CHAPTER VII

Conclusions and Recommendations

7.1. Introduction

This research work is related to a concept in India i.e. reverse mortgage loans. The research work is aimed at understanding present retirement planning status of potential RML borrowers. It will also highlight perceptions and preferences of these potential borrowers. Risk and return proposition involved in RML for senior citizens will also be studied.

Secondary data collected through various sources was useful in setting up the tone for the research work. Research has analyzed the primary data collected from the potential RML borrowers, through questionnaire. The universe for this research work is urban population of Maharashtra and respondents were selected from three cities- Mumbai, Pune and Nashik. Though the study is confined to the urban population in Maharashtra the outcomes of the study can be useful in across the cities in India. The findings and suggestions can be useful for entire country and will be helpful in taking far reaching decisions. The research work is aimed at providing roadmap for the progress and higher penetration of RML, among senior citizens in coming years.

This chapter aims to give an outline of the precise attempts, in terms of up to what extent the objectives of the research work have been accomplished. It will also discuss outcomes of hypothesis testing. The recommendations will be discussed in detail, based on the outcome of the research work. These recommendations will provide direction for future journey of RML and encompass all the aspects of reverse mortgages.
7.2. Conclusions

Researcher has tested the statements of hypotheses and analyzed the data collected. This has led to achieving the objectives set at the start of the research work. The researcher has drawn meaningful conclusions on the basis of the data analysis and interpretation. Conclusions are drawn on various facets of the reverse mortgages like perceptions preferences of potential borrowers, retirement planning, usefulness of RML, risk and return proposition involved in RML etc.

1. Hypothesis testing

Hypotheses for the research work were set at the start of the study after deciding on the objectives of the study. All three hypotheses are tested by using chi-square test ($\chi^2$), after data collection is completed. The conclusions were drawn from the calculations for testing of null hypothesis. It was found that all the three hypotheses holds good and all of them have been accepted.

All the hypotheses tested and are accepted-

1. Individual’s self-awareness about current status of his financial planning is related to adequate retirement planning.

2. Individuals considering reverse mortgage loans as useful financial tool for retirement planning will be interested in buying second house.

3. Individual’s feeling that they have inadequate retirement planning, will be related to their view that RML is good financial shelter, during old age.

Following conclusions are drawn from the exercise of hypothesis testing-

i. Individuals having self-awareness about current status of their financial planning have their financial planning on track. They have adequate retirement planning in place and at the time of retirement they will have good amount of retirement corpus in hand. Individual’s self-awareness can lead to effective retirement planning.
ii. There are 23 percent of the respondents who feel that RML can be useful for them during old age. These individuals already possesses home for the purpose of residence. It can be observed from the hypothesis testing and data analysis that individuals, who consider RML as useful financial product for them, will be interested and more inclined towards buying another home. They wish to take benefit of RML on their primary residence and get investment or rental income benefit on the second house.

It can be concluded that there is positive impact of RML on individuals and it is influencing the decision of investing in another house. There are individuals who will be buying second home for the investment purpose and other related factors involved.

iii. There are 33 percent of the individuals who have responded that as of now they have in adequate retirement planning. Another 30 percent of the respondents are not sure on their retirement planning status. Close to 64 percent of the respondents out of these opines that RML will good financial shelter during old age. Most of these individuals are in the latter half of their earning phase.

These respondents have fear that they may not have adequate retirement planning. There savings may not be sufficient to cover their expenses, post retirement. These respondents are looking for financial support in RML, during their old age. Thus most of these individuals feel that RML can be a good financial shelter, for senior citizens.

2. Perceptions and preferences

The potential buyers will have their own perceptions and preferences which will guide their decisions regarding retirement planning, financial priorities, and RML. This research work has also assessed these perceptions and perceptions so as to draw useful conclusions.
a. Retirement planning status-

There are 37 percent of the individuals who feel that they have adequate retirement planning. Close to 33 percent of the individuals feel that they do not have adequate retirement planning which 30 percent of the individuals were not sure on current status of their retirement planning.

b. Financial priorities-

All these individuals have reported their financial priorities as per their age, family members and other issues, discussed earlier. Data analysis of various factors has revealed financial priorities of these individuals are as below. These priorities are arranged in descending order as per their calculated ranks. (1 being most important and 5 being least important)

1. Children’s education
2. Repayment of a loan
3. Saving for retirement
4. Children’s marriage
5. Others

c. Home Usage post age 60 years-

Individual responses on possible usage of home by them, post age 60 years were also collected by the researcher. It is observed that in normal circumstances 95 percent of the individuals will prefer to pass on the home to next generation. 18.5 percent of the individuals responded that they are inclined towards taking RML, post retirement. There are 45.3 percent of the individuals who have not responded on possible usage of home post age 60 years. They feel that it is too early to predict anything on this matter. Most of them will prefer to try and save adequate sum of money for retired life than to choose other options. It can be concluded that people act conservative when it comes to decisions about their homes and wish to follow the tradition of inheriting the property to the next generation.
There are 16 percent of the individuals who feel that they will sell the house and settle in the less costly cities. These responses will show upward trend considering increasing cost of living in bigger cities compare to smaller cities and towns. There are 9.5 percent of the individuals who feels that they will sell their present house and will shift and settle with their children.

**d. Usefulness of RML**-

There are 45 percent of the individuals who responded that RML will not be useful for them during old age. There are multiple factors in this response. These factors have been discussed in detail in data analysis section. Only 22.80 percent of the individuals have responded that RML will be useful for them during old age and will choose it in the hour of need and emergencies. There are 33 percent of the individuals who have responded that they can’t say anything on this at this point of time as it is too early to comment. RML is also in nascent stage in India and the income it provides is very low compared to the valuation of the house property. They also feel that other options available regarding their house are much better and attractive that the reverse mortgages option.

**e. Situations which will lead to RML**-

The situations, in which senior citizens will opt for RML, are also analyzed. The calculations have revealed the ranking of these situations which will lead to RML borrowing. These situations are listed below in descending order (1 being most possible and 6 being less possible.

1. Inadequate post retirement income
2. Children not supporting during old age
3. Support medical costs in old age
4. Unlock value of the home
5. Settled in less costly town
6. Others
These situations also represent the perceptions of the potential RML buyers on- when it can be useful for them and when it can become good financial support for them, during old age.

f. **RML as good financial shelter**

There are 63.75 percent of the individuals who feel that RML can be of great help for senior citizens. There are 26 percent of the individuals who are not sure on RML as good financial support.

There are 10.25 percent of the respondents, out of total 400 respondents who feel that RML will not be a good financial shelter for senior citizens during old age. These individuals feel so because they feel that income from reverse mortgages is low compared to the valuation of house property. There are other social factors also into their views about RML.

3. **Risk and return proposition**

Every financial instrument comes with a risk and gives certain returns. Each individual expects to get good returns with no or minimal risk. Each individual has different risk taking ability and it mainly varies with age. Senior citizens cannot afford to take risk while young individuals can take more risks. Financial assets yielding higher returns will always come with higher risks. It is important for every individual to balance this risk.

Reverse mortgage is the product meant for senior citizens. RML product requires senior citizens to mortgage their house. These senior citizens have their house as the most valuable asset with them. It is imperative that they should get RML as financial solution which should last for their lifetime. It should be also free from any kind of risks.
Risks involved in RML for senior citizens are as follows:

1. **RML concept and products are difficult to understand and confusing.** RML is relatively new concept in India. Senior citizens at their age may not understand all terms, conditions and other clauses like revaluation, interest rate change etc. This may lead into less informed decision or miss-selling of a RML product to the old customers.

2. **Revaluation and interest rate risk.** This can be a big risk for senior citizens in case rate of interest goes up or down turn in property valuation. It is mandatory for RML lender to do valuation of the property at least once in five years. Revaluation of property may increase or decrease the payouts to the senior citizens. Lower rate of property appreciation is also a risk for them. Revaluation and interest risk will be major from the senior citizen’s view as it may impact regular monthly payouts to them.

3. **RML is an expensive product.** Borrowers will incur high costs considering processing fees, appraisal fees and other fees. In addition to this, there will be a property insurance premium as well. For senior citizens with no or low income this cost will be very high.

4. This loan has **compounding rate of interest** and will form a higher portion of repayment, at the end tenure. This will require borrower or his legal heirs to pay higher interest amount.

5. Taking **RML for short term** will be a risk for senior citizens, as it involves lots of cost. Borrowing RML in late old age is also a risk as net income will be low considering the impact of higher costs. Both these situations will not be good for senior citizens and may incur loss.

RML has a novel purpose of providing regular income for a fixed term. The RML providers are banks and HFCs and hence there is no risk of default on their part. RML is having less risk for senior citizens and with product like RMLeA monthly
payouts are assured. Most of the risks discussed above are in control of senior citizens. Well informed decision by them, while borrowing will minimize these risks.

The following graph shows comparison of risk and return among all available financial assets.

Graph- 7.1. Risk and Return proposition for various assets

The graph above explains the risk and return proposition for almost all the financial assets. Bonds, small savings and fixed deposits are the most preferred products by senior citizens. It can be observed that reverse mortgage has similar risks to that of bonds, small savings and fixed deposits; but it gives better returns than those products. It can be concluded that reverse mortgage can be a very good option considering risk and return analysis. It also does not need to invest any amount in the initial stages.
4. Other findings

There are other important findings also which can be of great help in getting recommendations and outcome from the research work. These findings are interpreted by the research based on the data analysis and perceptions of the respondents.

These findings are enlisted as below-

a. There are only 11.5 percent of the respondents who will be receiving formal pension post retirement. Thus large portion of respondents do not have any formal pension and 43 percent respondents have adequate retirement plan. This shows there is intrinsic need for product like RML which will provide regular consistent income, during old age.

b. Inheriting a property to next generation is emotional decision. Many respondents feel their children will look after them during old age. Thus more than 80 percent of respondents wish to stay in the same house during old age and inherit it to their children. They also feel if they opt for RML, it will put financial burden on their next generation.

c. Few of them also feel that if they opt for RML, their children will not look after them during old age. This can be common fear in the minds of senior citizens in India as they are not leaving any property to their children. These children may not take care of their parents during old age.

d. Parent may also think that borrowing RML during old age may be an additional burden on their children. Children will have to pay principal and interest after the death of parents, to get the house back. Most of the parents in India always wish to inherit assets to their children and not a debt.

e. Only 17.3 percent of respondents have some information about RML. This clearly shows lack of awareness among individuals about the product which is claimed as big financial support for senior citizens. There are 25 banks and housing finance companies, which have launched RML products. There are no efforts in taking this product to the needy senior citizens.
f. More than 90 percent of the respondents have invested in PPF and life insurance plans for retirement. As most of them are not aware about present value of this investment; around 63 percent of the respondents were unaware about adequacy of their retirement plan.

g. There is also dearth of product range in reverse mortgage product space. There are only two product variants are available in India i.e. RML and RMLeA. There are close to 78 percent of the respondents are not sure that RML can be useful during old age. They feel so because of lower loan to value ratio, complex product and lack of knowledge.

h. There are options in the hands of senior citizens other than selecting RML. Alternatives like selling house and shifting in low cost city or giving part of the big house on rent or staying in smaller house may be better options than current RML product.

i. Banks are also not promoting RML due to lack of experience in distributing these products. It is happening mainly because of risks involved and probable issues as customer involved will be senior citizens. This is similar to insurance business where no Indian company was having experience in running insurance business.

j. RML definitely has a place in financial plans of individuals although everyone will exercise this option in the need of hour. There is absolutely no risk impact every senior citizen should know about RML along with probable monthly income which will help him/her to lead stress free life, during old age.
7.3. Suggestions and Recommendations

Data analysis and findings has revealed the important aspects of RML. It has provided perceptions and preferences of potential borrowers, misconceptions, perceived drawbacks of products and possible hindrances in the path of reverse mortgage schemes. It has also accessed current information on their current retirement planning and gaps if any, in the plans. The gaps have been identified and additional requirement has also been calculated using online retirement planning calculator. Hypotheses set for the research work are tested by using chi-square test.

The objectives and scope of research work also encompasses recommendations on the future plan of action to increase penetration of RML. RML should become financial shelter or stick for most of the senior citizens. This will also reduce up to some extent the burden of the government to provide social security to these old people. RML will be of great help for country like India which lacks social security options for elderly people. At the same time, there are lots of seniors who own houses with good value but they do not have any financial support. It is endeavor of the researcher to interpret findings and conclusions in providing various recommendations so that RML will become popular option among “house rich, cash poor” senior citizens in India.

Following are the recommendations based on the data analysis-

1. Increasing awareness on RML

Increasing the awareness levels among senior citizens and potential buyers is an uphill task. There are only 8 percent of the individuals from the selected potential borrowers were aware about RML as a concept. Series qwof initiatives needs to be undertaken by various stakeholders. Currently only NHB is organizing events to increase awareness level. But this is not enough as these events are limited to few cities and not supported by any bank or HFC. Government of India, along with NHB must undertake different promotional activities. There should be involvement of banks and HFCs into organizing such events through their branches at various locations.
Following are the suggestions and recommendations, for increasing awareness -

a. Promoting RML through informative programs on television channels which have larger reach to all sections of the population. Advertisements should be there to promote RML products. It will help increasing reach of the reverse mortgage product to population at large.

b. RML concept and products should be informed to the customers who have taken forward mortgage loans. These individuals will understand it in better way and can advocate it to those senior citizens who are in need of additional income. This will be a very good ‘word of mouth’ promotional and awareness activity. This will be helpful to RML lenders to promote their products through their existing customer base, at low cost.

c. There should be informative websites and blogs so that senior citizens and potential buyers can get first-hand information. These are the new age promotional cum informative media. Potential customers can interact with the experts on RML to ask their queries and get them resolved. This awareness campaign can be effectively used by the children of senior citizens to understand reverse mortgage products in detail.

d. Events for increasing awareness among senior citizens should be increased. There should be involvement of lenders, NGOs and institutes like ‘Helpage India’ who are working for betterment of senior citizens. This will help to explain RML in simple language, to potential borrowers and senior citizens.

e. There are many organizations who arrange seminars on planning life after retirement, for employees who are retiring from job in near future. RML should be also promoted at such seminars with complete information. This will help to spread awareness among employees who have many years left for retirement. They will start considering RML as an option available with them for financing retired life.
f. Product trainings of employees of banks, HFC and insurance companies should be done so that they can be well informed and can at least inform the customers in better way on the RML products. This will spread awareness on RML concept and products though banking channel. This is very important awareness activity as it is done at the point of sale (POS) and will increase interest among the customers of the banks.

2. Counseling potential RML borrowers

Senior citizens may not understand all details of RML products. There may chances that transparency is not maintained while closing loan. These senior citizens may feel that they have been cheated. It may also not be a lifelong solution which they were expecting.

There is robust counseling process in developed countries. In USA, every senior citizen has to attend mandatory counseling session before applying for RML. All counselors are registered with HUD (Department of Housing and Urban Development). Only Registered counselors can conduct counseling session. They enquire with potential borrowers to get following information-

i. Purpose for borrowing RML.
ii. Amount of money needed.
iii. Current Mortgage loans and debts, if any.
iv. Any big expenses in coming years.
v. Number of years they will stay in the same house.
vi. How much property they wish to inherit to children?

This information is recorded on counseling form by the counselor. The counselor explains usefulness of RML for them considering facts. Senior citizens can get satisfied on their queries if any, by asking questions. At the end of the counseling session, HUD certificate for attending counseling session is given to all participants. This certificate is valid for 180 days and required at the time of making RML application.
There must be a robust counseling system so as to avoid miss selling and miss interpretation. This will boost confidence among elderly citizens and many takers will come ahead. Counseling process should also counsel children of senior citizens which will help building better social support.

3. Retirement Planning

Retirement planning for every individual has got importance due to changes in pension system. Every individual should be aware of retirement planning figure so that they can plan in advance for the same. It is seen that awareness of retirement planning can lead to effective planning. Those who have missed the bus of retirement planning can have RML as financial support for old age.

RML should be promoted as retirement planning tool. It will be unconventional retirement tool at the starting and can act as an indirect measure to bring in pension reforms. It spurs economic activity, provides security and retains the principal flavour of a defined-benefit scheme. It can bring about a great degree of regulation and transparency in the Indian market, which as of now is missing.

4. Government Participation and Intervention

Government should play dual role in promoting RML and building strong regulatory framework. NHB as a regulator should be a strong regulator like SEBI and IRDA. Banks and HFCs are hesitant in aggressively promoting RML. Major risks to banks are- home value falls below reverse mortgage loan amount or RML buyer live too long. In India, insurance support should be provided to banks by government like FHA in USA. This protects RML lenders against longevity, crossover and interest rate risks. This will help them to cover losses if any and provide more RML loans. Regulation should also cover distribution of RML. It should establish formal structure for distribution. Process for counseling, origination and closing of RML should be mandated by rules and regulations. There should also be a fast grievance redressal structure for resolving complaints of reverse mortgage borrowers.
The entire regulation should be built in such a way that it will provide required protection to the borrowers. Government should play important role in building this and support the lenders as well. Higher penetration will reduce government's financial burden of providing social security to the senior citizens.

5. **Product development and distribution**

Only 23 percent of the potential borrowers feel that RML will be useful for them. This percentage is very low considering projected business potential. Most of the individuals are of the opinion that payouts received through RML are very low. RMLeA provides regular annuity which is a big advantage over original reverse mortgage product. But it failed to attract more borrowers. The numbers of senior citizens who have opted for RML are very low considering the fact that there is no social security option.

6. **RML Product line**

There is dearth of line of products in RML space. There are only two variants of RML are available in India. Reverse mortgage loan enabled annuity (RMLeA) is the recently launched which provides monthly annuity to senior citizens. More products should be made available to potential borrowers which will attract them. These products should also provide lifelong retirement solution and act as an financial support, for old home owners.

New innovative products can be launched in collaboration with life insurance companies. Experience of life insurance companies in managing annuities will be helpful in reverse mortgage loans. Actuarial science will play crucial role in developing good product line for all lenders, as it will manage all the risks involved for lenders.
New products should be invented and distributed through multiple channels like life insurance distribution. Banks and insurance companies can distribute RML products on similar lines of Bancassurance' distribution. This will help in taking reverse mortgage schemes to larger population as branches of bank and life insurance companies are spread across geographies.

PFRDA can also be a big support for RML to establish it as retirement planning tool. Many private pension companies may enter Indian market in coming years. These pension companies could launch variants of RMLeA, with the help of PFRDA. This will be a real game changer in the success path of reverse mortgages.

7. RML Distribution channels

RML advisors like life insurance advisors should be appointed who will help senior citizens from counseling to closing. RML should form an important product in product suites offered by financial planners. Regulatory body should have mandatory certification for distribution of RML like insurance and mutual fund distribution. Banks and HFCs should not limit RML to certain geographies like metros and bigget cities. This product should be available to senior citizens in semi urban and rural areas as well.

8. RML lenders should have annual targets for reverse mortgages like priority and agricultural sector lending. This will be beneficial is speedy development and penetration of RML products. This will bring in focus from lenders on this product and its reach will increase. Lenders will also work towards launching new products which will attract more senior citizens.

9. RML must form important part among financial plans of individuals. This product can take out financial stress from the life of people who have missed the bus of financial planning. RML should acquire a space of alternate asset in the portfolio of “house-rich, cash-poor” home owners. All types of annuities are taxable in the hands of an individual. As per recent announcement RML annuities are made tax free. It
was a long pending demand from all the stakeholders and it has made RMLeA more attractive. This advantage should be promoted aggressively to all potential borrowers and senior citizens.

10. RML should be treated as service to the senior citizens, needy individuals and nation. It should not be treated as just another financial product. RML should not become a niche product and must be distributed across geographies and segments.