationship with commercial banks in terms of guarantee form, guarantee scope, responsibility sharing ratio, credit evaluation, etc. Chuan San is to expand the funding sources of various guarantee institutions and establish a risk compensation mechanism. The guarantee industry is a high-risk industry, and guarantee income is usually not enough to make up for losses. Without a stable capital injection mechanism, it is difficult for smart pensions to obtain good development opportunities.

It is recommended to raise guarantee funds from multiple channels (such as fiscal funds, bank and guarantee fee income, corporate legal persons, state-owned assets allocation, etc.).

5. Conclusion

It is recommended that the country speed up legislation, establish and improve a legal and regulatory protection system for venture capital, and “put on a safety lock” for venture capital in actual investment operations. Only a sound venture capital market can solve the corporate financing problems such as lack of R&D funds and shortage of funds for the healthy development of smart elderly care companies. Of course, Shanghai still needs to explore the establishment of an exit mechanism for venture capital. When smart pension companies have steadily overcome the shortage of funds and the companies can successfully go public and raise funds, venture capital companies can withdraw smoothly by transferring their own equity.

References
