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Traditional and New Methods of Pension Authentication in China: Reasons, Methods and Problems

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ABSTRACT

The article discusses the topic of the digitalization of the pension systems in the People's Republic of China, the spread of the new social authentication methods and the new pension payment confirmation system in the country. The population ageing problem is forcing the government of the People's Republic of China to develop new methods of social support for the retired citizens. The article deals with the problems of pension payment confirmation for the Chinese, who are currently abroad, as well as the methods of solving the issue. Special attention is paid to the problem of pension authentication through overseas Chinese multifunctional centers (MFC). The article studies the main positive and negative aspects of "traditional" and "new" methods of pension authentication.

Keywords: population ageing; digitalization; pension authentication; IT technology in the pension system; electronic system; institutionalization; standardization; pension fund management; single database

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INTRODUCTION

The population of the People's Republic of China is estimated at over 1.4 billion in 2020, making it the most populous country in the world. In addition, China has the highest median age, a consequence of its long-standing "one family, one child" policy. China's population growth rate is only 3.88% (137th in the world in 2020). According to the country's seventh national census, the proportion of people over 65 in the total population reached 13.5% in 2020, making China soon to be considered an ageing society by international standards. To alleviate this problem, the Chinese government has begun to actively introduce and develop new methods of social support for pensioners.

It was in 2010 that China started encountering difficulties in authenticating pensioners for social insurance and benefits for the first time. The thing is that many citizens, once they reach retirement age, are unable to register with the pension fund in

order to receive social benefits in the future. The main barriers to this are:

1. Lack of information on how to obtain the service.
2. Ignorance or poor knowledge of information technology.
3. Lack of opportunity to process pension payments in person.
4. Lack of institutionalisation and standardized management of the pension fund.
5. Not yet well-adapted database of people of retirement age.

With the development of the digital economy and the adoption of the latest IT technologies, China has become one of the top three countries in terms of the IT industry development index (see figure). According to the 48th "China Internet Development Statistics Report" [published by the China Internet Network Information Center (CNNIC) on August 27, 2021], the number of internet users in the country reached 1.011 billion as

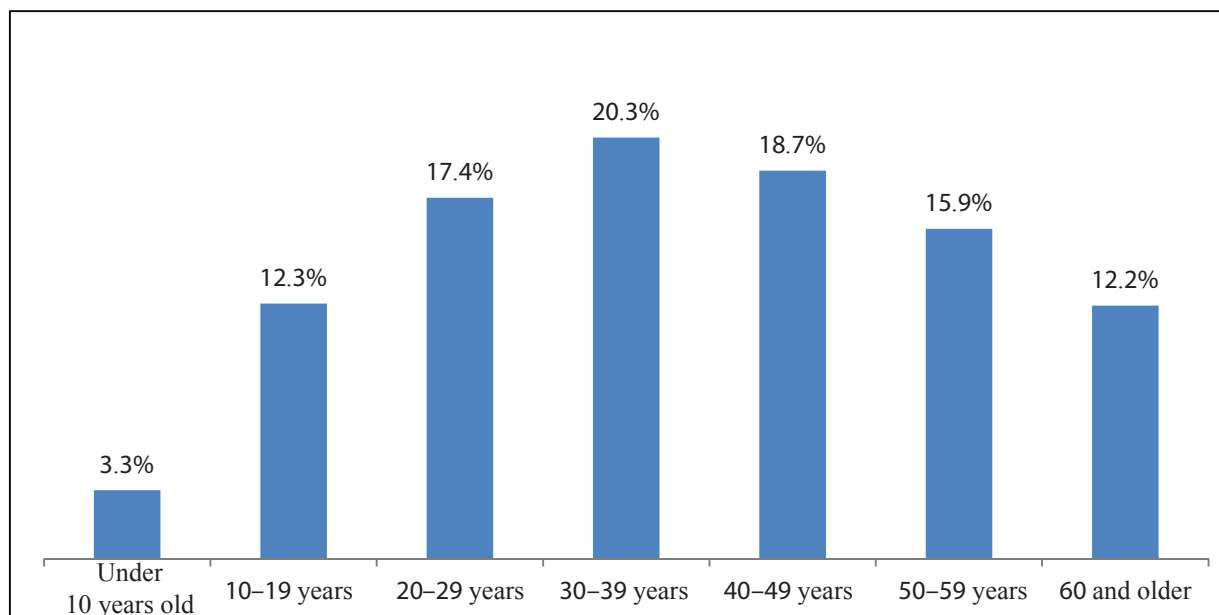


Fig. Percentage of Internet users in China by different age categories in 2020

Source: URL: <http://surl.li/bhmst>

of June 2021, with an internet penetration rate of 71.6%. Thus, the Chinese population is now the largest and most active digital society in the world [1].

However, the latest IT technologies are primarily developed for government organisations, but they are not sufficiently adapted for the population. Therefore, it is sometimes very difficult for people (especially the elderly) to master them, and only a certain segment of the population can make full use of the latest technology. Therefore, in the future, those who have digital skills will be able to adapt relatively easily to the new digital tools, while the rest of the population will increasingly lag behind. The Chinese government is now actively tackling this problem by creating special courses for older people.

The introduction of information technology into China's pension system is paying off. Until recently, when the country's population was poorly equipped with smartphones and computers, elderly people had to go to the pension fund or local administration in person when they needed it. All recipient data was, of

course, stored on paper in the city archives or in the relevant local organisations. The future pensioner had a very complicated process of collecting and submitting his or her documents. People living in rural or remote areas had particular difficulties, because with no administrative structures nearby, they had to travel to neighbouring urban counties or cities, which, of course, slowed down the process of drawing up their pensions. Another category of people for whom this is a problem — are the Chinese living abroad. According to the migration statistics, in 2021 there were more than 45 million Chinese living outside the country, about 17% of whom were of retirement age. Not everyone can return home to apply for a pension and then come to the PRC every year in the future to receive the pension.¹

In the fast-developing modern world, the traditional method of drawing and receiving pension payments is no longer appropriate.

¹ Trends in the spread and development of overseas Chinese. Official website of the Overseas Chinese Affairs Office of the State Council of the People's Republic of China. URL: <http://qwgzyj.gqb.gov.cn/yjyjt/155/1830.shtml>

In addition to the problems mentioned above, it has a number of significant disadvantages. For example, storing databases on paper is not the most reliable method. In Heilongjiang province, for example, an entire archive of documents was lost in a fire in the 1990s. Because of this, some workers, when they reached retirement age, had to restore their data on their own [2]. This procedure was specific: former employees had to find their former bosses to confirm their seniority on their own responsibility. In addition, documents had to be provided to prove the fact that the factory had paid the person's insurance premiums during the period of employment. The documents could be in the form of a payment slip, an accounting statement, a statement from the beneficiary's bank, etc.

There is another quite significant omission in the traditional method of receiving/confirming pensions, a problem that stems directly from the recipients themselves. Often, due to factors such as health status, remoteness of residence, workload of the pensioner, etc., the recipient makes a notarial power of attorney to someone to collect his/her pension. This method often provokes unscrupulous people to speculate. Firstly, it has happened that after the death of a pensioner, the proxy has been receiving his pension payments of a dead pensioner for a long time. Secondly, quite often trustees have misappropriated these payments, and the money did not reach the addressee. Of course, such unlawful actions are punished by law, but it is not always possible for the pension fund and other authorised bodies to fully trace all cash payments. The government has developed various methods to combat the misappropriation of pensions by third parties. For example, every year local government staff would visit pensioners and conduct a survey of their well-being. Unfortunately, this method has not always yielded positive results [3].

Such risks arise from the lack of a systematic, scientific, and standardised data processing mechanism, unclear staff responsibilities and inappropriate delegation of authority. The thing is that traditional methods of supervising the social welfare funds are rather archaic, powers are divided, and individuals rely on chance, which provokes them to commit crimes.

DIGITALISATION OF THE PENSION SYSTEM

The search for a way to solve these issues and problems has prompted the Chinese government to create a new method of insuring, validating, and receiving pension benefits by digitising these procedures. The main reason for the social security fund's operational risks is that the fund's population (income) and exports (expenditure) are not "managed" properly. Therefore, to bring the pension insurance "chain" to its logical conclusion, it is necessary to start by modernising and controlling the transaction management structure within the pension fund itself.

The year 2019 has been declared the Year of Progress of the Social Security Fund in China in terms of risk prevention and control. First and foremost, a major effort has been made to assess and reconcile the benefits and income bases of the insured. To this end, a 'five-party verification system' was established, the idea being that the authorised bodies such as the internal finance department of the company (the place of work of the insured), the commercial department, the local tax office, the banks and the pension fund finance department should work closely together. Any cash receipts or pension payments should only be made after approval by all five of these departments. In the event of any problems or any suspicion, each of these bodies has the right to contact the other bodies to clarify the data.



The mission of the “five-way verification platform” is to process large databases and extract important interlinked information, such as the highest and lowest wages of the insured persons. At the same time, artificial intelligence checks dubious information in the social security system to prevent or correct insurance duplication and close loopholes such as underreporting and underpayment to social security funds. Overall, the platform serves as government software for business and finance, enabling information to “work harder”, data to “tell the truth”, reduce human intervention, achieve accurate collection and disbursement of funds, automate financial accounting, monitor social security data statistics, audit internal governance, and manage information and monitor interdependent key positions. The system helps to effectively prevent risks that may arise in key departments, in key positions and in key parts of the management of the pension fund’s operations.

Regarding the benefits of the latest (electronic) pension system, this method has helped to simplify all the procedures for submitting the necessary documents. For example, in the traditional drawing of the social benefit the person often did not always understand what documents he had to collect and in what order it had to be done. With the introduction of the electronic system, he or she simply needs to register in the application (on the website), fill in an electronic questionnaire with personal data, and the software will automatically make a request to all the necessary administrative structures [4]. The future pensioner only has to go in person to the pension fund to obtain a ready-made pension certificate. The programme allows pensioners to find out what payments they will receive in the future.

According to the traditional rules, the insured person has to visit the pension fund in person every year to confirm their data in

order to avoid unnecessary payments or the misappropriation of pension payments by third parties in the event of the death of the pensioner. Now, thanks to the digitalisation of databases and the integration of all procedures into the electronic system, a pensioner can confirm his or her pension status from a smartphone without leaving home. All they have to do is to log in to the application, follow the instructions and the software will automatically update their data and confirm their social status. For authentication, the application will prompt the user to do some verification activities online, e.g., to enter their surname and first name, identity card number, count to ten, look left, look right, blink, etc. [5] All these physical actions are recorded on the smartphone’s front camera and broadcast to the pension fund’s electronic system. Once all processes have been completed, the pensioner will have an ‘approved’ status in their personal account, indicating the validity period of the authentication. However, if the biometric confirmation fails or if the system identifies any suspicious activity during the authentication process, the application will offer to go through the procedure again after 24 hours or to contact the support service in person to rectify the problem or for further investigation.

The advantage of this system is that people (namely pensioners) can now complete the authentication procedure at any time convenient to them. There is also no need to visit the relevant organisations in person. The system protects savings, and in the event of suspicious activity on the pension account, it automatically blocks transactions and informs the owner of the blockage and the means of how to rectify the problem.

In the case of Chinese overseas residents, it was only a short period of time ago that the processing of pension payments and the confirmation of their retirement status was a

headache for many of them. Nowadays, there is a fairly flexible policy for this category of pensioners. At present, there are special multifunctional centres abroad, which solve many issues related to the registration of pension documents for Chinese citizens. One of the most important services — is the processing of pension payments and the confirmation of social status for Chinese citizens living abroad. In the archives of overseas Chinese multifunctional centres, one can find records on service provision, for example: “Mr Wang, a Chinese man from Wenzhou, who had worked in China for many years, has now settled in Milan, Italy. Mr Wang, who reached legal retirement age in October 2019, learned through the Chinese multifunctional centre in Milan that he now does not need to return to Wenzhou to process his pension. This procedure can be done in Milan. Through the Chinese multifunctional centre, Mr Wang adds on WeChat messenger the contacts of the local Wenzhou staff in Milan. After completing the basic pension application form and sending it to the staff member via WeChat, Mr. Wang is scheduled for an online meeting with the representatives from the Chinese pension fund. At the appointed time, Mr Wang arrives at the Chinese multifunctional centre, where a video link is set up with the China Pension Fund under the guidance of the staff. When the procedure is launched, the video system automatically recognises and compares Mr Wang’s face with his photo on the ID card and, if the comparison result is positive, China Pension Fund staff record and generate a document which is remotely sent back to Mr Wang for verification and signature confirmation. The entire processing is archived through video recording. Once the video link has been established, Mr Wang’s guardian (relative) who lives in Wenzhou receives a power of attorney issued by the Wenzhou Pension Fund the following day to

go through the final procedure for Mr Wang’s pension.” [6].

Currently, there are 6 Chinese multifunctional centres abroad, based in Italy (Milan, Rome, Prato), France (Paris), South Africa (Johannesburg) and the UAE (Dubai) [6]. In the near future, the Chinese government plans to build similar multifunctional centres in other large countries with large concentrations of Chinese migrants, as well as to expand the mandate of the Chinese multifunctional centres themselves.

CONCLUSIONS

The introduction of new information tools in pension structures has improved administration, quality control, security checks and so on. For ordinary users, this new technology has helped to simplify the paperwork process, to get an accurate calculation of pension payments, and to enable citizens outside of China to process insurance payments. However, it should be noted that at present the “new method” is still undergoing adaptation and development. There are still some difficulties in the application of the verification of pension status method, namely:

1. In China at the moment, there are still remote regions where there is no access to the internet and therefore the residents have to deal with pension problems using the traditional method.

2. There is a certain percentage of the population in the country who do not know how to use the internet, and so they need to turn to someone for help.

3. The system does not yet have a common base (like, for example, “Gosuslugi” (Public services) in Russia), i.e., at the moment the system is different in each province, and people need to install the application specifically for their area.

4. The relatively small number of Chinese multifunctional centres abroad forces Chinese

citizens living there to deal with their issues in the old traditional way.

Digitalisation is the tool of the future. The development of information technology contributes to the systematisation of many

processes, which makes life easier for the population. The active adoption and use of digital technologies is particularly relevant at a time of coronavirus pandemic and other social constraints.

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