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An Exploration of Relationship between Macro Economic Variables and Reverse Mortgage Market in India

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Abstract

With improved life expectancy and reducing fertility rates, the percentage of older people is increasing at alarming rates world over. As such, the need for innovative financial solutions to fund the retirement years has increased manifold. Reverse Mortgage is one such option that can salvage the living condition of the elderly while allowing them to stay in their houses till they die. Recognizing its importance, Reverse Mortgage was introduced in India in 2008, but has not been successful here. Compared to the developed countries, the empirical research on this topic is very limited in India. This study makes an attempt to understand the relationship between the macro economic variables and the reverse mortgage market in India using multiple regression. Interest rates, market capitalization as a percentage of GDP and GDP percentage rate are found to be significantly impacting the Reverse Mortgage market in India.

I. Introduction

AGEING IS AN inevitable trend for most of the countries. With increasing life expectancy and the growing numbers of elderly world over, the traditional methods of financing old age are being questioned now. In the absence of social security cover in most developing nations, coupled with abysmally low pension rates, funding the old age has become a major area of concern. Persons aged 60 and more are subject to financial exclusion due to low and unsettled income, thereby unable to fulfill the rigid lending conditions of the financial institutions.

Amidst these challenges, the idea to fund retirement from an already existing asset or wealth is evincing interest worldwide. Thus housing wealth was recognized as a potential source to finance the retirement expenditure of the aged population (Mayer and Simons, 1994). Reverse mortgage was

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CPI as one of the variables (though not significant) has its own relevance in the context of home ownership. For existing home owners, with a rise in inflation, real wealth erodes impacting their repayment capacity, limiting their refinance and redevelopment options and thus affecting their activity in the real estate market. From the supply side, the cost of constructing real estate also goes up, affecting supply. The inverse relationship between the two variables can enable the policy makers to better understand the factors at play in deciphering the home ownership trends.

Home ownership as a complex issue is the result of many determinants. Having identified the variables affecting the reverse mortgage market in India, this study can be a helpful in guiding the banks, government to decide upon effective policies, changes, product structure that could result in successful implementation of the reverse mortgage product in India at the macro level. It seeks to provide a new perspective of looking at the Indian reverse mortgage paradigm. A study of the macro factors can lay a road map for the policy makers to create a suitable economic environment to boost the housing sector. With home ownership on the rise, and an increasing elderly population, every effort must be made by the government to agree and understand the importance of reverse mortgage in the Indian context. Every effort by the government to provide houses to all is beneficial both to the society and the individual.

Availability of data was one of the major limitations in this study. Reverse mortgage being a relatively new concept in India, the yearly data on Reverse Mortgage market size was not available. Hence, based on the previous international studies, home ownership rate was chosen as the proxy variable for the Reverse Mortgage market size for India.

Another limitation was the absence of residential housing price data for India, which is available only from the year 2008. In the absence of this information, this variable had to be dropped out from the analysis.

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