Fund management

China pension reforms lure international investors

BlackRock among asset managers preparing new products for private retirement scheme debut

China has come under increasing pressure to reform its pension system, having experienced some of the fastest population growth in the world © Qilai Shen/Bloomberg

Josephine Cumbo, **Brooke Masters**, **Harriet Agnew** and **Hudson Lockett** APRIL 28 2022

Some of the world's largest asset managers are clamouring for a slice of the action after China announced plans this month to push more of the country's vast pool of household savings into financial markets.

Under the new schemes, employees will be able to contribute up to Rmb12,000 a year ($1,860) to private pension plans, which the government said would be adjusted in line with "economic development" and would benefit from preferential tax treatment.

BlackRock, Goldman Sachs, JPMorgan and Amundi have been expanding their presence in China in the past couple of years. Now they are positioning to grab a piece of a potentially huge new business.

"It's hard to estimate the potential size of the market, as there are many details still to come out," said Howhow Zhang, Greater China wealth and asset management strategy and transaction leader at EY. "But it could be 10 times bigger than now, or more, once it's rolled out nationally."

China's long-running geopolitical tensions with the US, and last year's clampdowns on sectors ranging from video games to education have hit the country's stocks. Some investors have declared the country to be "uninvestable". More recently, severe disruption from lockdowns due to a surge of Covid-19 outbreaks has prompted steep declines for Chinese stocks.

But that has not dented enthusiasm for Beijing's latest retirement initiatives, which are "signals the government is embarking on a new growth programme", according to Xiaofeng Zhong, chair of Amundi Greater China. "It's a significant long-term opportunity for global asset managers."

China's pension market reached Rmb12tn at the end of 2020, doubling from 2014, according to EY. The new proposals could fuel a massive expansion.

The plan, which will be trialled in certain cities for a year before wider implementation, is a significant moment in the government's longstanding efforts to develop its pension system, which relies heavily on state schemes and those organised by employers.

Huang Yadong, an analyst at state-backed Chinese investment bank CICC, said the plans "lay the institutional foundation for the development of private pensions in China," and would "inject long-term funds into China's capital markets", as money in the new pension accounts can be invested in options ranging from wealth management products to mutual funds.

The pension reforms come as Chinese regulators are supporting foreign institutional investors in establishing operations on the ground. A clutch of global investors have already unveiled joint ventures in wealth management with Chinese banks.

Amundi's Zhong acknowledged that the investment opportunity in China came with risks, adding, "this is why it's important to have a long-term objective in mind."

BlackRock, the only multinational participant in an earlier pilot involving retirement accounts that did not have tax advantages, will begin enrolling investors in that pilot next month.

Goldman Sachs received preliminary approval last year for a mainland wealth management joint venture with the Industrial and Commercial Bank of China. Once it gets permission to launch, it plans to offer a wide range of investment products, and pensions could well be among them.

JPMorgan is also getting ready for the pensions experiment. It has applied for regulatory approval of its 100 per cent takeover of China Investment Fund Management, which is its onshore fund manager, and is positioning itself to compete in the private pensions market once it does.

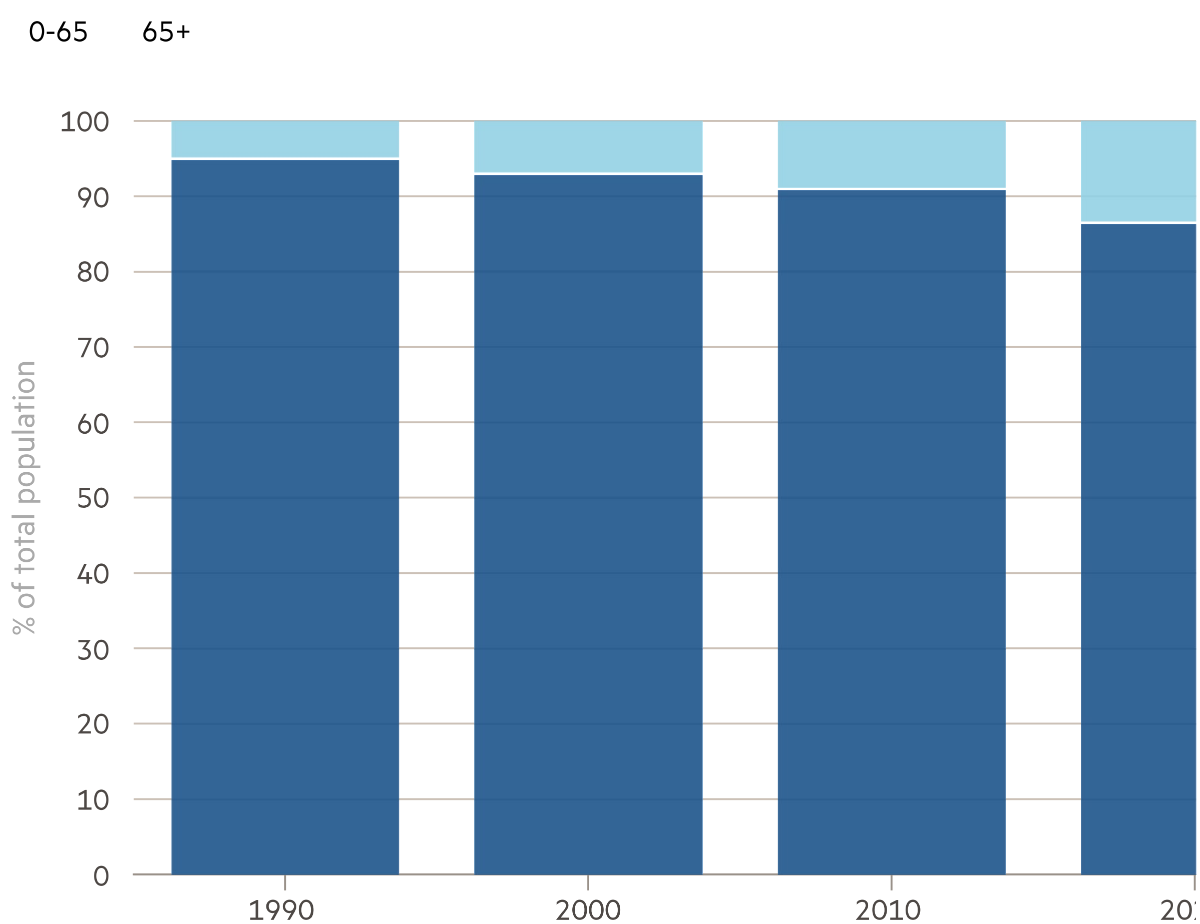
“Given China’s demographic shifts and tremendous need for retirement investments, pensions are a major area of focus for JPMorgan onshore,” said Desiree Wang, head of China at JPMorgan Asset Management.

“A healthy and strong pension system helps bring in more long-term oriented capital into the market, so it is also a priority for the government.”

In recent years China has come under increasing pressure to reform its pension system, having experienced some of the fastest population growth in the world.

The number of people aged 65 or above in China has grown by 60 per cent in the past decade to 190.6mn, making up 13.5 per cent of the nation’s total population in 2020.

China's population is ageing rapidly



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Source: National Census, EY analysis

China has been talking about individual retirement accounts for years and most of the wealth managers believe that it could take six months to a year before the details of the tax advantaged accounts are hashed out. But they note that the securities, banking and insurance regulators all appear to be making this a high priority in the wake of Vice Premier Liu He's high profile promise in March that the government would intervene to stabilise markets and the economy.

"The benefit of a well designed, well accepted retirement scheme is that it is going to make people more comfortable about their retirement. That in turn will encourage them to reduce savings and spend more, encouraging consumption," said an executive at one of the firms working in China.

The new retirement savings market is expected to be highly competitive and success is going to depend on finding products that work for the local market, wealth managers said. Without tax advantages, many retail investors have been reluctant to tie up their capital.

CICC expects more funds will flow to the latter, based on their popularity as an investment destination for private pensions in the US.

Others said the impact of the new plan would be hard to gauge until authorities released more details. One senior researcher at a private-sector brokerage said it would change little in the short term.

"But in the long term [it] will help to attract more long-term funds and institutional investors to the A-share markets," he added, referring to China's domestic stock exchanges in Shanghai and Shenzhen.