access to insurance initiative

China Access to Insurance Diagnostic

A market and regulatory analysis

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Caveats to this report:

Data Reliance

In performing this analysis, the authors relied on data and other information provided by the participating insurance companies, focus group market researchers, and publicly available information. The authors have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of the analysis may likewise be inaccurate or incomplete.

The authors performed a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of the author's assignment.

Distribution and Usage

This report was prepared on the basis of a diagnostic toolkit prepared by the Access to Insurance Initiative (A2ii). The consultants engaged were paid through GIZ who served as the Project Management Unit (PMU). Funding support was provided by German Federal Ministry for the Environment, Natural Conservation and Nuclear Safety (BMU) and the Asian Development Bank (ADB). The Access to Insurance Initiative peer reviewed the report.

Foreign exchange

The local currency in China is the Chinese Yuan Renminbi (RMB). USD equivalent shown throughout this document was calculated using a 12-month average exchange rate (between 1 January 2014 and 31 December 2014) of RMB 6.146/ USD.

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List of Acronyms

A2ii	Access to Insurance Initiative
ADB	Asian Development Bank
ATM	Automatic Teller Machine
BMU	German Federal Ministry for the Environment, Natural Conservation and Nuclear Safety
BMZ	German Ministry for Economic Cooperation and Development
CBRC	China Banking Regulatory Commission
Cenfri	Centre for Financial Regulation and Inclusion
CGAP	Consultative Group to Assist the Poor
China Life	China Life Insurance (Group) Co., Ltd.
CIRC	The China Insurance Regulatory Commission
CPI	Consumer Price Index
CPIC	China Pacific Insurance Group Company Limited
CP Research	Century Perspective Marketing Research
ESCAP	Economic and Social Commission for Asia and the Pacific
FGD	Focus Group Discussion
FCPMC	Foreign Capital Project Management Centre
GDP	Gross Domestic Product
GIZ	German Development Cooperation
IAIS	International Association of Insurance Supervisors
ILO	International Labour Organisation
IMF	International Monetary Fund
JWGMI	Joint Working Group on Microinsurance
LAOSC	Legislative Affairs Office of the State Council
MOF	Ministry of Finance
MIN	Microinsurance Network
NGO	Non-Governmental Organisation
NBS	National Bureau of Statistics of China
NRCMS	New Rural Cooperative Medical Scheme
PBoC	People's Bank of China
PICC Life	People's Insurance Company of China Life Insurance Company Ltd.
PICC P&C	People's Insurance Company of China Property and Casualty Company Ltd.
POS	Point of Sale
PRC	People's Republic of China
RCC	Rural Credit Cooperative
RMB	Renminbi (also referred to as the yuan, main currency used in the People's Republic of China)
SASAC	State-owned Asset Supervisory and Administration Commission
UN	United Nations
USD	United States Dollar

Agricultural Insurance. The agricultural insurance classes include both major crop[1] and livestock insurance[2]. Major crop insurance includes Rice, Wheat, Corn, Soy Bean, Cotton and Cole (Cabbage) Insurance. Perils covered by these products include damage caused by flooding, storms, heavy rain, tornadoes, hail, droughts, mudslides, other natural disasters and pests. Livestock insurance included Cow[3] and Reproductive Sow[4][5] insurance.

Bundled Term Life and Personal Accident Insurance: A policy which, even if it has only 'accident' or 'life' insurance in its product name, has a benefit pay-out on death or disability of the insured. As such it is classified as a bundled product.

CIRC pilot microinsurance means personal microinsurance provided by Chinese companies in terms of an approval granted by the CIRC under the Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance (2008) as amplified.

Employed is defined as adults, 16 years and older, who are engaged in formal and/or informal employment activities.

Farmer and **rural resident** are frequently used interchangeably and refer to those rural residents who reside permanently in the rural areas.

Hukou Denotes the residential registration of a Chinese citizen. Although the details of the *hukou* registration system is complex and determined by historical roots, the basis of this system is that people born in villages and residential areas that fall within counties, are considered rural, whilst people born in areas classified as cities, are considered urban. Chinese citizens keep their *hukou* for life, even if they permanently migrate. The NBS collects national data based on the *hukou* of the population. The use of the terms "rural" and "urban" within this report must be understood as referring to this classification.

Local rural workers are defined as rural workers who obtained non-agricultural work (this includes non-agricultural employment and self-employment) within their registered residential towns or villages for more than 6 months a year.

Migrant workers are those rural workers who obtain employment in a region outside of their registered residential towns or villages for more than 6 months a year.

Personal Accident Medical Expense Insurance. This is a rider policy to Bundled Term Life and Personal Accident Insurance, i.e. it is an add-on product that can only be bought in conjunction with the accident insurance and bundled policy. The trigger for the benefit pay-out is an accidental injury that requires treatment at a second- or higher-level hospital. The benefit pay-out is intended for medical expenses and is usually the balance of the medical expenses

[1] Also referred to as planting insurance
[2] Also referred to as animal breeding insurance
[3] Perils covered by a Cow Insurance policy include damage caused by fires, explosions, heavy rain, flooding, hurricanes, lightning, hail, freezing, mudslides, landslides, earthquakes, collapsed buildings, falling objects and various diseases.
[4] Reproductive Sow insurance covers damages caused by the same perils under the Cow Insurance policy as well as earthquakes and 10 diseases.
[5] Also referred to as reproductive pig insurance

after deducting any portion of the expenses paid by the insured’s local social security (mostly NRCMS) and other sources after taking into account an excess up to the agreed percentage of cover.

Personal insurance includes life insurance, health insurance and personal accident insurance.

Property Insurance includes property loss insurance, liability insurance, credit insurance and guarantee insurance as well as agricultural insurance.

Rural. This includes all those areas which are not “Urban”. The “Urban” areas include cities and towns. Cities refer to the administrative areas where the city government/city district government is located. Towns refer to the administrative areas where the county/town governments are located, or the administrative areas with over 3000 resident population, such as mining areas, development zones, research institute, universities, etc. The rest is considered “Rural”

Rural workers originate from rural areas, with rural “Hukou”, but may work for a significant portion of the year in non-agricultural jobs in nearby urban areas. Rural workers are often viewed as farmers drawn to the urban areas with the aim of earning a higher income, but who will eventually go back to their rural hometowns.

Term Life Insurance. These are life microinsurance policies that pay out in the event of death of the insured.

Urban workers originate from and work in non-agricultural jobs in urban areas.

Executive Summary

This report contains the findings of a diagnostic study on the provision of microinsurance to rural workers in China. The study was commissioned by the Access to Insurance Initiative and approved by the China Insurance Regulatory Commission (CIRC) in 2010. The study covers the provision of personal and property (including agriculture) microinsurance to China's 674 m (2010) rural residents. At the request of the CIRC it includes an evaluation of the personal microinsurance pilots authorised by the Life Insurance Supervisory Department of the CIRC since 2008. The project was funded by the Asian Development Bank (ADB) and the German Federal Ministry for the Environment, Natural Conservation and Nuclear Safety (BMU). Whereas the full microinsurance market in China would also include a substantial component of the "urban" market, the urban microinsurance market is not included in this study.

The analysis and findings are based on primary product data (as at 2011) provided by 6 of the 8 insurers participating in pilot microinsurance projects under the CIRC. Between them the six companies provide the overwhelming majority of personal microinsurance products in rural areas. In addition, the People's Insurance Company of China Property and Casualty Company Ltd (PICC P&C) provided information on their property microinsurance products. The study further draws on 28 primary focus group discussions (FGDs) undertaken by the Shanghai-based Century Perspective Marketing Research between October and December 2011. The FGDs were held in rural and urban areas in Shanxi, Sichuan and Fujian provinces. Extensive consultations with government and industry representatives took place during July 2011.

Based on absolute income levels as well as the distribution of income, the study defines the rural microinsurance target market as the bottom 80% of the rural market, i.e. persons who earn up to approximately RMB 7,440 (USD $1210) per annum. Based on the 2010 census, this implies a rural microinsurance target market of approximately 540 million people.

Characteristics of the target market:

There seems to be a strong precautionary savings[6] culture in rural China, with 73.6% of all our FGD respondents having some form of savings at the time of the interviews. This would suggest that insurance products with some kind of savings elements could be popular in rural China, as it is in the urban areas. On the other hand credit take-up is limited with only two thirds of the FGD respondents having any form of credit, and of this 64% was borrowed from relatives, friends or neighbours, 28% from Rural Credit Cooperatives (RCCs) and only 16% from a regular bank. This implies that credit life microinsurance, often the lead product for microinsurance market development in other countries, will only achieve limited reach in China.

All respondent groups listed the ability to pay for the education of their children as the most significant risk facing them. This was followed by health risks for themselves, their children and parents. Only then did retirement provision feature as a concern. Particularly significant is the very low importance attached by all respondents to property risks, including potential loss of agricultural crops and livestock. The priority risks as revealed by the FGD research are unusual from an international perspective. In most countries, the top two risks concerning

[6] Precautionary saving is saving (non-expenditure of a portion of income) that occurs in response to uncertainty regarding future income. The precautionary motive to delay consumption and save in the current period rises due to the lack of completeness of insurance markets.

low-income households are the death of a breadwinner and health concerns affecting family members. Whereas, the health concerns are also witnessed in China, the death of the breadwinner is not evident. Rather, the strong focus on the education of the child suggests cultural concerns and conditions that are materially different.

Although insurance was not mentioned by respondents as a “top of mind” risk coping mechanism, it has taken root as a true risk coping instrument (as opposed to just a savings instrument) in two areas – health and accident risks. The general acceptance of insurance as an instrument to deal with health risks can largely be ascribed to the rapid growth and virtually universal take-up of the New Rural Cooperative Medical Scheme (NRCMS). The take-up of personal accident insurance, on the other hand, seems to flow mostly from personal or perceived experience of higher risk environments such as growing traffic, construction sites, etc. Savings and credit remain the default risk coping instruments for most rural households.

Chinese citizens generally seem to be aware of insurance. For example, only 1.3% of all FGD[7] respondents had not heard about insurance. The awareness of basic medical insurance was the highest. Although personal adverse experience with insurance claims was very limited amongst respondents, 80% claimed to have heard about bad claims experiences with insurance companies. Insurance companies still seem to be viewed with high levels of scepticism and distrust.

Supply of microinsurance

Based on data supplied by the seven insurers who provide the bulk of rural microinsurance, total premium income for rural microinsurance in 2010 is estimated at RMB 7.40 billion (USD 1.20 billion) of which about 11% (RMB 0.79 billion/USD 0.13 billion) was for personal microinsurance and the balance for property. This represented 154.8 million policies sold - 99.5 million for agricultural insurance, 35.3 million for property insurance and 20 m for micro personal insurance.

Of the 20m policies sold in 2010 under the CIRC **rural micro personal insurance**, little more than 80% were bundled term life and personal accident policies (16.2 million), 12.5% were term life insurance (2.5m) and the balance personal accident medical expense insurance (1.3m). If double counting is taken into account, it is estimated that the five insurers between them covered 18.7 million people in 2010 which was less than 2% of Chinese population . China Life wrote 61% of total micro personal premiums in 2010 and CPIC 25%.

Given the very high savings propensity of Chinese citizens as well as the fact that the most important risk identified by all groups in the FGD research is that they will not be able to provide for the education of their children, it is noteworthy that not a single microinsurance product contains a savings element. This contrasts sharply with the established urban market where the bulk of insurance products sold is savings-based.

In the personal microinsurance market, credit-based distribution accounts for the bulk of the premium, but not the number of persons insured. Five products distributed through credit providers account for 72% of China Life’s total microinsurance premium in 2011, but only 22% of people covered. It is therefore not surprising that the commercial viability of credit-based

[7] Please note in the FGD, 50% of the sample were individuals who already had experienced with insurance so likely overestimates the level of awareness of insurance in China.

microinsurance products is the highest, with loss ratios in the order of 25 - 30%. This compares with loss ratios for personal accident products of between 50 and 70% and loss ratios for products covering medical expenses in the order of 80% and above. This is consistent in what is observed in other microinsurance markets where credit life is typically the most profitable line for insurers and lenders. Wipf et al. (2011) find that of 12 microinsurance institutions across developing countries that offer credit life, eight were significantly profitable.

Two distinct models for **rural housing insurance** have emerged. In the Fujian model provincial authorities contract commercial insurers to provide blanket housing insurance to all rural households. Participation is thus "automatic". The premium is fully paid by the provincial and municipal governments. Zhejiang Province, on the other hand, initiated disaster insurance for weather-related damage where the premium is jointly paid by the farmer, provincial government and local government. Participation in this scheme is voluntary. However, the state has implemented specific incentives to encourage rural participation. Firstly, provincial subsidies are dependent on at least 50% of farmers participating. Secondly, the higher the farmer participation rate, the more public relief funds will be channelled to the area once damage is caused. PICC P&C is the main underwriter of rural housing insurance and reported a claims ratio of 84% in 2010.

China has one of the largest **agricultural and livestock insurance** markets in the world, with total premium income in 2010 of RMB 13.586 billion (USD 2.21 billion). Not all of this can be classified as microinsurance, but the bulk of beneficiaries would fall in the microinsurance target market as defined earlier. Agricultural insurance relies heavily on state support, not only for premiums – state subsidy varies between 50% and 80% of premiums – but also to provide technical agricultural services for loss prevention, premium collection, loss assessment and claims payments. Crop insurance accounts for 70% of premium, with livestock and forestry accounting for the rest. In 2010 the aggregate loss ratio for crop insurance was 59% and for livestock insurance 137%.

Whereas commercial insurance companies implementing microinsurance pilots in China are able to draw extensively on state support (notably more so in the case of housing and agricultural insurance than micro personal insurance), they have made very little to no use to date of the type of mass distribution channels increasingly utilised by commercial insurers serving the low-income market in other countries. These mass-based distribution channels include formal and informal retailers, mobile phones and complementary channels such as ATM networks, POS devices, outbound call centres and the internet. In the mainstream market, Chinese insurers are starting to utilise these channels, but not yet in the low-income market. International experience, however, suggests that the most effective channels are those that facilitate active sales.

Three distinct models of microinsurance provision have evolved in rural China, differentiated by the level of state involvement.

- **Commercial model**. In this model, currently only found in the personal microinsurance space, the state provides regulatory concessions and other policy-based support. Insurance companies market microinsurance products without direct or indirect subsidies. Products are designed and offered independently from current social security provision. This model has worked well for microinsurance bundled with credit, but has been less successful in other distribution models.

- **Semi-public model.** In this model, national, provincial and/or county/city local governments promote the extension of microinsurance through partial premium subsidies and/or support to commercial insurance companies to intermediate microinsurance, for example through the performance of various intermediary functions such as marketing, premium collection, loss assessment being performed by state structures. The model is perhaps most developed in the various agricultural and rural housing insurance products. This model currently provides the largest microinsurance coverage in rural China.
- **Public model.** In this model, the full cost of insurance distribution as well as the risk premium is subsidised by the state, with no premium or portion thereof being paid by the insured. Commercial insurance companies are enlisted to distribute the product due to their higher efficiency levels and existing capacity as well as their ability to access and manage reinsurance. This model of microinsurance provision reduces distribution cost and has high-levels of uptake as it is often packaged as a "blanket cover". This model has proven successful in the provision of agriculture insurance but has shown less favourable results for personal insurance lines where government support is often inconsistent. For example, the Shanxi model has witnessed declining revenues and coverage.

Regulatory developments

Since 2008 the CIRC has issued three different rules to facilitate the delivery of personal microinsurance to rural low-income clients. The first rule opened the door for personal insurers to deliver life and personal accident insurance with a benefit level of between RMB10 000 (USD 1627) and 50 000 (USD 8135) to rural workers in terms of pilots in specific provinces registered with the CIRC. It also permitted a new category of microinsurance agents which allowed persons engaged in established rural organisations to be trained up as microinsurance salespersons. A Circular in 2009 extended the number of provinces within which pilots could be registered, and permitted small value health and pension products to be included in the pilots.

The pilot phase was terminated with a subsequent Circular in June 2012 which abolished the 2008 Rule and the 2009 Circular. The 2012 Rule expands the micro personal insurance target market to include urban residents on Minimum Living Standard Security and migrant workers without urban residential registration. The prescribed duration of cover (1-5 years) remained unchanged. The 2012 Rule further removes the provision for micro-pension products while increasing the maximum sum-assured value to RMB 100,000 (USD 16,270) (the maximum sum-assured value for term life insurance and health insurance (excluding the supplement medical insurance integrated with New Rural Cooperative Medical Scheme (NRCMS)) is RMB 50, 000 (USD 8135).

The extension of social security, particularly the NCRMS, has increased the level of awareness amongst China's rural workers, an awareness which did not exist a decade ago. The intention of the CIRC personal microinsurance pilots was to complement publicly provided social security with commercially provided microinsurance to create better protection for rural households against the risks they face. Beyond the CIRC this drive was echoed through the provision of state-supported housing insurance and agricultural insurance, particularly to cover disaster risk. When the experience with personal and property microinsurance is considered together, a varied picture emerges:

- In the rural areas, China is still in a market-making phase as far as microinsurance is concerned. That means that there is very limited pent-up demand for insurance outside a limited product category which includes savings-based products targeting the education of children, health products and personal accident. It is therefore not surprising that the purely commercial model has not been successful beyond the credit channel. To increase the viability of the commercial model in China, the market-making opportunities of the current distribution models must be optimised.
- The semi-public model has been successful in the housing and agricultural space and has achieved far greater coverage than personal microinsurance. We therefore believe that the semi-public model presents the best opportunity for growing the insurance culture amongst rural workers for the foreseeable future. This model should be increasingly utilised in the personal microinsurance space as well, notably through the extensive distribution mechanisms created by the NRCMS.
- Migrant workers are currently not as well served by both social security and insurance as other rural workers, and therefore present an important target market for microinsurance.

The report makes the following recommendations:

1. To optimise the market-making phase of rural microinsurance, the CIRC should take an integrated view of microinsurance across personal and property lines. This will require regulatory incentives similar to those currently available to personal insurers to also be made available to property insurers providing microinsurance. Life and property insurers providing microinsurance must be required to report into an integrated database.
2. For the foreseeable future the semi-public model should be the preferred model for the promotion of both personal and property rural microinsurance.
3. A consistent and firm policy position on state support, including fiscal support, for the provision of microinsurance should be clearly communicated to all levels of government. In particular, the importance of consistent implementation of the semi-public model to build trust in and experience of insurance amongst rural workers, must be emphasised.
4. The range of CIRC approved microinsurance products is currently too limited and must be extended to include property lines as well as savings and investment-based products amongst the personal lines.
5. The introduction of community rating for personal microinsurance products to make it more affordable for higher risk categories, such as older people who would otherwise easily be excluded from group policies. Community rating means that everyone is charged the same premium (regardless of whether the product is sold on a group or individual basis) and there are therefore cross-subsidies between the young and the old.
6. The CIRC should facilitate the pooling, monitoring and dissemination of data from all insurers participating in the microinsurance program to enable more accurate pricing of products.
7. To prevent unfair exclusions and ensure that reasonable expectations of microinsurance clients are met, the CIRC could introduce standard definitions specifically for microinsurance to be used in the policy wording.
8. To implement the preferred semi-public model, public distribution channels should be leveraged as much as possible for microinsurance distribution. This will be

facilitated by the high l level of trust in these channels. In particular, the distribution network of the NRCMS could be utilised for the distribution of health top-up insurance and other personal insurance lines.

9. In the commercial model, which for the time being continues to focus on credit-distributed insurance, as well as personal accident and savings-based products (as recommended above), distribution through retail chains and mobile networks can start to be utilised.
10. The potential impact of the policy origination requirements in the 2009 Circular on Promulgating the Standards for Operating the Personal Accident Insurance Business should be managed so as not to limit the sales of these policies within the microinsurance market. This could be done by creating certain concessions for microinsurance issued under the CIRC Rule.
11. Certain types of liability insurance taken out by employers on behalf of their migrant employees can be made compulsory. This would be a more effective mechanism to extend coverage to migrant workers in the short term than encouraging employees to buy their own microinsurance. Alternatively, a mechanism can be introduced to make certain kinds of microinsurance policies a compulsory part of a migrant employee's remuneration package.

1. Introduction

The study forms part of the Access to Insurance Initiative (A2ii) series of country studies aimed at supporting country-level microinsurance development processes, as well as developing cross-cutting insights for their design and implementation. The A2ii is a global partnership between the International Association of Insurance Supervisors (IAIS), the German Ministry for Economic Co-operation and Development (BMZ) together with the German Development Co-operation (GIZ), the Consultative Group to Assist the Poor (CGAP), the International Labour Organisation (ILO) and the South Africa-based FinMark Trust.

The project was funded by the Asian Development Bank (ADB) and the German Federal Ministry for the Environment, Natural Conservation and Nuclear Safety (BMU) and was managed by A2ii secretariat and implemented by GIZ China[8]. The consulting team consisted of two international consulting teams, Milliman Actuarial Consultants and the Centre for Financial Regulation and Inclusion (Cenfri), and three local consultants, Professor Zheng Wei (Peking University), Professor Luo Qingju(Capital University of Economics and Business) and Professor Hu Qiuming (Southwestern University of Finance and Economics). The study further commissioned FGDs conducted by Shanghai-based Century Perspective Marketing Research (CP Research).

The project was approved by the China Insurance Regulatory Commission (CIRC). In line with China's approach to piloting policy development initiatives, the Life Insurance Supervisory Department of the CIRC-commissioned microinsurance pilots in 2008. This study aims to review the provision of microinsurance (see definition below), including CIRC pilot microinsurance, personal- and property microinsurance (including agriculture) targeting China's rural population.

Methodology. The diagnostic methodology followed in this study is based on the analytical framework and methodology set out by the A2ii[9]. The report is largely based on the findings of a two-week consultation process in China, undertaken in July 2011. The country visit covered meetings with representatives from insurance companies, the banking sector, research institutions and government. This consultation process was further supplemented with pilot site visits, focus group discussions (FGDs) and microinsurance company data collected by the CIRC[10]. The insights from the country visit were tested against desktop research between July and December 2011, after which date, the reports from the FGDs as well as the collected company data were received. From January to June 2012, the company data and FGD-reports were analysed and the findings from all the different inputs synthesised for the first draft, submitted in August 2012. In September of that year, there was a stakeholder workshop in Beijing. The workshop was presented by Cenfri, Milliman, the local consultants as well as the FGD-provider. The workshop was attended by representatives from A2ii, GIZ, ADB as well as private industry, government and the donor community. Following the workshop, the CIRC and private companies as well as the Technical Team of the A2ii provided comments on the draft report which were incorporated into the final report.

[8] GIZ China is the local operational office of GIZ

[9] Access to Insurance Initiative – Toolkit No. 1 "Microinsurance Country Diagnostic Studies: Analytical Framework and Methodology". Available at: http://www.access-to-insurance.org/guidance-and-tools/a2ii-toolkits.html.

[10] The data for this study was collected in 2011, and therefore the latest full year's data available is for 2010.

Structure of the analysis. The report is structured as follows: Section 2 provides the political, economic and social context and Section 3 the demand analysis of the potential market. Section 4 provides an analysis of the supply of microinsurance in China, while Section 5 is an analysis of the regulation related to insurance. Section 6 contains the conclusions and recommendations of the study.

1.1. Scope of the study

Microinsurance. The study focuses on the provision of insurance for the low-income segment of China's rural population. Insurance for low-income target markets is often referred to as microinsurance. Microinsurance is defined by the IAIS and the Microinsurance Network (MIN) Joint Working Group on Microinsurance (JWGMI) (2007)[11] as "insurance that is accessed by low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). Importantly this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums." The definition is discussed in Box 1.1 below.

Box 1.1: The 2007 IAIS-MIN Joint Working Group explanation of definition of microinsurance.

Supervision

The microinsurance activity should fall within the purview of the relevant domestic insurance regulator/ supervisor or any other competent body under the national laws of any jurisdiction.

Microinsurance and Social Welfare

Microinsurance does not include government social welfare as this is not funded by premiums relating to the risk, and benefits are not paid out of a pool of funds that is managed based on insurance and risk principles. For the same reason, it does not include emergency assistance provided by governments in, for example, natural disasters, floods/fires in low-income townships, etc.

However, as risk manager of last resort, the State may determine that there is a need to sponsor access to microinsurance for the most underprivileged through redistributive practices. There are cases where the State plays a stronger role in fully funding schemes, but these would only be considered microinsurance if they are run according to insurance principles.

Social assistance in China, aside from transfers, is run according to insurance principles and is thus considered to be microinsurance.

Risks Covered

Microinsurance covers a variety of different risks, including illnesses, accidental injuries, and death and property loss – basically any risk that is insurable, and which insurance is designed to be appropriate in terms of affordability and accessibility to low-income households. Insurance can be offered as a single risk product or as a bundled risk product. Coverage can also be provided on an individual or group basis.

Microinsurance Products

Microinsurance encompasses a broad variety of products, for example, life insurance, funeral cover, health, invalidity, property, livestock, crop and asset insurance. The range of microinsurance products is almost as varied as that of conventional/commercial insurance. Existing insurance product types have been re-engineered to accommodate the needs of low-income households and their specific requirements. Though the array of microinsurance products on offer is wide, in many cases they are limited to some form of life and health microinsurance. The reason for the former is

[11] IAIS-MIN JWGMI (formerly known as IAIS-CGAP JWGMI), 2007. Issues in the regulation and supervision of microinsurance. Available at: www.iaisweb.org.

primarily that of microinsurers preferring life cover because of the lower cost structure and limited risk, and the efforts of microlenders to protect their assets. The emergence of health microinsurance is largely attributable to the promotion of alternative social protection mechanisms, such as the health mutuals in West Africa.

Source: The 2007 IAIS-CGAP Issues Paper on the Regulation and Supervision of Microinsurance

This report focuses on rural workers. The focus is on the provision of microinsurance to citizens who are categorised as "rural". Whereas the full microinsurance market in China would also include a substantial component of the "urban" market, the urban microinsurance market is not included in this study.[12] However, citizens registered as "rural workers" but who have migrated to the cities (referred to in the study as "migrant workers") are included in the scope of the study. The full description of "rural" is in Section 2.2.3. Further, the CIRC has prescribed certain rural areas for conducting pilot microinsurance projects.

Box 1.2: The definition of "rural" and "urban" in China

In statistics, People's Republic of China is divided into Urban areas and Rural areas. The "Urban" areas include cities and towns. Cities refer to the administrative areas where the city government/city district government is located. Towns refer to the administrative areas where the county/town governments are located, or the administrative areas with over 3000 resident population, such as mining areas, development zones, research institute, universities, etc. The rest areas are considered "Rural"

Product focus. The categories of microinsurance reviewed in this report include:

1. CIRC pilot microinsurance;
2. Personal microinsurance not formally approved as CIRC pilots (including life, health and personal accident insurance), but falling within the scope of microinsurance as defined in this report:
3. Property microinsurance (including agricultural insurance), falling within the scope of microinsurance as defined in this report.

Although the CIRC pilot microinsurance is conducted in terms of the Rule issued by the Life Insurance Supervisory Department of the CIRC, and includes only personal products (as detailed in Box 1.3), the report focuses on both personal and property product lines. This permits a comprehensive perspective on the provision of insurance in rural areas. The provision of **social security** in rural areas provides important context in the rural insurance market and this is dealt with in Section 2.4. The analysis will however place a greater emphasis on CIRC pilot microinsurance approved under the Rule.

[12] Please note: urban groups were included in the Focus Group Discussions (FGDs).

Box 1.3: The CIRC's definition and details of microinsurance in China

The Rule, issued by the Life Insurance Supervisory Department of the CIRC, stipulates that microinsurance is defined as a ***life and personal accident insurance*** policy sold in rural areas or alternatively rural ***micro-life insurance***. The characteristics of a rural micro-life product include: low premium, appropriate coverage, understandable policy terms and conditions and simple underwriting and claims.

Prescribed parameters of microinsurance policy(ies): The CIRC, in the Rule and through further amendments contained in the *Circular on Further Expanding the Pilots of Small-amount Life Insurance in Rural Areas*, *2009* (the Circular) have prescribed the nature of the risk events covered, the geographical locations of operations, the minimum and maximum sum insured value and duration of cover:

Risk events prescribed in the Rule refer to life insurance cover which was expanded in the Circular to include ***small value health*** and ***pension*** insurance products.

CIRC prescribed nine pilot areas in western China. This was expanded in 2009 through the Circular to include Hebei, Inner Mongolia, Anhui, Shandong, Hainan, Chongqing, Guizhou, Yunnan, Shaanxi and Ningxia.

The sum insured should range between RMB 10,000 and 50,000 (USD 1,627 and 8,135).

The period of the insurance ranges from one to five years.

2. Political, economic and social context relevant to insurance

This chapter describes the political, economic and social background within which insurance is delivered to China's rural population over the period 1980 to 2010. Section 2.1 provides an overview of the current national policy focus in China, followed by a description of the rural and urban population and the social security status in rural areas. Section 2 concludes with an overview of the financial sector in China, with a particular focus on the infrastructure available. This chapter is intended to provide essential contextual information that assists with an understanding of the provision of microinsurance to China's rural population. In addition to the general coverage of demographic and macroeconomic conditions, particular emphasis is placed on the social security regime and the rural financial sector, since both of these play, and will in future increasingly play, an important role in the distribution of microinsurance.

2.1. Policy Context

Government values social harmony and is thus embarking on various policies to empower and develop rural areas. China has recently[13] enacted its 12th Five-Year Plan, a comprehensive statement of the government's strategic policy priorities over a multi-year time horizon. In the Plan, the government has as its objective the "harmonious and stable society, protect and improve the lives of people." [14] At present, the rural population is significantly poorer than the urban population. Reducing this inequality is a strong policy priority as China widens its focus from economic to social development.

[13] Approved by the National People's Congress on 14 March 2011
[14] *China's 12th Five-Year Plan*, Morgan-Stanley, April 2011, available at: http://www.morganstanley.com/im/emailers/inst/pdf/China_12th_Five_Year_Plan.pdfhttp://www.morganstanley.com/im/emailers/inst/pdf/China_12th_Five_Year_Plan.pdf

The requirements for the maintenance of a harmonious society, and thus social stability, include efforts to ensure that the gap between the wealthy and poor does not widen to unsustainable levels. Within the context of a widening gap between urban and rural incomes, supporting rural social security becomes an important policy drive for China. Enlisting commercial insurance companies to deliver risk-mitigation products to rural households, aided by various forms of state support should be seen in this light. Although the CIRC has only issued concessionary rules for personal insurance, the focus of the state is on multiple risks.

Agricultural risks enjoy high priority. China is particularly vulnerability to natural disasters and has a strong global focus on food security. China is considered as the country most vulnerable to the risk of natural disasters on the globe: one third of China's farmland, two-thirds of its people, more than 60% of its cities and 80% of its gross domestic product (GDP) are threatened by floods, a situation which leads many in the insurance sector to agree that a bigger loss is more likely in China than in other parts of Asia[15].

2.2. Population distribution: urban vs. rural

China applies different social security policies to urban and rural areas. Whether a citizen is considered urban or rural therefore has a material bearing on his or her ability to access social security benefits. The rural or urban identity is determined by their area of residential registration or *hukou*. Although the details of the *hukou* registration system is complex and determined by historical roots, a simple yardstick is that persons born in villages and residential areas that fall within counties, are considered rural, whilst persons born in areas classified as cities, are considered urban. Generally, Chinese citizens keep their *hukou* for life[16], even if they migrate from rural to urban areas. The NBS collects national data based on the *hukou* of the population. The use of the terms "rural" and "urban" within this report must be understood as referring to this classification. This section provides a short analysis of the composition of the Chinese population, including recent trends, based on this classification.

2.2.1. Overall population growth

Demographics, literacy and the demand for insurance. The Chinese population grew by 33% between 1980 and 2010. Table 2.1 shows national demographic data for China. The total national population increased from 1.008 billion in 1982 to 1.34 billion in 2010. At the same time the number of people per household declined from 4.4 in 1982 to 3.1 in 2010. This is due primarily to the one-child policy. A direct consequence of this policy has been the aging of the population. Over the period, the proportion of the population aged 0-14 years halved, from 33.6% to 16.6%, while the proportion of those aged 15-64 increased by 13%, from 61.5% to 74.5%. The proportion of 65-years and older increased from 5% to 8.9%. Over the period China experienced a dramatic drop in the rate of illiteracy – decreasing from 22.8% to 4%. Life expectancy increased by almost 4 years. Research using the China Household Finance Survey (CHFS) found that an ageing and more literate population enhances the demand for insurance in China[17].

Table 2.1: National demographic data

[15] Asian Insurance Review, 2011. Available at: http://www.asiainsurancereview.com/pages/e-Weekly-Archive.asp?id=16433&st=China:%20One%20third%20of%20farmland%20threatened%20by%20floods%20&matchCase=2
[16] *Hukou's* can be changed, but only under very specific circumstances. (China)
[17] Zhang et al. (2017): https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=MMF2015&paper_id=161

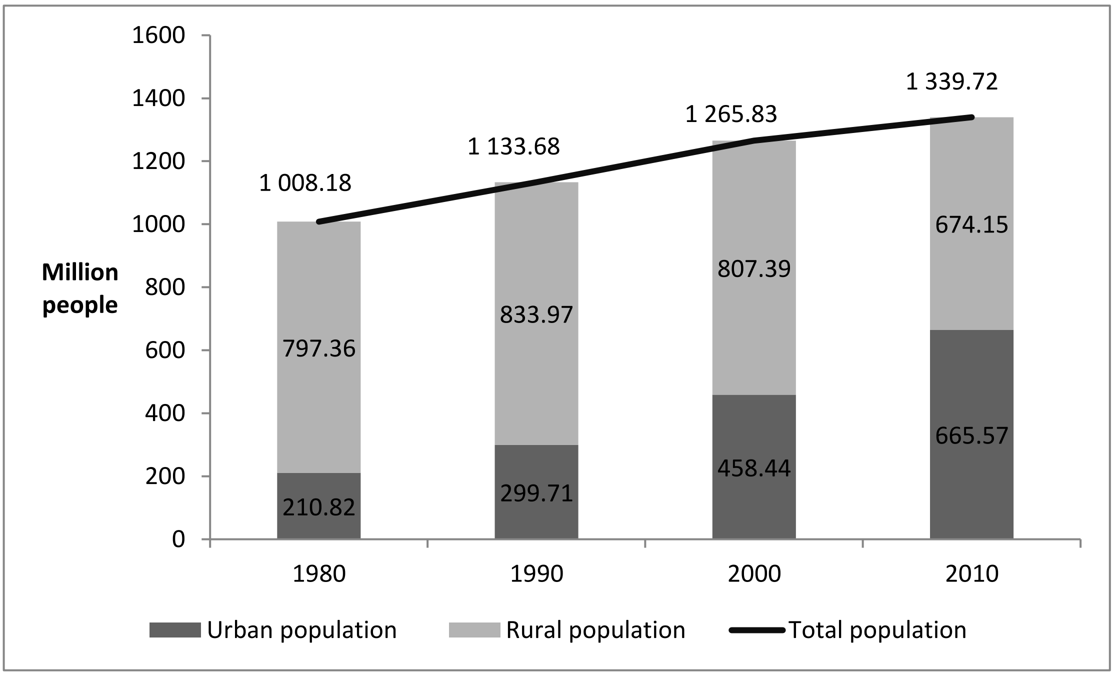
Index	1982	1990	2000	2010
Total population (million people)	1 008.18	1 133.68	1 265.83	1 339.72
Ratio of male to female (female = 100)	106.3	106.6	106.74	105.2
Average household size (people)	4.41	3.96	3.44	3.1
Population at different age groups (%)				
0-14 years old	33.59	27.69	22.89	16.6
15-64 years old	61.5	66.74	70.15	74.53
65 and above	4.91	5.57	6.96	8.87
Illiteracy and illiteracy rate				
Illiterate population (million)	229.96	180.03	85.07	54.66
Illiteracy rate (%)	22.81	15.88	6.72	4.08
Average life expectancy (years)	67.77[18]	68.55	71.4	-

Source: China Statistical Yearbook (Census data)

2.2.2. Relative size of rural and urban population

China is becoming more urban. Figure 2.1 below segments the total population by rural and urban areas. The urbanisation of the Chinese population over the past 30 years is evident here. In 1980, 20.9% of the population resided in urban areas and the remaining 79.1% in rural areas. In 2010, however, 49.7% of the population live in urban areas and 50.3% live in rural areas. This represents both a relative and absolute decline in the size of the rural population.

Figure 2.1: Size of Rural and Urban Populations



Source: China Statistical Yearbook (Census data)

[18] Refers to data in 1981

2.2.3. Farmers, rural workers and migrants

To best understand the segmentation of the rural population below, the following definitions should be read in conjunction with studying Table 2.2.

Categorisation of rural residents. Permanent residents in rural areas are typically low-income subsistence farmers, who may also have part-time work in nearby urban areas. In China the word 'farmer' has a very particular meaning, implying a political identity over and above the activity of cultivating food or rearing livestock. The words 'farmer' and 'rural resident' are frequently used interchangeably and refer to those rural residents who reside permanently in the rural areas. Many rural workers, however, also migrate to find work further afield, but retain their rural *hukou*. These workers are categorised by the NBS as either local rural workers or migrant workers.

Local rural workers are defined as rural workers who obtained non-agricultural work (this includes non-agricultural employment and self-employment) within their registered residential towns or villages for more than 6 months a year.

Migrant workers are those rural workers who obtained employment in a region outside of their registered residential towns or villages for more than 6 months a year. The balance of the rural population (i.e. total rural residents in China less the total number of rural workers in Table 2.2) is made up of farmers and dependents of all economically active persons.

Migrant workers, in turn, are split into two groups: *individual migrant workers* and *migrant workers relocating with their family* – the latter group refers to the rural labour force leaving registered residential villages and towns with their families to relocate to a different region. See Box 2.1 below.

Box 2.1: Migrant workers in China

Migrant workers in China are mostly people from rural areas who migrate to more urban and prosperous (mostly) coastal regions for work—a consequence of China's urbanisation. The migration of workers from rural to urban China is known to be the largest and most significant migration of human population in history. As detailed in Table 2.2, around 158.63 million Chinese (in 2011) have already left the countryside and migrated to a region outside of their registered residential towns or villages (*hukous*). In 2009, 2010, and 2011, the number of migrant workers increased by 4.92, 8.02, and 5.28 million people respectively. These numbers exclude local rural workers, who do not migrate from their registered *hukou*, but nevertheless have left agricultural work to work in nearby urban areas. (NBS, 27 April 2012)

Many migrant workers are farmers or farm workers whose existing employment may be threatened by modern farming practices. They include men, women, and couples with children, but are predominantly male. Men often get construction jobs while women work in factories.

According to a recent study by the NBS, the number of rural workers reached 252.78 million in 2011.[19] Table 2.2 gives a breakdown of the number of rural workers by the NBS groupings. Migrant workers make up a significant proportion of the rural worker population (63%).

Table 2.2: Numbers of rural workers (millions)

[19] NBS, 27 April 2012.

Year	2008	2009	2010	2011
Total rural residents in China	**-**	**-**	**-**	**674.15**
Total number of rural workers in China	**225.42**	**229.78**	**242.23**	**252.78**
1. Migrant workers	**140.41**	**145.33**	**153.35**	**158.63**
1a) Individual migrant workers	111.82	115.67	122.64	125.84
1b) Migrant workers relocating with their family	28.59	29.66	30.71	32.79
2. Local rural workers	**85.01**	**84.45**	**88.88**	**94.15**

Source: NBS, 27 April 2012.

Migration patterns. Whilst rural migrant workers originate from the Eastern, Central, and Western regions of China in roughly equal proportions, the largest migration of migrant workers is from the Central and Western to the Eastern regions. Of migrant workers from Eastern regions, 83.4% were employed within their provinces in 2011, while 67.2% and 57.0% of migrant workers employed in Central and Western regions, respectively, migrated outside of their home provinces. Table 2.3 and Table 2.4 provide details for 2010 and 2011 of the origins and migration patterns of the rural workforce.

Table 2.3: Structure of rural workforce based on region of origin (%)

Year	2011			2010		
	Eastern Region	Central Region	Western Region	Eastern Region	Central Region	Western Region
Rural workers (Total)	42.70	31.40	25.90	43.20	31.50	25.30
Rural migrant workers	**31.60**	**36.60**	**31.80**	**31.80**	**36.60**	**31.60**
Local rural workers	61.40	22.70	15.90	62.90	22.50	14.60

Source: NBS, 27 April 2012.

Table 2.4: Distribution of migrant workers employed within home province and outside home province, by regions (%)

Region	2011		2010	
	Employed within home province	Employed outside of home province	Employed within home province	Employed outside of home province
National	52.90	47.10	49.70	50.30
Eastern region	**83.40**	16.60	80.30	19.70
Central region	32.80	**67.20**	30.90	69.10
Western region	43.00	**57.00**	43.10	56.90

Source: NBS, 27 April 2012.

Trends in economic activity. Currently, there is an increasing level of economic activity in Central and Western rural regions, keeping some of the would-be migrant workers closer to their *hukous*, but according to recent studies it is believed that most migrant labourers will continue to commute between their rural homes and urban jobs for some time into the future.[20] According to the NBS, the number of migrant workers leaving their home provinces

[20] Economist (25 February 2012). *Changing migration patterns: Welcome home*. Retrieved 17 May 2012 from http://www.economist.com/node/21548273.

is in decline and this is a change to the prior trend of migration between provinces. The main destination for migrant workers continues to be middle-sized and large cities.

2.3. National economic overview

The development of insurance markets, including microinsurance, closely tracks the general development and growth rates of an economy as well as significant demographic changes and shifts in employment. China has experienced dramatic changes in both economic development and demography over the past 30 years. These changes have had a differential impact on the urban and rural economies and populations, leading to a rapidly developing urban insurance sector, but lagging rural insurance uptake. These trends are detailed below.

2.3.1. GDP and per capita incomes

Rapid growth in GDP and GDP per capita. China's GDP per capita increased from RMB 2,268 in 1980 (369 USD) to RMB 29,992(USD 4,880)n 2010– a 13-fold increase. This is illustrated in Table 2.5 below. Total GDP increased from RMB 2,225.93 billion (USD 362. 16 billion) in 1980 to RMB 40,120.20 billion (USD 6,527.59)– almost 20-fold – in 2010. The average annual growth rate in GDP during this period was 10.36%[21].

Table 2.5: Real Gross domestic product (GDP) at 2010 prices[22]

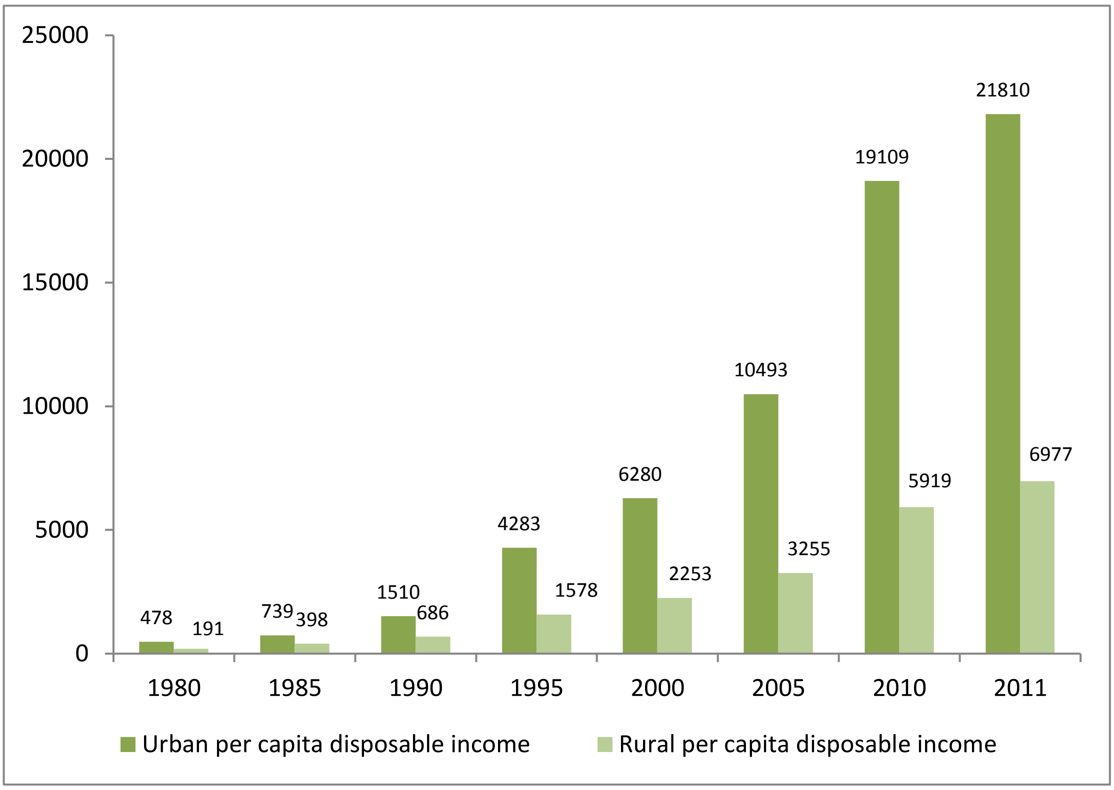
Year	GDP (RMB billion) (USD billion)	GDP per capita (RMB) (USD)
1980	2,225.93 (362.16)	2,268 (369)
1985	3,688.73 (600.16)	3,510 (571)
1990	4,624.13 (752.33)	4,072 (663)
1995	8,212.12 (1,336.12)	6,816 (1,109)
2000	12,258.32 (1,994.44)	9,709 (1580)
2005	21,369.61 (21,369.61)	16,391 (2,667)
2010	40,120.20 (6,527.59)	29,992 (4,880)

Source: China Statistical Yearbook and authors' calculation.

When disaggregated into urban and rural incomes, it becomes clear that, although both increased dramatically in real terms, the gap between urban and rural incomes has increased substantially. In 2011, the per capita disposable income of an urban resident in China was over 3 times that of a rural resident's per capita net income. The urban residents therefore have significantly more disposable income than the rural residents.

[21] From CIA Factbook, 2011.
From CIA Factbook, 2011.
or inflation as per CPI detailed in Appendix A

Figure 2.2: Rural Per Capita Net Income vs. Urban Per Capita Disposable Income



Source: China Statistical Yearbook and the NBS via the China Daily

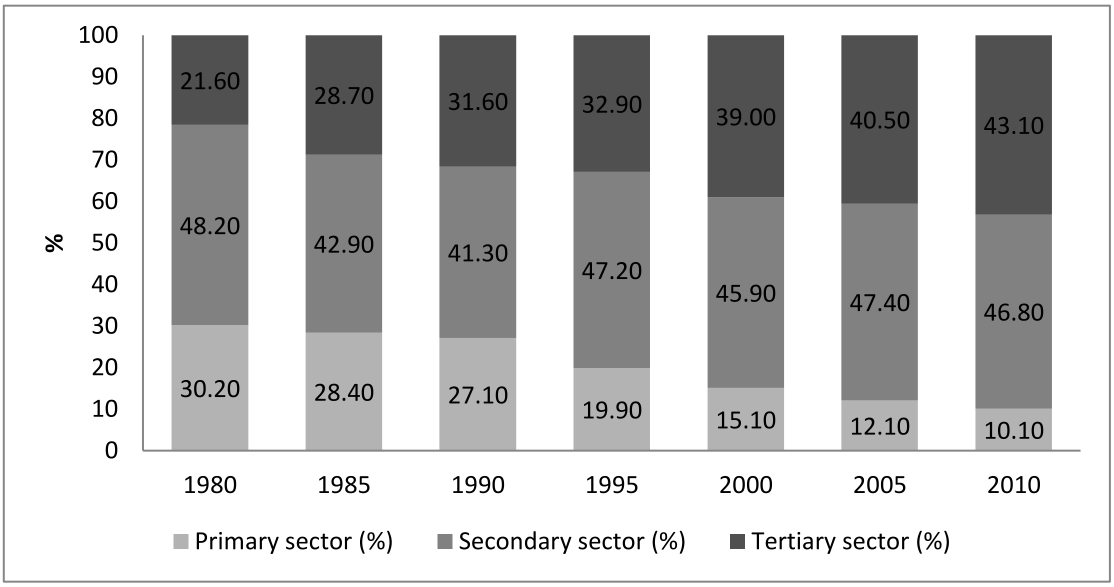
2.3.2. Composition of GDP and employment

The composition of China's economic activity is shifting away from the primary sector. Figure 2.3 shows GDP broken down by primary-, secondary- and tertiary sectors[23]. The proportion of the secondary sector of total GDP is steady over the period, at between 40-50%, whilst the primary sector's contribution decreased dramatically from 30.20% in 1980 to 10.10% in 2010. The tertiary sector's contribution doubled from 21.60% to 43.10% over the same period. This reflects the changing nature of economic activity in China, as it moves away from predominantly agricultural- to industrial- and services activities.

Low unemployment. Figure 2.3 below shows the proportion of people employed in each of the three sectors from 1980 to 2010. Comparing the size of the economically active to employed population for the period, the unemployment rate for the 30-year period was low, at below 2%.

Figure 2.3: Proportion of each sector's contribution to GDP

[23] For a definition of each of the sectors, please refer to the glossary.

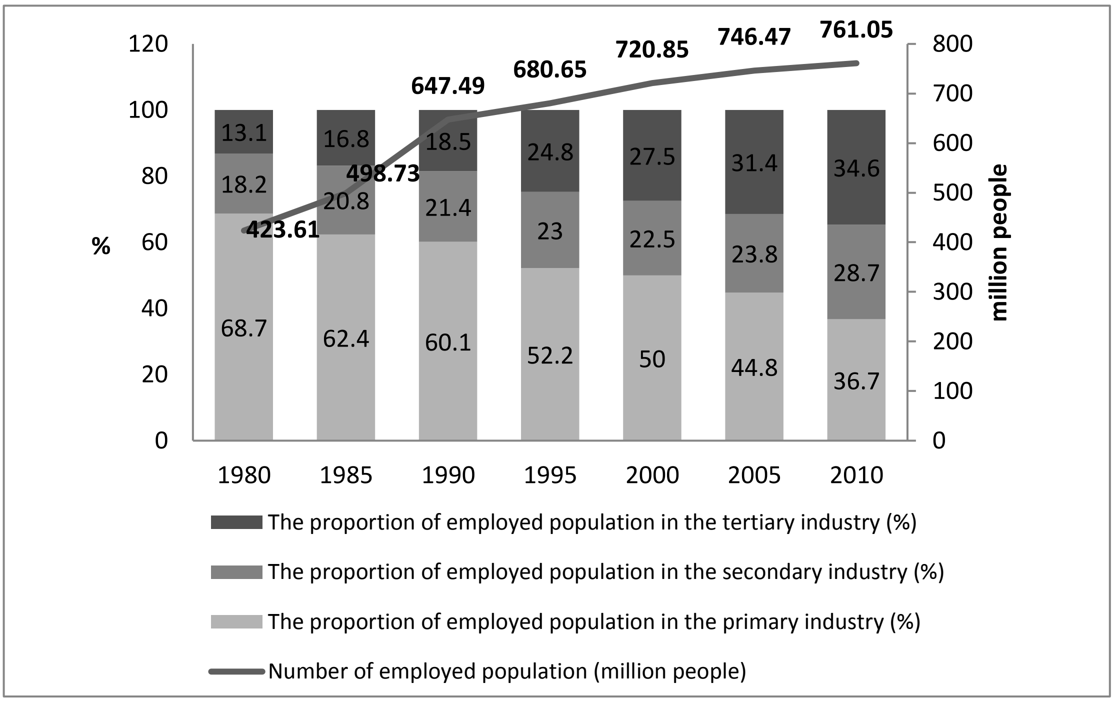


Source: China Statistical Yearbook

Changing nature of labour absorption. The trend of employment in the different sectors is similar to the trend in the composition of the GDP: i.e. away from the primary sector, with increasing numbers of people employed in the tertiary sectors.

Figure 2.4 shows how, in 1980, 68.7% of the labour force was engaged in the primary sector, decreasing to 36.7% in 2010. The relative share of people employed in the secondary- and tertiary sectors, by contrast, have increased over the period. Employment in the secondary sector rose from 18.2% in 1980 to 28.7% in 2010 and in the tertiary sector from 13.1% in 1980 to 34.6% in 2010.

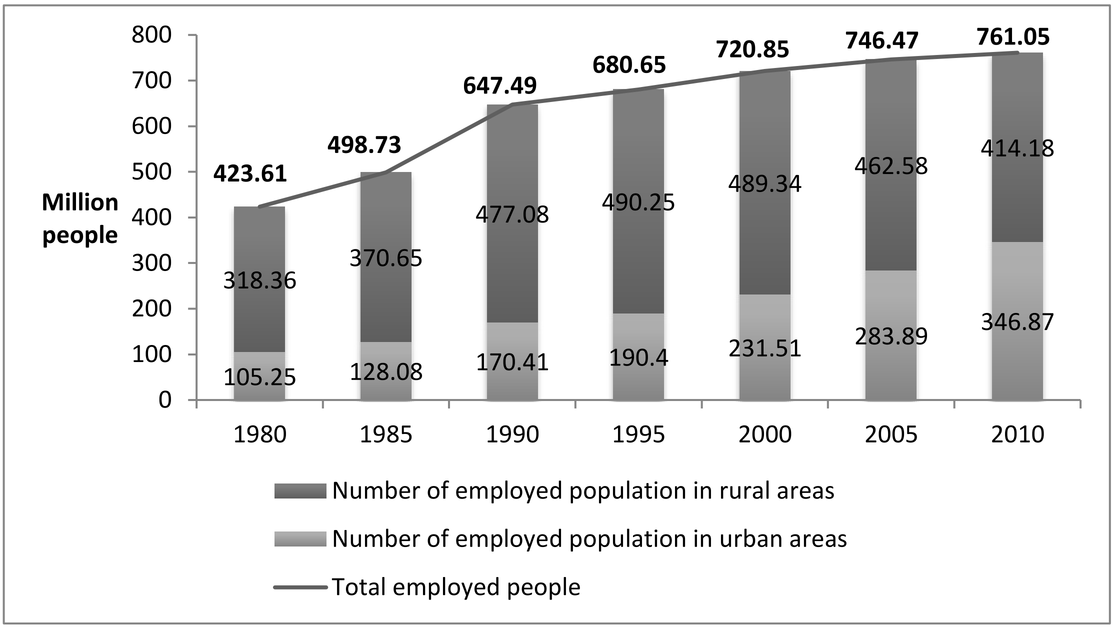
Figure 2.4: Labour absorption in the different sectors of the economy



Source: China Statistical Yearbook

Increasing urbanisation, but rural labour absorption still larger than urban. Figure 2.5 shows the proportion of people employed in rural and urban areas. The proportion of people employed in urban areas has increased from 24.8% in 1980, to 45.6% in 2010; with a corresponding decrease in the rural areas: from 75.2% to 54.4%. The total number of employed people has risen from 423.61 million people to 761.05 million people.

Figure 2.5: Employed population in urban and rural areas



Source: China Statistical Yearbook and author's calculations

2.3.3. Income and expenditure of urban and rural residents

Improving living standards. Table 2.6 below shows the income[24], expenditure and Engel coefficients[25] for rural and urban households in 5-year intervals from 1980 to 2010. The data shows an increase in the living standard of both urban and rural Chinese people, with commensurate increases in income and expenditure. The Engel coefficient has also declined substantially in both urban and rural China.

Urban wealth growing more rapidly. The urban residents' annual income per capita increased from RMB 2,341 (USD 380) in 1980 to RMB 19,109 (USD 3,109) in 2010 – more than 8-fold – and annual expenditure from RMB 2,018 (USD 328) to RMB 13,471 (USD 2,191). For the rural residents, annual income per capita increased over 6 times from RMB 935 (USD 152) in 1980 to RMB 5,919 (USD 963), and annual expenditure per capita increased over five times from RMB 793 (USD 129) to RMB 4,382 (USD 712). The difference between rural and urban consumption levels has become more conspicuous over the period, with urban consumption being 3.8 times that of rural consumption in 1995. However, this has reduced to 3.6 times in 2010, indicating that the national policies to improve the relative welfare of rural areas are starting to have an impact.

[24] For urban residents, this refers to "disposable income" whereas for rural residents it is "net income", see glossary.
[25] A welfare measure of expenditure on food relative to income.

Table 2.6: Real basic income and expenditure of residents in urban and rural areas adjusted for 2010 prices.[26]

Index	Annual disposable income per capita for urban residents RMB (USD	Annual net income per capita for rural residents (RMB) (USD)	Annual expenditure per capita for urban residents (RMB) (USD)	Annual expenditure per capita for rural residents (RMB) (USD)	Engel coefficient of household in urban area (%)	Engel co-efficient of household in rural area (%)	Ratio of expenditure of urban and rural residents (rural residents =1)
1980	2,341 (380)	935 (152)	2,018 (328)	793 (129)	56.90	61.80	2.7
1985	3,023 (492)	1,628(264)	2,753 (447)	1,297 (211)	53.30	57.80	2.2
1990	3,741 (609)	1,699 (276)	3,168 (515)	1,449 (235)	54.20	58.80	2.9
1995	5,786 (941)	2,132 (346)	4,779 (777)	1,770 (287)	50.10	58.60	3.8
2000	7,759 (1262)	2,784 (452)	6,175 (1004)	2,063 (335)	39.40	49.10	3.7
2005	12,125 (1,972)	3,761 (611)	9,178 (1493)	2,952 (480)	36.70	45.50	3.7
2010	19,109 (3,109)	5,919 (963)	13,471 (2191)	4,382 (712)	35.70	41.10	3.6

Source: China Statistical Yearbook and author's calculations, from household survey data.

A further indication of the relative impact of rural social security programs is illustrated in Table 2.7 which shows the composition of urban and rural expenditure from 2007-2009. The biggest difference between rural and urban expenditure is that the rural expenditure on food is higher than that of the urban population, reiterating the Engel coefficient data above. More significant, though, is the relative change in health care expenditure. Over a period of just three years health expenditure as a proportion of the total expenditure of rural households increased by 25%, whilst the comparable figure for urban areas is just 12% of income.

Spending on financial services. Of special interest is the aggregate household spending on financial services. The figure for banking and intermediary services is in line with the global benchmark of 2% of total household expenditure. The absolute level of household spending on insurance services is lower than the average in a country like Brazil, where households spent 2.5% of their monthly budget on insurance[27]. In China the differential spending on insurance between urban and rural households has changed significantly over the three years, with rural residents spending 50% more on insurance in 2009 than they did in 2007, while urban residents were spending 9% less as a proportion of total household expenditure. This is

[26] All monetary figures are inflation adjusted. Refer to appendix A for inflation table for the period. The ratio of urban to rural expenditure is based on national expenditure data divided by the population in each area, i.e. not collected by survey like the other figures in the data.
[27] Instituto de Estudos do Trabalho e Sociedade (IETS), 2009. Analysis of the following IBGE datasets: PNAD 2001; PNAD 2007; POF 2002/3.

largely due to the introduction of NRCMS. Rural residents spent just less than 1% on insurance, which is higher than the comparable figure of about 0.55% for rural residents in Brazil[28].

Table 2.7: Composition of rural and urban expenditure (as % of total consumption spending)

Index	2007		2008		2009	
	Urban area	Rural area	Urban area	Rural area	Urban area	Rural area
Total consumer spending	100	100	100	100	100	100
Food	29.71	41.45	30.77	42.12	29.42	40.69
Healthcare	8.61	6.52	9.12	6.84	9.61	8.17
Banking and intermediary services	**2.39**	**1.68**	**2.57**	**1.84**	**2.16**	**1.65**
Insurance services	**1.88**	**0.65**	**1.84**	**0.68**	**1.71**	**0.98**
Other	57.40	49.70	55.71	48.52	57.11	48.50

Source: China Statistical Yearbook and author's calculation

2.3.4. Rural workers and migrants: employment and living conditions

Globally, migrant workers are considered a particularly vulnerable section of society and China has the largest internal migrant population in the world. This section briefly outlines the employment and living conditions of migrant workers to assess their particular needs for risk-mitigation products.

Employment by sector. Manufacturing, construction, and the service industries are the main employment sectors for rural workers (see Section 2.2.3 above for definition of rural workers), and as can be seen in Table 2.8. While the proportion of rural workers employed in most sectors listed below remains fairly stable, there is a clear upward trend in the percentage working in the construction sector between 2008 and 2011.

Table 2.8: Sectors of employment of rural workers (%)

Sector	2008	2009	2010	2011
Manufacturing sector	37.20	36.10	36.70	36.00
Constructing sector	13.80	15.20	16.10	17.70
Transportation, storage, and postal sector	6.40	6.80	6.90	6.60
Wholesale and retail sector (trade)	9.00	10.00	10.00	10.10
Hotels and restaurants	5.50	6.00	6.00	5.30
Residential services and other services	12.20	12.70	12.70	12.20

Source: NBS, 27 April 2012.

Living conditions for migrant workers are variable, and so are the associated risks. 60% of migrant workers live in accommodation provided by their employers or are provided a rental allowance. The standard of accommodation varies from temporary sheds on construction sites to rented accommodation. Table 2.9 shows the living conditions of migrant workers by region.

Table 2.9: Living condition of migrant workers 2011, by region (%)

[28] Same source as 24

	National	Eastern Region	Central Region	Western Region
Dormitory provided by employer	32.4	35.2	28.9	24.0
Temporary sheds on construction site	10.2	7.4	15.6	16.8
Production site	5.9	5.2	7.3	7.5
Jointly renting accommodations with others	19.3	20.9	14.5	16.8
Renting accommodation alone	14.3	14.2	12.4	16.3
Self-purchased real estate	0.7	0.6	0.8	1.0
Work outside of home area but living at home	13.2	13.2	15.2	11.5
Other	4.0	3.3	5.3	6.1

Source: NBS, 27 April 2012.

Different types of accommodation present different health and safety risks, with higher risks associated with non-permanent structures located close to construction sites. The exact nature of these risks will vary by employment sector and region.

Long working hours and lack of working contracts adds to migrant workers' vulnerability. While there appears to be a marginal improvement in reducing the long hours worked by migrant workers, as can be seen in Table 2.10, the number of hours is still high, with 83.5% working more than 5 days a week and 84.5% working more than 44 hours per week. Migrant workers are also particularly vulnerable as more than 50% do not have a work contract protecting their rights.

Table 2.10: Working time of migrant workers

	2010	2011
Number of months of working time in 1 year	9.8	9.8
Average number of working days in 1 month	26.2	25.4
Average number of working hours in 1 day	9.0	8.8
Working more than 5 days in 1 week	86.40%	83.50%
Working more than 8 hours per day	49.30%	42.40%
Working more than 44 hours in 1 week	90.70%	84.50%

Source: NBS, 27 April 2012.

Migrant workers work in high risk occupations. There are most certainly, as in any country, occupational health and safety hazards which need to be taken into account given the nature of the work migrant workers are engaged in. Injuries such as repetitive strain injury, accidents, and skin and lung ailments, for example, are very common in the manufacturing and construction sectors. In the PRC, the Ministry of Health is responsible for occupational disease prevention and the State Administration of Work Safety for safety issues at work[29].

2.4. Social security in rural China

China's aging population increases the need for the provision of old-age pension and the financing of related medical expenditure. The state sees urbanisation as a further motivation to establish and improve social security in China[30]. Since microinsurance development is currently mainly driven by government policy in China, we look at the complementary social security programmes in rural areas.

We consider the two largest social insurance programmes: the new pension insurance and the New Rural Cooperative Medical Scheme (NRCMS). As of the end of 2010, 102.77 million people were covered by the new pension insurance and the NRCMS covered 836 million. We further review additional social assistance provided by the government in rural areas.

2.4.1. New rural pension insurance

Significant uptake of rural pension insurance across the country. The new rural pension insurance was launched in 2009 to provide old-age pension insurance to rural Chinese residents. As of April 2011, 838 counties in 27 provinces as well as the majority of counties in four administered municipalities were covered by the new rural pension insurance pilot programme. The total number of insured in 2010 was 102.77 million people (see Table 2.11 below). The new rural pension insurance had total premium incomes of RMB 45.34 billion, and total claim pay outs of RMB 20.04 billion (USD 3.26) and the accumulated balance of funds accounted for RMB 42.25 billion (USD 6.87).

Table 2.11: New rural pension insurance trial, 2010.[31]

Indicator	
Total number of insured (thousands)	102,769
Number of people reaching statuary age to withdraw pension (thousands)	28,626
Revenue of funds (billion)	45.34
Expenditure of funds (billion)	20.04
Accumulated Balance (billion)	42.25

Source: China Statistical Yearbook

2.4.2. New Rural Cooperative Medical Scheme (NRCMS)

Rapid increase in provision and uptake. The NRCMS is China's basic medical security system for rural residents, launched as a trial programme in 2003. By 2010, 836 million people,

[29] On the provincial and municipal level, there are health supervisions for occupational health and local bureaus of work safety. The Occupational Disease Control Act of PRC came into force on May 1, 2002 ("Occupational Disease Control Act of the People's Republic of China" http://www.gov.cn/banshi/2005-08/01/content_19003.htm). The Work Safety Act of PRC came into force on November 1, 2002. ("The Work Safety Act of the People's Republic of China" http://www.gov.cn/ztzl/2006-05/27/content_292725.htm The Occupational Disease Control Act is under revision. The prevention of occupational disease is still in its initial stage compared with industrialised countries such as the United States or the UK. (Wikipedia: Occupational safety and health/People's Republic of China. Retrieved 17 May 2012 from http://en.wikipedia.org/wiki/Occupational_safety_and_health#People.27s_Republic_of_China.)

[30] "China Social Security and its Policy," The Information Office of China's State Council, September 2004.

[31] The data for this year's new rural endowment insurance refers to the data collected under approval of State Council rather than those for previous rural insurance and new rural insurance trial in local areas.

covering 93.8% of the rural counties, participated in the NRCMS (see Table 2.12). By 2011, this had increased to 96%.

The NRCMS is especially aimed at farmers, relieving the economic burden of medical costs. This insurance scheme is funded by contributions from central government, provincial government and the policy holders.[32] As of 2010, the fiscal subsidy amounted to RMB 120 (USD 19) per person, being equally subsidised by the local and national governments, with members contributing RMB 20 (USD 3.25) per person.[33] NRCM is a voluntary contributory scheme. The funds are administered by the finance departments of each region, while the reimbursement of medical expenses is managed by the health authorities. It has further catalysed a major improvement in the health service conditions in rural areas (see Section 2.4.5).

Table 2.12: New Rural Cooperative Medical Scheme (NRCMS)[34]

Year	Number of counties where NRCMS is implemented	Number of people who participate in NRCMS (million)	Total fund contribution per capita (RMB) (USD)	Fund disbursement per capita (RMB)
2004	333	80	247 (40)	162 (27)
2005	678	179	172 (27)	141 (23)
2006	1,451	410	129 (21)	94 (15)
2007	2,451	726	80 (13)	64 (10)
2008	2,729	815	119 (19)	100 (16)
2009	2,716	833	131 (21)	128 (21)
2010	2,678	836	157 (25)	142 (23)

Source: China Statistical Yearbook (2011)

According to the Ministry of Health, the NRCMS made additional progress in 2011:

- Firstly, the public finance contributions to the fund were increased from RMB 120 (USD 20) per capita to RMB 200 (USD 32.5) per capita to increase the size of the NRCMS fund and its ability to keep pace with the increasing fund disbursements.
- Secondly, the proportion of reimbursement of in-hospital expenses within the scope of NRCMS was increased from 60% to 70%, and the maximum payment limit was increased from RMB 30,000 (USD 4,881) to 50,000 (USD 8,135). The NRCMS has also undertaken to reimburse farmers for certain out-patient services.
- Thirdly, the level of cover was increased to include additional diseases.

2.4.3. Rural social assistance

Additional social assistance available to rural residents includes a minimum living subsidy for rural residents, the rural system of five guarantees, rural traditional relief, and temporary relief. This assistance operates as conventional government support, i.e. it is delivered through direct transfers, and not according to insurance principles.

[32] " Public Health Care in China", Wikipedia.org, 2012.
[33] Equity health, 2011. Available from http://www.equityhealthj.com/content/11/1/10/
[34] All monetary figures are inflation-adjusted, for the CPI index used, please refer to Appendix A.

Minimum living subsidy. The number of rural residents that received the minimum living subsidy was increased from 15.93 million to 52.14 million between 2006 and 2010. In 2010 the average rural minimum living subsidy was RMB 117 (USD 19) per person, per month.

System of five guarantees. In 2010, the number of people who received the rural system of "five guarantees" (meaning old people's food, clothing, housing, medical care and burial expenses are taken care of and subsidized by the government), was 5.56 million, of which 1.77 million people were supported by the national government, with an average annual value of benefits of RMB 2,952 (USD 480) per person. An additional 3.79 million people were decentrally supported i.e. at a local government level, with an annual average value of benefits of RMB 2,102 (USD 342) per person[35.]

Traditional and temporary relief. In 2010, rural traditional relief covered 0.60 million people, and rural temporary relief covered 6.14 million people.

Table 2.13: Number of rural residents partaking in rural social assistance, from 2006 to 2010 (measured in millions of people)

Type of Assistance	2006	2007	2008	2009	2010
Number of rural residents receiving minimum living subsidy	15.93	35.66	43.06	47.60	52.14
Number of rural residents supported by rural system of five guarantees	5.03	5.31	5.49	5.53	5.56
Number of people who were centrally[36] supported under rural system of five guarantees		1.38	1.56	1.72	1.77
Number of people who were decentrally[37] supported under rural system of five guarantees		3.93	3.93	3.82	3.79
Number of people who were covered by rural traditional relief	1.16	0.75	0.72	0.62	0.60
Number of people who were covered by rural temporary relief	9.64	6.46	8.31	5.46	6.14

Source: China Statistical Yearbook and author's calculation

2.4.4. Migrant workers participating in social security

Low levels of social security participation by migrant workers. The *hukou* of a worker determines his or her entitlement to social security benefits. As migrant workers cannot reregister themselves in urban areas, they must access social security in their area of registration, i.e. in rural areas. The social security benefits are not portable. The result is relatively low levels of participation by migrant workers in social security schemes. Table 2.14 sets out the participation of migrant workers in social security schemes by region. Participation in the Central and Western regions is lower than in the Eastern region.

Table 2.14: Percentage of migrant workers participating in social security system in different regions, 2011 (%)

[35] Ministry of Civil Affairs: 2010' Statistical Report on the Development of Social Service, June, 2011.
[36] "Centrally" means the service is provided by a specific institution.
[37] "Decentrally" means the people are taken care of by the village committee.

	Pension Insurance	Work-related Injury Insurance	Medical Insurance[38]	Unemployment Insurance	Maternity Insurance
National	13.9	23.6	16.7	8.0	5.6
Eastern regions	16.4	27.0	19.3	9.5	6.7
Central regions	8.3	14.8	10.2	4.8	3.4
Western regions	8.3	17.0	11.1	4.5	2.8

Source: NBS, 27 April 2012.

Similarly, the percentage of migrant workers participating in the social security system differs significantly across employment sectors and between types of coverage (see Table 2.15). The low coverage in the manufacturing and construction sectors is particularly noteworthy given that these sectors proportionally employ the most migrant workers. Currently employers make a limited contribution to premiums on behalf of migrant workers.

Table 2.15: Percentage of migrant workers participating in social security system by employment sectors, 2011

Sector	Pension Insurance	Work-related Injury Insurance	Medical Insurance	Unemployment Insurance	Maternity Insurance
Manufacturing sector	14.1	28.0	17.8	7.5%	4.8
Constructing sector	4.3	14.1	6.4	2.2	1.6
Transportation, storage, and postal sector	24.4	32.6	27.7	15.1	10.4
Wholesale and retail sector (trade)	15.1	17.7	16.3	9.6	7.7
Hotels and restaurants	7.3	11.8	9.0	3.8	2.5
Residential services and other services	12.4	16.4	13.7	6.4	4.5

Source: NBS, 27 April 2012.

2.4.5. Rural healthcare expenditure

The provision of healthcare is a critical component of social security. This section briefly outlines trends in healthcare expenditure and resources as essential background to the provision of health insurance in rural China.

[38] Note: This excludes NRCMS.

2.4.5.1. National healthcare expenditure

Increase in total healthcare expenses. From 1980 to 2009, the proportion of total healthcare expenses to GDP increased from 3.2% to 5.2% and the total healthcare expenses per capita increased from RMB 70 (USD 11) to 1,754 (USD 285) in real terms.[39]

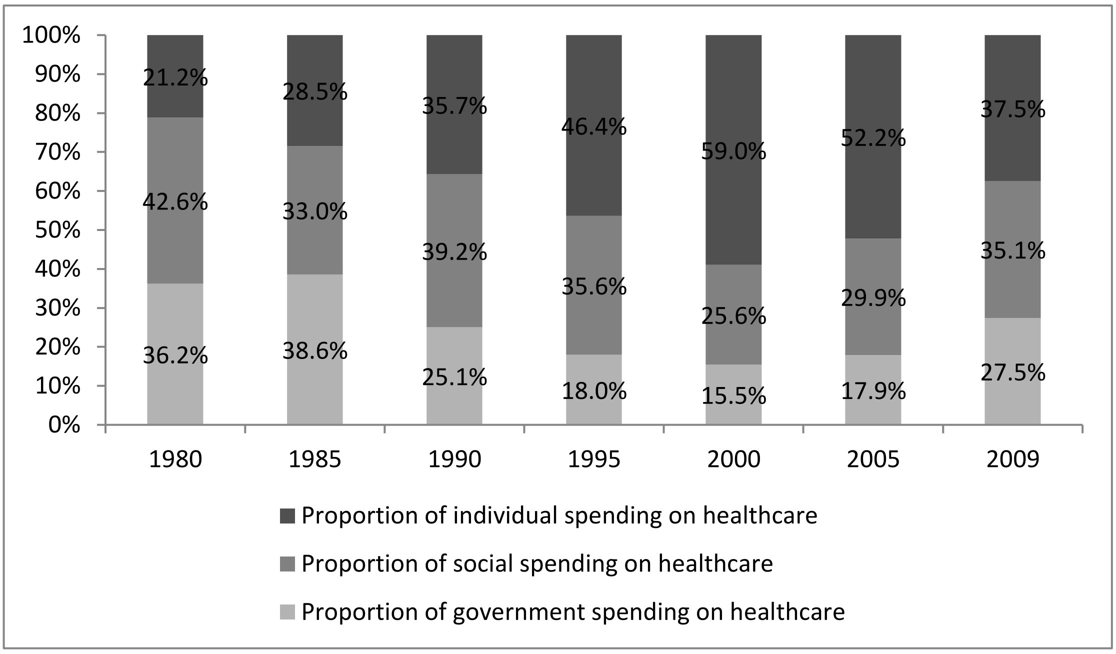
Table 2.16: National healthcare expenditure

Year	Total healthcare expenses per capita (RMB) (USD)	Proportion of total healthcare expenses to GDP (%)
1980	70 (11)	3.2
1985	114 (19)	3.1
1990	185 (30)	4.0
1995	291 (47)	3.5
2000	567 (92)	4.6
2005	1,001 (162)	4.7
2009	1,754 (285)	5.2

Aggregate contributions to health care spending. Figure 2.6 below disaggregates the relative contributions of the government, social/non-governmental funds[40] and private individuals to health care expenses in China. The most remarkable trend is the initial decrease in aggregate state and social spending to just 41% in 2000, followed by a gradual increase in government and social spending to more than 62% in 2009. This trend is accounted for by the introduction of medical social security in both urban and rural areas. Despite this increase, private expenditure still accounts for 37.5% of health expenditure, particularly to top up social security reimbursements for health expenses.

[39] All figures adjusted for inflation (in 2010 prices) as per NBS CPI index in Appendix A.
[40] "Social spending/funds" includes all inputs from society except the government in public health, including the expenditures on social medical security, commercial health insurance, private expenditure on health care operations, social donations and contributions, as well as income from administrative fees.

Figure 2.6: National healthcare expenditure contributions



Source: China Statistical Yearbook

2.4.6. Urban and rural healthcare resources

Healthcare personnel. Table 2.17 shows the number of non-administrative medical healthcare personnel per thousand people from 1980 to 2010[41] disaggregated between urban and rural areas. In 2010, there were 4.37 healthcare personnel available per 1000 people for both rural and urban populations – 7.62 for urban and 3.04 for rural, a ratio of 2.5.

Table 2.17: The number of medical healthcare personnel per 1,000 population

Year	All non-administrative healthcare personnel Per 1,000 population		
	Total	Urban	Rural
1980	2.85	8.03	1.81
1985	3.28	7.92	2.09
1990	3.45	6.59	2.15
1995	3.59	5.36	2.32
2000	3.63	5.17	2.41
2005	3.57	5.82	2.69
2010	4.37	7.62	3.04

Source: China Statistical Yearbook

Healthcare infrastructure. Table 2.18 shows the number of beds in medical institutions for one thousand people for 1980 to 2010. Hospitals and health centres are found in both rural and urban areas, with additional township health centres found in rural areas. In 2010, 3.27 beds were available in the hospital and health centres for one thousand people - 5.33 for the urban areas and 2.44 for the rural areas. Here, the ratio of urban to rural was 2.2. Moreover, 1.12

[41] "Healthcare personnel" include medical practitioner (assistant), registered nurse, pharmacist, laboratory personnel and radiologist except those healthcare personnel who conduct management work.

beds in the township health centre were available per one thousand people in the rural area. There is thus significantly less healthcare infrastructure in the rural areas.

Table 2.18: Number of beds in the medical institutions per 1,000 population

Year	Number of beds in hospital and health centre per 1,000 pop.			Number of beds in the township health centre per rural 1,000 pop.
	Total	Urban	Rural	
1980	2.02	4.70	1.48	0.95
1985	2.14	4.54	1.53	0.86
1990	2.32	4.18	1.55	0.81
1995	2.39	3.50	1.59	0.81
2000	2.38	3.49	1.50	0.80
2005	2.45	3.59	1.43	0.78
2010	3.27	5.33	2.44	1.12

Source: China Statistical Yearbook

2.5. The Financial Sector

This study does not include an analysis of the broader financial sector apart from insurance. However, a brief overview of the rural financial sector is provided due to the important role that the rural financial sector footprint can play and is already playing in the distribution of microinsurance. Data provided by insurance companies[42] for this study reveal a number of rural financial entities already being utilised to distribute insurance products to the rural low-income market.

Below is a description of the financial sector context and rural financial reform history, as well as the current structure of the financial sector. The latter includes details of microinsurance in China, as well as an overview of the rural financial sector.

2.5.1. Financial sector context and rural financial reform history

Origins of the rural financial sector. During the period 1949 -1978, the central government controlled all resource allocation, including credit allocation. Almost all enterprises, including banks, were state-owned. The People's Bank of China (PBoC), established in the 1940s under the leadership of the Ministry of Finance as the central bank, also functioned as a commercial bank. PBoC deposit and lending outlets were opened all over the countryside. In 1951 rural credit cooperatives (RCCs), under the control of the PBoC, were launched to offer credit services exclusively to rural households. During the period of the 'mono-banking system[43], RCCs and the PBoC were the only entities operating in the rural financing sector. The Agricultural Bank of China, also controlled by the government and part of the PBoC, was established in 1955 to raise funds from rural areas to support industrialisation and agricultural production and later to supervise and manage the RCCs.

Largest four banks are state-owned. In the late 1970s, China embarked upon economic reform, which involved (and still involves) progressively liberalising, expanding and diversifying the financial sector. With economic reform, it was no longer appropriate for the

[42] Collected by the CIRC. This refers to the data used throughout the document, particularly in the supply-side analysis.
[43] All the banks in the country are part of one administrative hierarchy. From Lin & Zhang, 2006. Available from: http://eba-www.yokohama-cu.ac.jp/~zuiz/2008/Lin_Zhang_JBF_2008.pdf

PBOC to perform all functions and providing financing for dynamic rural areas. Four state-owned commercial banks were carved out of the PBOC as independent financial institutions serving different economic sectors. Today these state-owned commercial banks are still the largest banks in China and are known as the 'big four'. They are the *Bank of China,* the *Industrial and Commercial Bank of China,* the *China Construction Bank* and the *Agricultural Bank of China*.[44] The China Banking Regulatory Commission (CBRC) was launched in 2003 and is responsible for the regulation of banks, non-bank financial institutions (excluding securities, futures and insurance companies) and rural cooperative financial institutions and new-type rural financial institutions[45].

Postal Savings Bank of China. Postal Savings business was removed from China Post in 1953 but resumed in 1986 and has become an important part of the financial sector, taking deposits but not extending loans. In rural areas it also facilitated savings and remittances. Initially the postal savings outlets served as agents of the PBoC, and postal savings deposits were re-deposited in the PBOC. During the 1980s and 1990s, the rapid development of rural postal savings took available savings away from the RCCs. As at August 2006, postal savings had deposits worth RMB 1.5 trillion (USD 200 billion), an amount exceeded only by the big four. On 31 December 2006, the CBRC permitted China Post to become the sole investor in the Postal Savings Bank of China. The Postal Savings Bank of China is now the fifth largest bank in China and boasts the largest financial network in China of any one financial institution, connecting urban and rural areas through more than 37,000 outlets, two thirds of which are in rural areas. Since 2006, China Postal Savings Bank has been allowed to launch microcredit pilot programs. [46]

Rural credit cooperatives (RCCs) main source of small-scale financial services at local level. RCCs today are small, collectively owned savings and lending organisations that are the main source of small-scale financial services at the local level in the countryside. They handle deposits and short-term loans for individual farm families, villages, and cooperative organisations. Subject to the direction of the Agricultural Bank of China, they follow uniform state banking policies but act as independent units for accounting purposes. RCCs that are not managed by the Agricultural Bank of China are managed by the county rural credit unions and regulated by the PBoC.

Strong savings culture. Since 1949 China's leaders have urged the Chinese people to build up personal savings accounts to reduce the demand for consumer goods and increase the amount of capital available for investment. Small branch offices of savings banks are conveniently located throughout the urban areas. In the countryside, savings are usually deposited with the RCCs, which are found in most towns and villages and the Postal Savings Bank of China.

[44] Rural Finance in Poverty-Stricken Areas in The People's Republic of China - Balancing Government and Market; Zhang Xuechun, Xu Zhong, Shen Minggao, and Cheng Enjiang; ADB; 2010

[45] http://www.cbrc.gov.cn/chinese/files/2014/A2726BEBE1AA406BB5CAC4ADA3875D35.pdf

[46] Rural Finance in Poverty-Stricken Areas in The People's Republic of China - Balancing Government and Market; Zhang Xuechun, Xu Zhong, Shen Minggao, and Cheng Enjiang; ADB; 2010

2.5.2. Current structure of the rural financial sector

Rural credit cooperatives remain the dominant rural financial institution type in terms of number of institutions, outlets and employees. Table 2.19 illustrates the number of each of the aforementioned rural financial institutions.

Table 2.19: Major players in China's rural banking market, 2010.

Type of Institution	Name of Institution or Sub-Type	Number of Institutions (end-2010)
Large Commercial Bank	Agricultural Bank of China	1
Policy Bank	Agricultural Development Bank of China	1
Postal Savings Bank	Postal Savings Bank of China	1
Small and Medium-sized Rural Financial Institutions	**Rural Financial Institutions**	
	Rural Commercial Banks	85
	Rural Cooperative Banks	223
	Rural Credit Cooperatives	2,646
	New-type Rural Financial Institutions	
	Village or Township	349
	Rural Mutual Credit	37

Source: PRC: Financial System Stability Assessment, International Monetary Fund, November 2011, IMF Country Report No. 11/321

Recent years have seen major restructuring in the institutional composition of the rural financial sector, without necessarily reducing the distribution footprint of financial services in rural areas. In particular, there has been a thrust to convert RCCs into Rural Commercial Banks and Rural Cooperative Banks. The CBRC issued regulations for the establishment of Rural Commercial Banks, Rural Cooperative Banks, Village Banks and Finance Houses.[47]

The number of RCCs has decreased dramatically from 8,348 in 2007 to 2,646 in 2010 (see Table 2.20, corresponding to a significant increase in the number of rural commercial and cooperative banks. Nevertheless, as can be seen from Table 2.20 the total assets for each type of institution including RCCs have increased between 2007 and 2010.

Table 2.20: Small and medium-sized rural financial institutions: number of institutions and total assets

	2007		2008		2009		2010	
	Number of institutions	Total assets (billion RMB) (USD)	Number of institutions	Total assets (billion RMB) (USD)	Number of institutions	Total assets (billion RMB) (USD)	Number of institutions	Total assets (billion RMB) (USD)
Rural Financial Institutions								

[47] People's Republic of China: Financial System Stability Assessment, International Monetary Fund, November 2011, International Monetary Fund (IMF) Country Report No. 11/321

	2007		2008		2009		2010	
	Number of institutions	**Total assets (billion RMB) (USD)**	**Number of institutions**	**Total assets (billion RMB) (USD)**	**Number of institutions**	**Total assets (billion RMB) (USD)**	**Number of institutions**	**Total assets (billion RMB) (USD)**
Rural Commercial Banks	17	610 (99)	22	929 (151)	43	1,866 (304)	85	2,767 (450)
Rural Cooperative Banks	113	646 (105)	163	1,003 (163)	196	1,270 (207)	223	1,500 (244)
RCCs	8,348	4,343 (706)	4,965	5,211 (847)	3,056	5,493 (894)	2,646	6,391 (1039)
New-type Rural Financial Institutions								
Village or Township	19	-	91	6 (0.97)	148	25 (4)	349	113 (18)
Rural Mutual Credit	8	-	10	-	16	-	37	-

Source: PRC: Financial System Stability Assessment, International Monetary Fund, November 2011, IMF Country Report No. 11/321

Table 2.21: Number of Outlets by Major Rural Financial Organisation (end 2009)

Institution	Number of outlets	Number of employees
Rural Commercial Banks	7,259	66,317
Rural Cooperative Banks	8,134	74,776
Rural Credit Cooperatives	60,325	570,366
Village or Township	193	3,586

People's Bank of China: 2010 Rural Financial Services in China, March 2011

It is clear from Table 2.22 below that while there has been a dramatic decline in the total number of banking institutions between 2006 and 2010, the number of branches per million of the population – an indication of financial outreach – has hardly changed between 2006 and 2010. In 2010 there were 146 branches per million of the population. This is relatively high compared to Brazil (127) and India (101).[48]

Table 2.22: Banking - financial development indicators for formal urban and rural financial sectors combined (2006 to 2010)[49].

Banking - Financial Development Indicator	2006	2007	2008	2009	2010
Total number of banking institutions	19,667	8,721	5,578	3,767	3,639
Number of branches/million population	140	144	146	145	146

[48] From “Financial Access 2010” by the CGAP/The World Bank Group, 2010.
[49] People’s Republic of China: Financial System Stability Assessment, International Monetary Fund, November 2011, IMF Country Report No. 11/321

Rural coverage. In 2010, formal financial institutions[50] had outlets below the county level, though the Agricultural Bank of China has substantially withdrawn since 2000. The Agricultural Development Bank of China has outlets in 1,606 counties, but not in the poorest regions. Around 20% of the poorest areas have Postal Savings Bank of China outlets. A CBRC survey found that financial institutions covered most county areas but far fewer townships and villages. This was particularly true in the western regions of China. [51]

2.5.2.1. Microfinance and microcredit in China

Internationally, microfinance is defined as financial services that are provided for the low income population while microcredit relates to credit services for the same group. These institutions provide a key avenue for microinsurance distribution.

Numerous providers of microfinance services, yet unsatisfied demand. By 2010, nearly 500 microfinance companies had been established to pilot their services [52]. Microfinance in China includes several types of financial services, including deposit taking and insurance services, while microcredit primarily refers to small loans. The PBOC caps the market for microloans extended to individuals at RMB 50,000 (USD 7,930) and to micro and small enterprises up to RMB 2m (USD 317, 500)[53]. The provision of microfinance is conducted by non-governmental organisations (NGOs), financial institutions, including mainstream banks, rural banks and RCCs, and government agencies. In general, the market saturation rate of microcredit is relatively low in China, indicating that microcredit services are insufficient, especially in rural areas as compared to urban areas[54].

[50] Including Agricultural Bank of China, Agricultural Development Bank of China, Postal Savings Bank of China and RCCs.
[51] Rural Finance in Poverty-Stricken Areas in The People’s Republic of China - Balancing Government and Market; Zhang Xuechun, Xu Zhong, Shen Minggao, and Cheng Enjiang; ADB; 2010
[52] Rural Finance in Poverty-Stricken Areas in The People’s Republic of China - Balancing Government and Market; Zhang Xuechun, Xu Zhong, Shen Minggao, and Cheng Enjiang; ADB; 2010
[53] https://www.adb.org/sites/default/files/project-document/80709/credit-growth-micro-rural-finance-prc.pdf
[54] China Microfinance Industry Assessment Report; By He Guangwen, Du Xiaoshan, Bai Chengyu, and Li Zhanwu; China Association of Microfinance; Feb. 17, 2009

3. Demand-side analysis

The purpose of the demand-side analysis is to estimate the size of the potential rural target market for commercial microinsurance, assess the low-income market's understanding of insurance principles, awareness of insurance companies and products, and experience of insurance as well as their perceived and actual risks and the coping strategies used to mitigate and deal with the main risk events. These findings are then compared with the supply-side analysis to see how the supply of insurance and microinsurance currently meets the needs and demands of the low-income market.

The insights presented here are largely obtained from market research in the form of Focus Group Discussions (FGDs) specifically commissioned for this report.[55] This is supplemented with information gathered during industry consultations as well as secondary research.

In the demand-side analysis, we are primarily interested in the demand for and use of *insurance products* as a risk management tool, irrespective of whether the specific products used by the FGD-respondents fall within the definition of microinsurance or conventional insurance. For all insurance products, the basic principles will be the same. However, our market delineation in the next section is designed to quantify the primary target market for microinsurance, which is a subset of the total rural population.

3.1. Defining the rural microinsurance target market

The majority of those living in rural areas are low-income individuals. Table 3.1 below sets out the annual income per quintile for rural residents for the period 2002 to 2010. The average per capita net income for rural residents[56] in 2010 was RMB 5,919 (USD 963), compared to the average per capita disposable income for urban residents[57] of RMB 19,109 (USD 3,109) indicating that rural residents on average earn less than a third of the income of urban residents. However, the most affluent 20% of rural residents earn an average income of RMB 14,049 (USD 2,285), which is almost 75% of the average urban per capita disposable income. The gap between the top two rural quintiles is however substantial with the highest quintile (RMB 14,049/ USD 2,285 per annum) earning almost double the income of the second highest quintile (RMB 7,440/ USD 1,210 per annum). It was therefore concluded that it is reasonable to include 80% of the rural population in the microinsurance target market. The upper income limit for the rural microinsurance market would therefore be approximately RMB 7,440 (USD 1,210). Given the rural population count in the 2010 census, this gives a microinsurance target market of approximately 540 million people. This includes low-income rural residents (farmers), local rural workers, migrant workers (see Table 2.2 in5 "Farmers, rural workers and

[55] The FGD research commissioned for this report is available as a separate document: "Study of Low Income Individuals on Microinsurance in China" by CPResearch.

[56] Net Income of Rural Households is a comprehensive indicator to show the actual level of the income of the rural household. It is the total income of the permanent residents of rural households during a year which can be spent for investments in productive and non-productive assets, consumption and savings after deducting expenses for productive and non-productive business operations, payment of taxes and payment to collective units for their contracted tasks. The net income of the rural households includes the income from business operations, money remitted or brought back by the members of the household who work in other areas, government relief payments and various subsidies. It includes both monetary and non-monetary income. However, the income from borrowing from banks, friends and relatives is excluded

[57] Disposable Income of Urban Households is the actual income of the sample households (of NBS surveys) which can be used for daily expenses, i.e., total income minus personal income tax, sample household subsidy and expenditure on household side-line production

Migrants", Section 2.2.3) and their dependents but excludes the urban poor, who are relatively better off and have easier access to social security benefits.

3.2. Focus Group Discussions

In order to gain an understanding of the potential and existing microinsurance client base, a series of FGDs were commissioned for this study. FGDs were considered to be the most appropriate way of assessing the demand for insurance products and attitudes towards risk, insurance, personal finance, and other related matters. This methodology is consistent with the methodology used to assess demand in other similar country diagnostic studies and for commercial purposes generally. Individuals for the FGDs were sampled from the target microinsurance market population described in Section 3.1 above. The segmentation used to compile the focus groups as well as the methodology that was applied are described in Box 3.1. Further details of focus group selection can be found in Appendix B:. This section focuses on the insights gained from the FGDs.

Table 3.1: Rural income quintiles[58]

Year	Average Rural annual net income per capita (RMB) (USD)	Low income quintile per capita (RMB) (USD)	Moderately Low income quintile per capita (RMB) (USD)	Middle income quintile per capita (RMB) (USD)	Moderately high income quintile per capita (RMB) (USD)	High income quintile per capita (RMB) (USD)
2002	3,061 (498)	1,060 (172)	1,913 (311)	2,677 (436)	3,748 (616)	7,291 (1186)
2003	3,205 (521)	1,057 (172)	1,963 (319)	2,778 (452)	3,918 (637)	7,756 (1262)
2004	3,454 (562)	1,183 (192)	2,166 (352)	3,033 (493)	4,243 (690)	8,152 (1326)
2005	3,760 (612)	1,233 (201)	2,332 (379)	3,293 (536)	4,625 (752)	8,952 (1457)
2006	4,084 (664)	1,346 (219)	2,530 (412)	3,584 (583)	5,061 (823)	9,647 (1570
2007	4,497 (732)	1,462 (238)	2,804 (462)	3,974 (647)	5,572 (907)	10,635 (1733)
2008	4,883 (794)	1,538 (250)	3,010 (490)	4,311 (701)	6,081 (989)	11,581 (1,884)
2009	5,323 (866)	1,600 (260)	3,213 (523)	4,651 (757)	6,680 (1087)	12,726 (2071)
2010	5,919 (963)	1,869 (304)	3,621 (589)	5,221 (849)	7,440 (1210)	14,049 (2,286)
***Increase* 2002 - 2010**	**0.93%**	**0.76%**	**0.89%**	**0.95%**	**0.99%**	**0.93%**

Source: NBS, 2010

[58] All figures are adjusted for inflation, see Appendix A for CPI table.

3.2.1. Profile of FGD-respondents

The focus group participants were selected to include the three discrete rural population segments described in Section 2.2.3 above, i.e. rural residents/farmers, rural workers and migrants workers. For comparative purposes, a number of focus groups consisted of urban workers. In addition to this segmentation, the respondents were further segmented by geographic origin, gender, age, income level, and whether they have insurance.

Rural residents/farmers in the FGD study. Rural residents were those living permanently in rural areas. The terms 'farmer' and 'rural resident' are used interchangeably. The majority of farmers interviewed were low-income earners who only had access to small plots of land, typically only enough to grow food for their families. The sale of any extra yield was usually insufficient to support their family lives. Most farmers therefore had multiple jobs and found part-time employment in nearby villages or towns to supplement their income.

Rural workers in the FGD study. These respondents originated from rural areas but worked for a significant portion of the year in non-agricultural jobs in urban areas. Rural workers are often viewed as farmers drawn to the urban areas with the aim of earning a higher income, but who will eventually go back to their rural hometowns. Respondents in this group, however, did not see any differences between themselves and urban workers, and given the opportunity would relocate to urban areas with no intention of leaving other than to visit old friends and family for short stays in their hometowns every year. Rural workers at this time were not permitted to register themselves as urban residents. All rural workers included in the study worked in middle-size cities.

Migrant workers in the FGD study. These respondents originated from provinces outside of but work in Xiamen Province. When interviewed, the majority said they would have also stayed in the city indefinitely if they had the same social benefits as urban workers.

Urban workers in the FGD study. These respondents originated from and worked in low-income non-agricultural jobs in urban areas. Respondents selected for this group have similar jobs to the rural worker group.

Box 3.1: Focus group discussion research: rationale and methodology

To gain the most current information on China's low-income market's experience of risk and demand for insurance, market research was carried out for this diagnostic report by CP Research., led by Patrick Zhang. A total of 234 low-income individuals were interviewed by means of a pre-FGD questionnaire-based survey and then in 28 different FGDs. The market research was conducted between October 2011 and December 2011. While the pre-FGD survey captured more quantitative information about the participants, the FGDs findings were qualitative in nature. Milliman and Cenfri actively participated in drawing up the pre-FGD survey and discussion guide. Templates were also developed to capture all quantitative data. Only the key findings from the market research have been included in this report.

What are focus group discussions? FGDs are a qualitative market research tool. The central methodology is to form small groups consisting of individuals of a similar profile (usually 8 to 10 individuals) and then to test their views and perceptions on a certain matter through interactive discussion between the group and a professional moderator. This research method enables the moderator to explore the true attitudes of the participants in a non-threatening and secure environment. As the findings are qualitative, they cannot be used to draw valid conclusions on the population as a whole, but can only give an indication of the experience of the sample.

Role of FGDs. The objective of the survey and FGDs was to understand the low-income market's experience of risk (the severity of different risks and how often they occur), their coping strategies, their awareness of insurance and interaction with it, their decision-making criteria (factors determining whether they would buy insurance or not), and their perceptions of the insurance market. Though survey data can also shed light on these factors, it does not provide the level of qualitative insights required to understand the motivation behind behaviour. Focus groups provide the opportunity to probe these issues through discussion.

Structure of FGDs. Each FGD group had around 8 participants. Participants were selected to represent different population segments:

- *Insured vs. uninsured*. 50% of the sample was individuals who already had experience with insurance and the other half had no prior insurance experience.

- *Geographic location.* The market research focused mainly on provinces where the CIRC microinsurance pilots were run. The FGDs were held in three different provinces, namely: Shanxi, Sichuan, and Fujian. In each province, one middle-size city (urban location) and one county-level town (rural location) were selected for comparison purposes. In addition, to gain information on urban workers, Xiamen City in Fujian province was selected. The urban and rural geographic populations are given by the table below:

Province	**Urban Area**	**Rural Area**
Shanxi	Jinzhong City	Jinzhong City, Taigu County
Sichuan	Guangyuan City	Guangyuan City, Wangcang County, Jiulong Town
Fujian	Longyan City	Longyan City, Changting County, Datian village and Yanpotian Village
Fujian	Xiamen City	---

- *Other criteria.* Aside from geographic location, the FGDs were also split according to gender, age, level of income, and whether or not they had insurance.

Of the 28 groups:

- 12 groups were located in rural areas, 12 in middle-size cities and 4 in a large city
- 14 groups were all male and 14 groups were all female
- 14 groups were aged 25-40 and 14 groups were aged 40-60
- Of the rural groups, all were lower income. Within this lower income category, 4 were considered poor, 4 were lower-income, and 4 were mid-income. Different income brackets were used for different types of workers. Refer to Appendix B for a detailed breakdown of these income brackets.

Below, we consider the output from the groups of FGD-consumers described in Box 3.1 above. The FGDs prompt the income and household budget priorities; their risk experience; risk coping mechanisms; as well as their understanding, perception of and experience with insurance.

3.2.2. Income and household budget priorities[59]

3.2.2.1. Personal and family income

The FGD participants were selected on the basis of the assumed range of income levels of the microinsurance target market in mind. As part of the market research, all respondents were asked what their personal and household monthly incomes were. These are set out in Figure 3.1 below according to various market segmentations. As at the end of 2011, the average personal income for all respondents was RMB 910 (USD 148) per month (RMB 10,920/USD 148 per annum). Average household income was RMB 1,947 (USD 317) per month (RMB 23,364/USD 3,801 per annum). Average income per household member was RMB 513 (USD 83) per month (RMB 6,156/USD 1002) per annum – slightly lower than the suggested microinsurance target market cut-off of RMB 7,440 (USD 1210) per annum. The respondents could thus all be classified as "low-income," with income segmentations being done within this category.

The lowest incomes were earned by farmers and poor income groups[60]. These groups earned an average personal income of RMB 594 (USD 97) per month (RMB 7,128/USD 1,159 per annum) and RMB 495/USD 81 per month (RMB 5,940/USD 966 per annum) respectively; their average income per household member was RMB 287 (USD 47) per month (RMB 3,444/USD 560 per annum) and RMB 234 (USD 38) per month (RMB 2,808/USD 457 per annum) respectively.

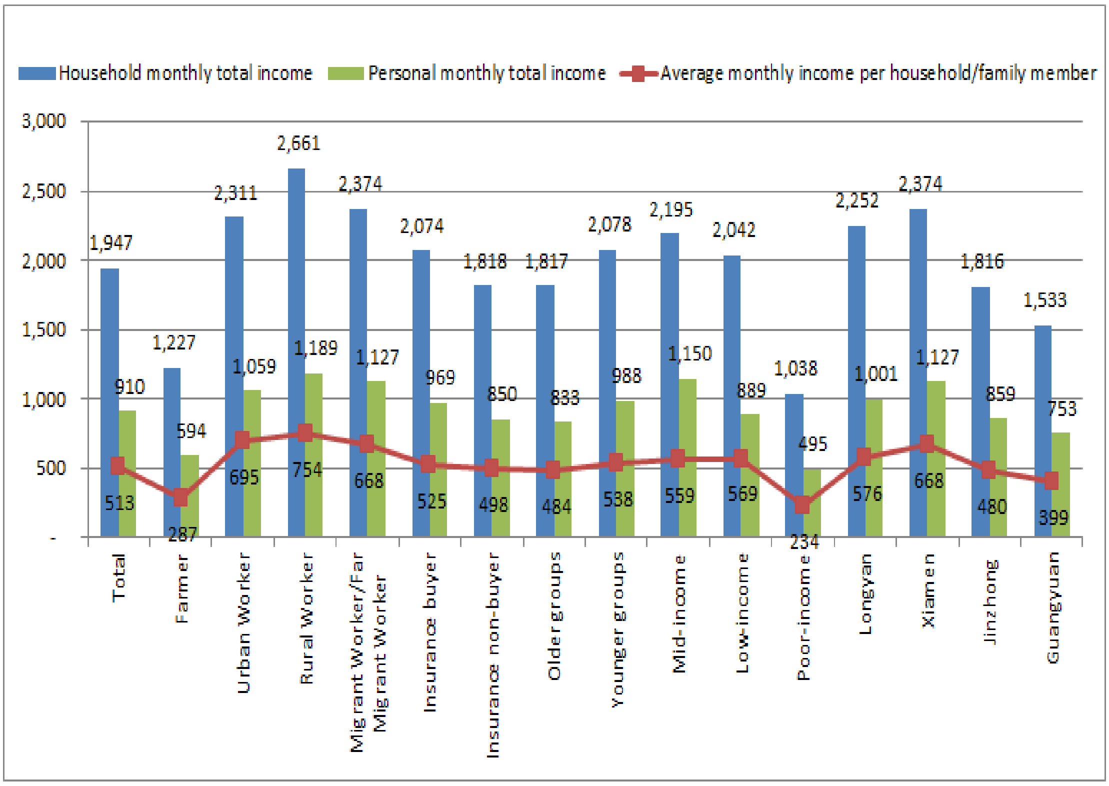
The highest incomes were earned by rural workers. Rural workers earned an average personal income of RMB 1,189 (USD 193) per month (RMB 14,268/USD 2,321 per annum). Their average income per household member was RMB 754 (USD 123) per month (RMB 9,048/USD 1472 per annum).

Insured vs. uninsured groups. There was no significant difference in income between the insured and uninsured groups.

Poorer families have more family members working. On average, there were 2.2 members per family earning income, but poorer families tended to have more family members working despite their lower household incomes.

[59] All the data quoted in the rest of the section is specific to the focus group sample and cannot be generalised to the population as a whole. It should therefore be seen as indicative and qualitative only, not an attempt at quantification.
[60] For a detailed breakdown of the income categories, refer to Appendix A definition of farmers is available in the glossary.

Figure 3.1: Personal and household monthly total income and average monthly income per household member (RMB)



Source: CP Research, 2011

3.2.2.2. Sources of personal and household income

On average, nearly everyone in the household contributed to the household income in some way. Parents of farmers and migrant workers were important income earners in the household. This, however, was not the case for urban families, where the joint parents' income was significantly less than both the respondents' and their children's income. Some of the respondents' parents received income from a retirement pension, which greatly helped to boost the household income.

The FGD sample was predetermined to ensure that 50% of the respondents would be farmers. The non-agricultural sources of income listed were full-time jobs (no further detail given), sales of non-agricultural products, renting and service, retirement pension, non-agricultural production, income received from a migrant worker family member and government. Although all of the farmers selected agriculture as a source of income, they were clear that this was insufficient as a single source of income. One respondent said:

'*[I]f a family relies on agricultural production alone, then this family will be very poor because their income after selling the agricultural output would not be enough to buy other food not produced on their small-scale farm, such as meat, oil, salt etc. and there would be no money to buy clothes and pay for their children's education*.'

For farmers, the income generated by their migrant working family members was therefore very important and could greatly improve their financial welfare. Of all the farmers in the sample, 46.9% said that part of their household incomes came from a family member who worked in an urban area in non-agricultural employment, i.e. as migrant workers. Migrant workers therefore provide a significant proportion of rural incomes.

3.2.2.3. Expenditure and savings

Bulk of income dedicated to daily living expenses. The respondents spent on average 88% (RMB 1,713/USD 279) out of RMB 1,947/USD 317 per month) of their household income on daily living expenses, their households, and their children. There were some differences between the spending habits of farmers, migrant workers, and urban workers.

- For farmers, their expenses mainly included children's education, ceremony gifts, and daily expenses.
- For rural workers, their lifestyles were found to be similar to urban workers. The split of expenditure was 40% on children's education, 25% on daily living expenses, and 15% on household expenses.
- For urban workers, the split was 30% on children's education, 25% on daily living expenses, 20% on household expenses, and 15% on family entertainment.

73.6% of all respondents had some savings. On average, 12% (about RMB 234/USD 38 per month) was saved for future known events. The proportion of respondents across all groups who had savings was high; with 73.6% of all respondents having had some savings at the time of the FGDs. Respondents living in Sichuan had the lowest proportion of those with savings (52.3%) while those in Shanxi had the highest proportion of savings (90.6%).

Across all groups of FGD respondents, saving for children's education ranked highly as a reason for saving. The top three reasons for saving were as follows (multiple answers were allowed):

- Urgent usage, 60.4%
- Children's education, 33.7%
- To cover expenses in the event of being unable to work, 19.8%

Different groups had different reasons for saving. Farmers cared most about their children's education and family members' medical expenses. Urban workers cared most about buying a car or a house, their children's education, their own medical expenses, and their retirement pension. 'Urban worker + migrant worker' groups cared most about their children's education, living expenses in the event of being unable to work, and funeral expenses. Xiamen migrant workers cared most about funeral expenses, their own medical expenses, their children's education, and living expenses in the event of being unable to work.

3.2.2.4. Credit

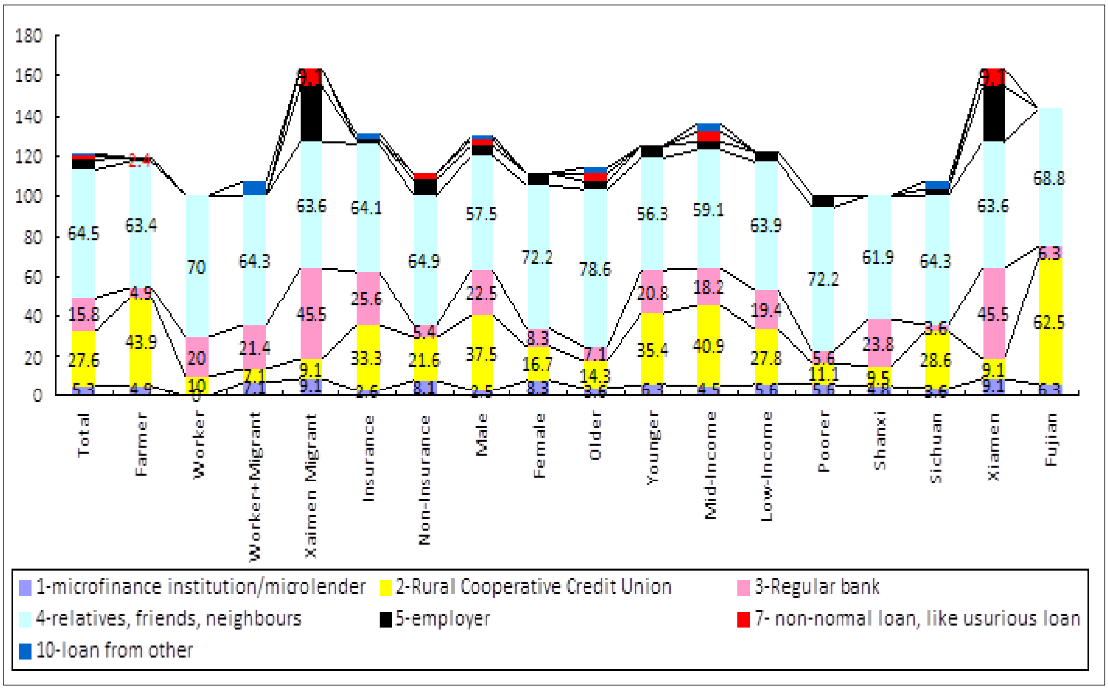
Information on the amount of credit and how credit is obtained is useful when considering options for microinsurance distribution. For example, mainstream banks would be a more effective distribution channel for migrant workers and those living in the bigger cities, but would be a less effective distribution agent in the rural areas, where RCCs would have larger distribution networks.

The majority of respondents were debt-free. More than two-thirds of respondents' families (67.1%) did not have any loans or credit. Farmers and very poor families, however, had the highest proportion of borrowing, with 42.7% and 56.3% having loans respectively.

Farmers found it easier to get loans than those living in urban areas. Farmer's loans were usually small and used to support farming. The amount borrowed was typically in the region of RMB 10,000 to 50,000 (USD 1,627 to 8,135). Loans in rural areas required credit guarantees from relatively wealthy people. If the borrower was not able to pay the loan, then the one who provides guarantee would have to pay for it. State policies supported lending to farmers.

Most loans were obtained from personal contacts rather than institutions. Nearly two-thirds, of families, 64.5%, borrowed money from relatives, friends, or neighbours. 27.6% had loans from the Rural Cooperative Credit Union and only 15.8% took out loans from a regular bank. 5.3% of families had loans from a microfinance institution or micro-lender. Figure 3.2 shows where the different groups obtained their loans.

Figure 3.2: Loan providers to different groups



Source: CP Research, 2011

3.2.3. Risk experience

In order to gain insight into the main risks faced by low-income people, respondents were asked which risks they, their parents, their children and their families faced, and then to rank these in terms of priorities. There were 19 risks mentioned during the FGDs. These are set out in Table 3.2 below according to the order of priority accorded by each profile group to the particular risk.

Table 3.2: Ranking of risk events by different low-income groups[61]

Risk/Category	Farmers	Rural worker	Urban workers	Migrant Worker	Have insurance
Accident/child	9	8	7	8	6
Accident/self	12	9	9	7	4
Agricultural production ruined/family	15	18	18	18	16
Basic medical/child	8	4	10	3	7
Basic medical/self	10	6	2	2	11
Buying car/child	19	16	15	15	18
Buying house/child	6	12	8	5	10
Education/child	1	1	1	1	1
Funeral expense/parents	5	13	12	14	12
House ruined/family	13	15	16	16	14
Ill health/child	11	10	6	9	9
Ill health/parents	3	3	11	10	5
Ill health/self	4	2	3	4	3
Livestock breeding lost/family	17	19	19	19	19
Marriage/child	2	7	14	11	2
Property/Assets lost/family	16	17	17	17	17
Re-education/self	18	14	4	13	15
Retirement pension/parents	14	11	5	12	13
Retirement pension/self	7	5	13	6	8

Colour coding key: 1=red, highest priority, 2=purple: 2nd highest priority; 3=blue, 3rd highest priority, 4=acquamarin, 4th priority, 5=green, 5th most important priority

Source: CP Research, 2011

While the different FGDs prioritised these risks differently, all respondents thought it was unnecessary to concern themselves with the risks faced by those outside of their immediate family, i.e., by their more distant relatives and the community at large, although they also said they would support them if needs be.

Regarding the top risks faced by their immediate family, all groups listed the risk of being unable to educate their child as the most important risk event facing them. Thereafter, the risks associated with ill health were a common concern for all members of the family. Life-cycle related concerns included risks related to retirement for themselves and their parents, and education and marriage for their children, as well as asset building-related concerns and risks for the family as a whole.

Table 3.3: Top risks faced by FGD participants

For their parents	For themselves	For their children	For their own family as a whole
Retirement pension	Retirement pension	Education	Property/Assets
Ill health	Ill health	Marriage	Agricultural production
Funeral expense	Basic medical	Basic medical	Livestock breeding

[61] Note: 1=highest rank of risk priority, while 19=lowest.

	Re-education	Ill health	House
	Accident	Accident	
		Buying house	
		Buying car	

Source: CP Research, 2011

Perceived risks are not always the same as actual risks. Needs with regards to risk mitigation are sometimes classified as **perceived** versus **actual** needs. In certain cases, what people think they need covered (for emotional or other reasons) is not what they actually need covered. For example, there may be a strong emotional drive to prioritise saving for a child's education or marriage, thereby mitigating the cash flow risk that the education or marriage ceremony etc. is more expensive than expected. The risk of having an accident (and so buying the appropriate insurance) may not be prioritised but may be far more likely and far more financially detrimental. What should get priority are risks that in aggregate would render financial hardship or ruin. The frequency and severity of the risk events therefore need to be jointly considered when making insurance design and purchasing decisions. This is particularly true in the context of microinsurance, where the limited ability for low-income families to cover themselves requires careful prioritisation of actual versus perceived needs. The study of perceived versus actual need is therefore important in targeting the real needs of low-income individuals and families. The financial consequences of making incorrect purchasing decisions are far greater for low-income families compared to other socioeconomic groups. Table 3.3 is a summary of what the respondents ranked as the top risks, and this is based on their perception of risk. This perception could either be informed by events that have actually happened, or those that the respondents feared might happen.

Risks most likely to happen and risks with the highest financial consequences. Respondents were asked to rank the risks they were most concerned about, those most likely to happen, and those with the highest financial consequences. Table 3.3 summarises the top three risks in each category for different groups.

Different risk prioritisation between groups, but with some common themes. Though there were some noteworthy differences between groups, it's interesting to note that they all agreed on some of the main priorities. Key observations from the FGDs were:

Table 3.3: Risk characteristics by different groups of FGD respondents

Group	Risks most concerned about	Risks most likely to happen	Risks with the highest financial consequence
Farmers	Education/child Marriage/child Ill health/parents	Education/child Retirement Pension/parents Ill health/parents	Education/child Ill health/self Accident/self
rural workers	Education/child Ill health/self Ill health/parents	Education/child Ill health/parents Retirement Pension/parents	Education/child Marriage/child Ill health/self
Urban workers	Education/child Basic medical/self Ill health/self	Education/child Re-education/self Accident/self	Education/child Marriage/child Ill health/self
Migrant Workers	Education/child Basic medical/self Basic medical/child	Education/child Retirement Pension/parents Ill health/parents	Education/child Marriage/child Ill health/self

Source: CP Research, 2011

Children's education main priority. 'Education-child' was ranked by all groups as the top priority risk. The risks that most groups were least concerned about were 'Property/Assets lost,' 'Agricultural production ruined,' and 'Livestock breeding lost' (all in the 'For their own family' category). These risk events ranked in the bottom three for all groups. Similar comments made by all groups included:

- *"We of course care about our children, because they are our future. We will rely on them for our living in future."*
- *"Everything relies on my children in the future; we definitely set everything aside for them now."*
- *"I just hope that they will not follow my road, and become better than me to earn their better life in the future."*

'Ill-health-self' ranked in the top five risks for all groups. The prioritisation of 'ill health' in the 'For their parents' category was different for the farmers and rural worker groups; these groups included it in their top five. This outcome is consistent with the above analysis that shows parents are also important income earners in the farmers and rural worker groups. Additionally, the medial expenses caused by parents' illnesses also contributes to heavy financial burden on the farmers and rural workers. It is therefore unsurprising that their parents' health ranked as a higher priority than for the Urban and migrant worker groups.

Other insightful comments made included:

On agriculture:

- *"We don't have much land, only one acre. The crops of this land are only enough for my own food."*
- *On property, including housing*:
- *"We don't have much property or assets, only a house but the house is not that valuable."*
- *"Even if there is a natural disaster again, the government will help us out."*

Box 3.2: Risk experience of migrant workers in a People's Insurance Company of China Property and Casualty Company Ltd (PICC P&C) survey

In a survey conducted by PICC P&C on the migrant worker insurance market, 1,896 participants were asked to choose which, among the following risks, they were most willing to insure against (respondents could choose more than one):

1. Disease (52%)
2. Traffic accident (25%)
3. Work-related injury (over 20%)
4. Fire (less than 10%)
5. Falling objects (less than 10%)
6. Careless injury (less than 10%)
7. Natural disaster (less than 2%)

Note: education was not listed as an option here. Notably, disease was listed as the top type of insurance that the respondents were willing to buy.

They were also asked which of the following types of insurance they were most familiar with:

1. Medical insurance (over 90%)
2. Endowment insurance (over 90%)
3. Accident insurance (70-75%)
4. Life personal insurance (30-40%)
5. Health insurance (20-40%)
6. Employment injury insurance (30-50%)

Source: PICC P&C Research on Migrant Worker Microinsurance Program, Actuarial & Product Dept. Michelle Yang, September 12, 2012

3.2.4. Risk coping mechanisms

The FGDs also explored how the various respondent groups typically coped with the risks facing them.

The focus group respondents indicated that they have various strategies available for accessing finance when it's urgently needed. Interestingly, the various coping strategies mentioned were similar across different respondent groups, namely:

- Use their own savings
- Borrow money from their closest relatives
- Borrow money from their friends, including school friends, close colleagues, close community neighbours, close village friends, or other general friends
- Borrow money from their distant relatives
- Borrow money via a bank or mortgage loan
- Sell their assets
- Obtain a usurious loan

It is important to note that none of the respondents spontaneously saw insurance as an "instant" solution to the financial difficulties caused by certain risks materialising.

Different ways of engaging with credit as coping mechanism. Respondents indicated that they accessed credit from different sources depending on the scale of the loss or damage caused. Farmers, migrant workers, and urban low-income workers seldom have credit cards. Some mid-income respondents have credit cards, but they don't use them often. The following was noted:

- For a loan of between RMB 1,000 and 10,000 (USD 163 and 1,627), they would use their own savings, or at most borrow a small amount of money from very close friends for several days
- For loans of between RMB 10,000 to 30,000 (USD 1,627 and 4,881), they would probably borrow from their parents or brothers or sisters, or other close relatives
- For loans of between RMB 30,000 and 50,000 (USD 4,881 and 8,135), they would borrow from anyone willing to lend them
- For loans between RMB 50,000 and 100,000 (USD 8,135 and 16,270), they would have to borrow from relatives and banks
- For loans over RMB 100,000 (USD 16,270), they may need to sell assets and take out a usurious loan.

3.2.4.1. Coping strategies according to main risks faced

Respondents were asked to highlight what they consider as the main coping strategies for each of the main risks mentioned.

Proactive attitude towards providing for education. Having the finance and means available to educate their children was of most concern to all respondents. Thus being unable to pay for their children's education was ranked as the risk event most likely to happen and the event that would have the greatest financial consequences. To mitigate and cope with this risk, the respondents apply the following strategies:

- Limit all other family expenses to support their children's education
- Borrow money from their close relatives
- Borrow money from banks
- Buy insurance in advance

The following comments were made about coping with education costs:

- *"I have had to let my daughter drop out of school so that I will have enough money to keep my son in school."*
- *"We always save money as early as possible in case our children tell me that they need to pay money for school. You know, what I most fear is that my children come home from school or call me and say 'dad, my school wants money again, prepare it for me – I need it tomorrow morning'."*

While insurance was not cited as a solution for accessing finance when urgently needed, it was mentioned as a proactive coping strategy to provide for education expenses. This indicates that there is latent demand for education-related insurance products in all the profile groups. However, it should be kept in mind is that insurance is perceived in this context as a savings mechanism rather than as an *ex ante* provision for an uncertain risk.

Insurance highlighted as means of coping with accident-related financial shocks. Respondents interpreted 'accident' to mean any kind of accident, but mainly thought of car accidents. They didn't think car accidents were a big problem, because they believed that the other vehicle owner and an insurance company would pay for all damages. For other accidents, the respondents used accident insurance to cope with this risk. Respondents said they would buy insurance if they were exposed to high-risk work environments, such as a construction field, or if they had seen, heard of, or experienced an accident. The following comments were made about accident insurance:

- *"I work in construction field every day; you know it is not so sure there will not be anything hit me, so I have bought accident insurance a couple of years."*
- *"My husband rides motor vehicle to work every day, I feel it is quite dangerous, so I bought him accident insurance."*
- *"My colleague was hit by something in the field, but he had accident insurance of RMB 200 (USD 33) per year. He got enough payment back for the rest of his life. So now even though my company buys accident insurance for me, I buy one myself."*

Children's accident insurance was very popular, with all parents agreeing to pay for this. Schools were also mentioned as purchasers of accident insurance for children.

Limited need for financial coping strategies for funeral expenses. Parents' funeral expenses do not usually place much financial pressure on their children for the following reasons:

- Funerals in China are not very expensive and most respondents said they would be able to afford it (less than RMB 30,000/USD 4,881 for the burial and RMB 10,000/USD 1,627 for the cremation).
- Funeral expenses were shared by all the children (in reality it is still common for rural residents to have several siblings, although this is changing).
- Sometimes employers paid for their funeral fees.
- If relatives and friends attended the funeral ceremony, they usually gave money as a gift. This could be a large sum of money for a family and would decrease financial pressure.

Medical expenses less easy to cope with. Respondents were very concerned about the potential impact of medical expenses on their families' welfare:

- *"…it looks like a bottomless pit, no matter how much you have, it will be spent".*

Their fear was also that their families would not be able to return to their previous standards of living for many years or indefinitely.

Respondents made a distinction between 'basic medical' and 'ill health.' Their understanding was that 'basic medical' was the term used for minor illnesses and 'small' pain while 'ill health' was used to describe 'great pain illness.' Respondents indicated that they relied on social medical insurance for basic medical care, i.e. the NRCMS for all respondents except urban workers. However, most respondents were not prepared for ill health expenditure. Comments made about coping strategies with regards to medical expenditure included:

- *"Ill health is not a problem for urban worker as long as they have bought social security insurance, which covers ill health."*

Migrant workers and farmers who had joined the NRCMS indicated that it did relieve a certain amount of financial pressure, but the reimbursement rate was low if they went to a provincial hospital for treatment. If they have not joined the NRCMS it will be a very serious problem for them and their family (Note that the penetration rate for the NRCMS in 2011 was already 98%).

Limited appreciation for disaster and natural risks. Farmers in the FGDs were not very well prepared for natural disasters. Reasons given were:

- They did not believe anything would happen to them and that there will not be many future natural disasters in their villages because the frequency of occurrence in the last few decades has been low.
- If natural disasters occurred, it would affect everyone in the village equally, so the government would have to help them.
- Agriculture is only one source of income—respondents believed they had alternative means of earning a living and so were not very concerned about the consequence of the natural disasters.

From the FGDs it was clear that there was very limited natural demand (in the absence of state support) for rural property and agricultural insurance. In fact, all respondents believed their property was not valuable and therefore did not care much about damage to their homes by natural disasters or catastrophes.

Retirement planning a concern especially in rural areas. Rural respondents confirmed that it was still common for rural families to want more children, especially sons, because they believed that sons were more economically valuable and could easily share their parents' future living expenses. Since the introduction of the 'one family one child' policy, farmers were increasingly worried about how they would meet all their expenses in retirement. In urban areas, urban workers had access to social security insurance, and were therefore less worried about their retirement income not meeting their basic living expenses. For migrant workers living in the urban cities, retirement was still a problem, as they do not have access to adequate social pension insurance. Some of the respondents in the migrant worker groups had, however, bought retirement insurance themselves. The different rankings given to risks associated with having a sufficient retirement pension by different groups is set out in Table 3.2 above.

3.2.4.2. Informal risk pooling

Biaohui. Informal risk pooling plays a critical role in many countries as a tool for low-income communities to deal with major risk events, particularly in the absence of formal insurance provision. The presence or not of informal risk pooling mechanisms were tested as part of the FGD research. Respondents in Shanxi Province and Sichuan Province had not heard of any such arrangement. However respondents in Fujian Province utilised an informal risk pooling mechanism called *Biaohui* (标会). Two kinds of *Biaohui* exist and differ in terms of their structure and payment term. The one is an interest-based *Biaohui* where members contribute monthly and can also use the money, but pay interest when they do. The other is a non-interest *Biaohui* where funds are used on a rotational basis with every member getting only one opportunity to utilise the available money.

These two arrangements are very risky, especially as more members join in. The original members are usually the initiator's relatives, friends, and people in their local communities to facilitate easy governance. If the organisation becomes too large, control becomes more difficult and the *Biaohui* can easily collapse. If even one of the members leaves and doesn't pay his or her contribution, the *Biaohui* is likely to cease. It is common in this situation for disputes to arise.

A *Biaohui* doesn't have any control over how their members use their money, and no principles to evaluate their members' creditworthiness and integrity. Problems can therefore easily arise.

Ceremony gifts/Lijn. Relatives' or friends' ceremony gifts, usually in the form of cash, could loosely be considered as another type of informal risk pooling. In China, when a family wants 'to marry off their daughter,' or when other important events take place, a ceremony is given. Relatives and friends are invited to attend. Normally their relatives and friends will contribute cash. The practice is referred to as *Lijin* or 礼金 or ceremony gifts. This money is therefore available for the ceremony and to pay for anything unexpected. In turn, the next time a relative or friend has the same ceremony, they will contribute a similar amount to them. Thus this type of practice is similar to an insurance policy that pays out a sum of money on the occurrence of a predefined event. In this instance, the event is the ceremony and friends and family collectively pay out the lump sum, jointly performing the role an insurance company would perform.

3.2.4.3. Use of ex ante vs. ex post risk coping mechanisms

Risk coping mechanisms can be divided into *ex ante* (where the risk is anticipated and provided for in advance) and *ex post* (where the coping mechanism is only activated after the risk has materialised) mechanisms. Rural households in China as represented in the FGD utilise both *ex ante* and *ex post* instruments.

The two main *ex ante* mechanism utilised are savings and insurance, with informal risk pooling mechanisms playing a role in some areas. Insurance as a savings mechanism has clear appeal in relation to providing for children's education and retirement, but there seems to be limited uptake of this outside the cities. Insurance as a true risk-based mechanism has taken root in two risk areas only – for health expenses and accidents. The rapid acceptance of the insurance mechanism in the health space can be directly attributed to demonstration effect of the widespread NRCMS. Insurance has not gained credence as an instrument to deal with risks facing property or the incidences of natural disasters, largely due to either the low priority accorded to these risks or a universal acceptance that the state will provide free support in case of natural disaster affecting an entire region.

Two main *ex post* coping mechanisms emerge from the FGDs, the main one being credit and the other state provision. It is clear that respondents would first turn to family and close friends before approaching financial institutions for loans.

Having examined the relative importance of different risk coping mechanisms, we now turn to actual understanding and perception of insurance.

3.2.5. Understanding, perception, and experience of insurance

As explained, half of the focus group sample was chosen because they had bought insurance. The discussion above also indicated that insurance surfaced as a known coping mechanism across groups for a number of risk events, especially for accidents and medical expenses. However, this does not necessarily mean that these respondents fully understood or have had positive experiences with insurance. The focus group research also sought to understand why people would buy insurance and what their understanding, perceptions and experience regarding insurance was.

Trust, knowledge and affordability important determinants of decision to purchase insurance. Respondents who bought insurance said they had done so because they:

- Thought it was worth it
- Thought they understood what they were buying
- Trusted the insurance company
- Had the money to buy insurance
- Had found the insurance easy to buy
- Had previously had good claims experience

Those who had not bought insurance gave the following reasons for not doing so:

- *'Don't understand insurance product'* and *'don't have money'*—the two main reasons
- Other reasons were *'insurance is not worthwhile,' 'don't trust insurance company,' 'hearsay about bad claims experiences,' 'no advice available,'* and *'not easy to buy.'*

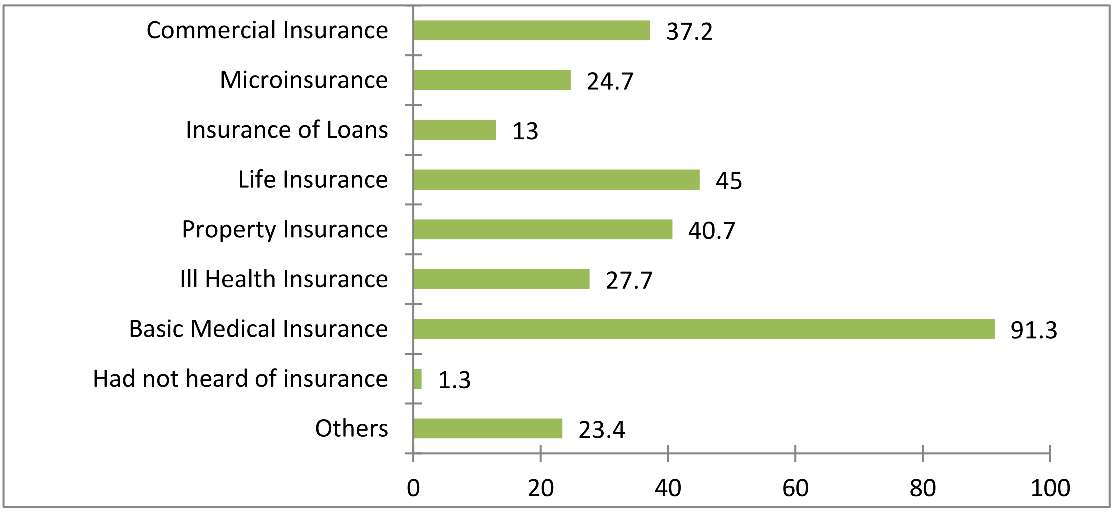
3.2.5.1. Awareness and understanding of insurance

Most FGD participants were aware of insurance. While it was predetermined that 50% of the respondents sampled had insurance, almost all of the respondents had at least heard about insurance, not only social insurance but also commercial insurance, and knew the basic differences between the two. Only 1.3% of respondents had not heard of insurance. This would seem to indicate that the multiple efforts to communicate the insurance concept, particularly driven by the state in recent years, had started to pay off.

High awareness of leading insurance companies. When asked which insurance companies the respondents knew about, many knew about the first name brand introduced in their village. Many companies were listed but only a few dominated as being well known by the FGD participants. 83.1% had heard of China Life, 77.1% of China Pacific Insurance Company Limited (CPIC) and 30% of Ping An. Less than 30% of respondents were aware of other insurance companies. Respondents knew about the companies that they had seen advertised on TV and been introduced to by a salesperson[62]. In a study commissioned by Zurich in 2009, in which the sampled farmers were not predetermined in terms of having or not having insurance, the results were similar: a relatively high percentage had heard of China Life, CPIC, Ping An Life and Ping An Property & Casualty while relatively few knew about Taiping Life, Tai Kang, and AIA.

Highest awareness for health and life insurance. For the FGD respondents, awareness of life insurance was higher than awareness of property insurance. Awareness of basic medical insurance was the highest of all insurance types listed. Keeping in mind that 50% of the sampled participants had purchased insurance, which skews the results towards higher-than-average awareness, Figure 3.3 shows the relative awareness of different types of insurance.

Figure 3.3: Percentage of FGD respondents having heard of different types of insurance policies



Source: CP Research, 2011

Awareness does not necessarily mean understanding. According to a similar study done by Zurich, rural residents had some understanding of insurance (76.4% of farmers understand insurance to some extent).[63] Despite the relatively high levels of awareness of insurance, the traditional insurance policy was still too complicated for rural residents in our sample and they lacked a full understanding of the rights and obligations of the policy. Farmers were eager to learn about commercial insurance.

Understanding of life versus property insurance. With regards to commercial insurance products, most FGD respondents did not understand the difference between accident, life, ill health, and other products even in the case where some had bought it. Most respondents were confused by the product names and what risks were covered.

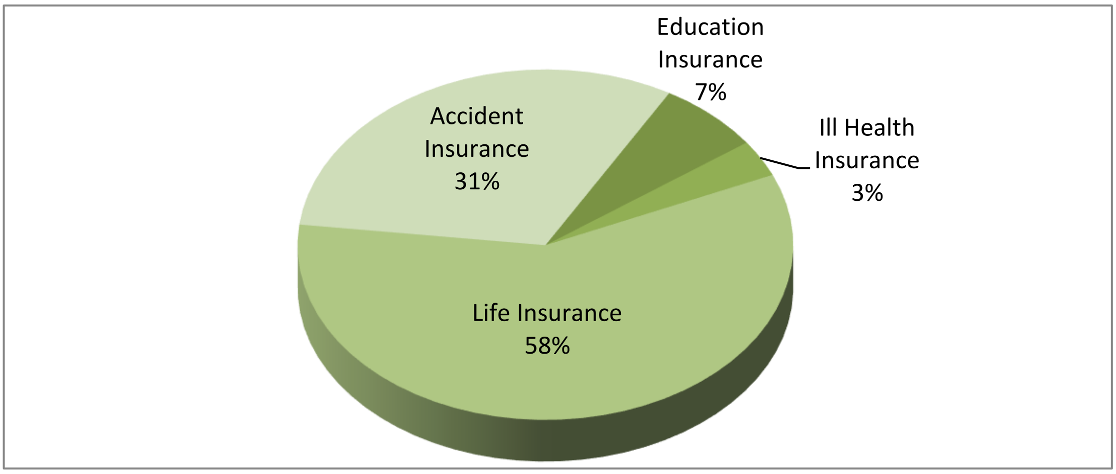
[62] Figure B.1 in Appendix B shows the percentage of respondents who were aware of the different insurance companies. This figure should be viewed with the understanding that the sample selected is biased, with 50% already having insurance. This figure is representative for the sample of FGD respondents selected and shows the relativities of awareness by company. Indicative conclusions about the rural population at large cannot be drawn from this figure.

[63] J. Shengzong. 2009. Research on the Development of Microinsurance in China. Zurich Financial Group and Nankai University.

3.2.5.2. Experience with insurance

Half of the respondents (119 people) were chosen because they had bought insurance. Between them, they had bought 178 different insurance products, which covered children's education insurance, ill health insurance, life insurance, and accident insurance. A list of insurance policies purchased is given in Appendix B. Most of the life insurance products were in fact participating, universal or unit-linked products, all investment-related products.

Figure 3.4: Type of insurance policies bought by FGD Participants



Source: CP Research, 2011

With regards to the take-up of social security insurance, there were notable differences between the rural and urban groups:

- While all farmers and rural workers were members of the NRCMS, only 30% of them had a retirement pension (and this was only in the Fujian area where there was a higher percentage than in the other provinces for famers)

- 50% of migrant workers in Xiamen were members of the NRCMS, the other 50% had not applied for the NRCMS because they had not returned to their hometown for several years.

- 80% of urban workers had social security insurance; the other 20% had stopped paying for it because they have left their original units.

The FGDs explored respondents' experience with their insurance policies in terms of their understanding of the terms of the policy, the claims process, their trust in the insurance company, the quality of service that they receive from the insurer/intermediary and the cost of the insurance. In addition, we also considered insights in this regard from other research projects. The results paint a picture of low-levels of insurance understanding, an unsuitable product offering and mistrust of insurance companies.

Policy terms not easily understood and the policy documentation too complex. There were three kinds of education and life insurance mentioned, namely: participating insurance[64],

[64] Also known as "with profits insurance".

investment-linked insurance, and universal type insurance. Consumers complained that these products were not easy to understand and had complicated documentation. It was noted in the research that while the respondents had received at the highest level a primary school (24.2%), junior school (43.3%), or high school (21.6%) education, many of them could still not write. This suggests that wordy documents explaining how products work would be ineffective and the use of pictorial information could more successfully explain the concepts involved. It is likely too that the level of education in the low-income population at large is even lower than in our sample[65].

Hearsay about bad claims experiences was common. While only two respondents reported having had disputes with insurance companies over their claims, more than 80% had heard about bad claims experiences from unknown sources. They believe these disputes really exist. A survey conducted by Zurich in 2009 confirms that our respondents' scepticism about claims was not unfounded. The Zurich study showed that, overall, the experience of insurance company service by rural residents was positive, but the insurance companies were still viewed with high levels of scepticism and mistrust. In Jiangsu Province around 60% of the rural residents surveyed said that they were either sceptical of or distrusted insurance companies. Inland in Hebei Province, 80% of those surveyed said that they didn't trust insurance companies and their agencies. The study showed that the loss ratio for rural insurance policies was relatively low, which could indicate that too few claims were being paid, policyholders didn't understand how to claim, or perhaps they didn't understand the insurance they had bought. More than 70% of insured families claimed they were unable to receive indemnity and they were displeased with the insurance companies.

Another survey, conducted by China Life in rural areas in 14 provinces in Eastern, Central, and Western areas of China, confirms these results. Results of this research showed that the quality of insurance services was lower in rural than in urban areas. Around 33% of those surveyed said that insurance companies and their agencies had not kept the promises they made during their marketing. This percentage is higher when only considering rural residents. Differences in the levels of service were attributed to the degree of maturity of the insurance market in different provinces and between rural and urban settings.[66]

The weaker the connection between the salesperson and the insurance company, the lower the level of trust. All respondents who had insurance said they had bought it from a salesperson who came to their homes. They said the salesperson who successfully persuaded them to buy insurance were their relatives, family members, and close friends. This is because they felt they could trust these people and believed they would be reliable. Some commented that the communication style and warm-heartedness of some salesperson (presumably those they didn't know) made them feel very disturbed and troubled.

A CIRC survey conducted in Shandong Province also showed that the level of trust increased depending on who was selling the insurance, with 62.1% preferring permanent staff of insurance companies as salespeople. In Hebei Province 77.1% preferred to be sold insurance by permanent staff of insurance companies. 8.2% preferred insurance agencies, 8.1% bank staff, and only 6% preferred people with high prestige, such as rural cadres[67].

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[65] It was predetermined that around 50% of the respondents selected have insurance—this may have increased the proportion of respondents who had received higher levels of education

[66] Research on the Development of Microinsurance in China; Zurich and Nankai study, 2009.

[67] The apparent contradiction between the FGD results and the CIRC survey can be explained in a number of ways. Firstly, the profiles of the sample respondents can differ significantly. We are not familiar with the profile of the respondents in the CIRC

Premiums and benefit sizes experienced as inappropriate. The various cut off points for how much respondents are willing to pay for differing insurance benefits were not formally tested in this study, but comments were made that alluded to the benefits of the CIRC pilots being too small in scope to increase both the premiums and benefits to provide more meaningful protection. As can be noted from Appendix B the benefits of the insurance policies actually purchased by the FGD respondents in many cases exceeded the upper limit specified by the CIRC, i.e. RMB 50,000 (USD 8,135)[68].

Perceptions drive demand. It is apparent from the discussion above that perceptions drive behaviour. Perceptions are not necessarily always driven by actual experience. Most respondents had a positive impression of insurance, but had differing opinions on what they thought of different insurance companies, insurance sales processes, products, claim processes, etc. Perceptions and trust, in turn, seem to be driven by two main factors: understanding and reputation.

Awareness and understanding. Research shows that rural residents' insurance awareness is primarily a function of and directly proportional to a) their level of income and b) their level of education. These relationships are clearly illustrated in the following three tables.[69]

Table 3.4: Farmers' insurance awareness by income classes in Beijing

Family's annual income RMB (USD	Proportion who understand the function of insurance
Less than 7,000 (1,139)	71.48%
7,000 to 13,000 (1,139 to 2,115)	79.24%
Above 13,000 (2,115)	85.25%

Source: CP Research, 2011

Table 3.5: Farmers' insurance awareness by income classes in Shijiazhuang

Family's annual income RMB (USD)	Proportion who understand the function of insurance	Proportion who understand the rights and obligations of insurance policies
Less than 5,000 (814)	74.8%	65.2%
5,000 to 20,000 (814 to 3,254)	75.3%	72.5%
Above 20,000 (3,254)	75.8%	76.2%

Source: CP Research, 2011

Table 3.6: The relationship between insurance awareness and level of education

Region	Proportion with at least a high school education	Insurance purchase rate	Consumers who understand insurance
Tangshan City	23.2%	21.8%	No data
Shijiazhuang City	45.8%	48.9%	79.4%
Gaobeidian City	59.2%	66.7%	93.5%

survey. Secondly, there may be significant provincial differences, since the two surveys were taken in different provinces. Thirdly, it stands to reason that the results are entirely compatible when the permanent staff members of insurance companies are relatives, family members or close friends.

[68] The new Micro Personal Life Rule issued by the CIRC in 2012 increased the upper limit to 100 000 RMB, with certain qualifications.

[69] Source: Research on the Development of Microinsurance in China; Zurich and Nankai study, 2009

Source: CP Research, 2011

The reputation of insurance. The respondents said they would purchase insurance if they witnessed others having good claiming experiences. Conversely, hearsay of bad experiences with insurance companies would damage trust and can act to dampen demand for insurance.

The apparently less than perfect experience with insurance reported by respondents – actual or perceived – begs the question: what would be the prerequisite features of insurance products – in terms of simplicity, elements covered, cost, claims procedures and service features – to ensure sufficient trust in the market to encourage voluntary insurance uptake at scale? And how could insurers best convince the market of their trustworthiness in order to overcome negative perceptions?

3.3. Conclusions

The demand-side research undertaken as part of this study revealed interesting and significant characteristics of the potential rural target market for microinsurance:

Target market. Rural residents earn on average less than one third of urban residents whilst the top 20% (highest quintile) of rural residents earn almost double what the next highest quintile earns. This makes the bottom 80% of the rural market the natural domain for microinsurance in China. That would mean that persons earning up to approximately RMB 7,440 (USD 1,210) should be considered the microinsurance target market in China. Based on the 2010 census, this implies a rural microinsurance target market of approximately 540 million people.

Distinctive categories of rural residents. Chinese residents categorised as rural can be separated into three broad groups as far as their risk experience is concerned: (1) farmers, (2) rural workers, who originate from rural areas but work for a significant portion of the year in non-agricultural jobs in urban areas, and (3) migrant workers, who have permanently left their rural origins to work in urban areas.

There is a strong precautionary savings culture in China, with 73.6% of all our FGD respondents having some form of savings at the time of the interviews. This implies that products with some kind of savings elements could be popular. This would be entirely consistent with the popularity of participating, universal and unit-linked insurance products available in China's urban areas.

Credit take-up limited. Two thirds of the FGD respondents did not have any loans or credit. Most of the credit provided was informal. Of those with loans, 64% borrowed from relatives, friends or neighbours, 28% had loans from RCCs and only 16% had loans from a regular bank. This implies that credit life microinsurance, often the lead product for microinsurance market development in other countries, will only achieve limited reach in China.

Risk appreciation. All respondent groups listed the ability to pay for the education of their children as the most significant risk facing them. This was followed by health risks for themselves, their children and parents. Only then did retirement provision feature as a concern. Particularly significant is the very low importance attached by all respondents to property risks, including potential loss of agricultural crops and livestock. Generally farmers and rural workers were more concerned about risks facing their parents since parents generally contribute more to household income in farming communities than in urban communities.

The priority risks as revealed by the FGD research are unusual from an international perspective. In most countries, the top two risks concerning low-income households are the death of a breadwinner and health concerns affecting family members. Whereas, the health concerns are also witnessed in China, the death of the breadwinner is not evident. Rather, the strong focus on the education of the child suggests cultural concerns and conditions that are materially different. These can be due to any number of underlying concerns. However, the identified fear amongst parents that they will not be able to pay for the education of their child creates important opportunities for the growth of insurance.

Risk coping mechanisms. Although insurance was not mentioned by respondents as a "top of mind" risk coping mechanism, it had taken root as a true risk coping instrument (as opposed to just a savings instrument) in two areas – health and accident risks. The general acceptance of insurance as an instrument to deal with health risks can largely be ascribed to the rapid growth and virtually universal take-up of the NRCMS. The take-up of personal accident, on the other hand, seems to flow mostly from personal or perceived experience of higher risk environments such as growing traffic, construction sites, etc. Savings and credit remain the default risk coping instruments for most rural households.

High insurance awareness, low knowledge. Only 1.3% of respondents had not heard about insurance. The awareness of basic medical insurance was the highest. However, knowledge of the terms and implications of insurance policies remain limited, with an expressed need for more information about savings-based personal policies in particular. Policy documents are viewed as too long and wordy.

Experience with insurance. Although actual adverse experience with insurance claims was very limited amongst respondents, 80% claimed to have heard about bad claims experiences with insurance companies. Insurance companies still seem to be viewed with high levels of scepticism and distrust. Respondents were most likely to buy insurance from salespersons who were relatives, family members or close friends. The benefits of pilot insurance schemes were considered too small by a number of respondents to provide meaningful protection.

4. Supply of Microinsurance in China

Thus far, this document has considered the general socio-economic, demographic and financial sector context in China that forms the backdrop for microinsurance market development, as well as the insights into the economic realities, risk management needs and perceptions of the target market. The rest of the document outlines the microinsurance sector landscape in China, as well as the regulatory framework within which the market operates so as to understand the way in which the current supply offering and regulatory framework responds to the expressed market needs, what the opportunities are for microinsurance market growth at scale and where the challenges lie. Section 4 considers the supply of microinsurance in China. Section 5 then analyses the regulatory framework.

The first objective of the supply-side analysis is to build a high level understanding of the key players and microinsurance products in the Chinese insurance market, focussing on those companies serving or hoping to serve the low-income market, as well as the context in which they operate. The second objective is to identify the key dynamics and trends that are shaping the insurance market in general and the microinsurance market in particular. The supply-side analysis has four important elements: products, providers, distribution mechanisms and take-up rates. These elements will be covered in the sections that follow.

4.1. Overview of China's insurance market

History of China's insurance market. The Chinese insurance industry has been in existence for over 200 years, with the first insurance firm established in 1805. Since 1949, the year that the PRC was founded, the insurance industry of China has been through three stages. During the initial period (1949-1958) the industry developed slowly. In 1958 the industry was suspended and no insurance activity was permitted in China until 1979. The property insurance industry was the first to resume, followed by the personal insurance industry in 1982.

The industry has witnessed rapid development. China's insurance industry has grown more rapidly than the global insurance industry during the past 30 years. By 2010, the income from premiums in China accounted for 4.95% of total insurance income worldwide, and China's insurance industry ranked sixth globally. Although China's insurance density has increased in line with global growth (even following the 2008 financial crisis after which global insurance density declined), by 2010 China's insurance density at USD 158 was still significantly below the global average of USD 627, resulting in a ranking of 61st worldwide. China's insurance penetration has increased in line with global trends, but remains comparatively low: the 2010 global average measured at 6.9%, with China at 3.8%, ranked 39th worldwide[70].

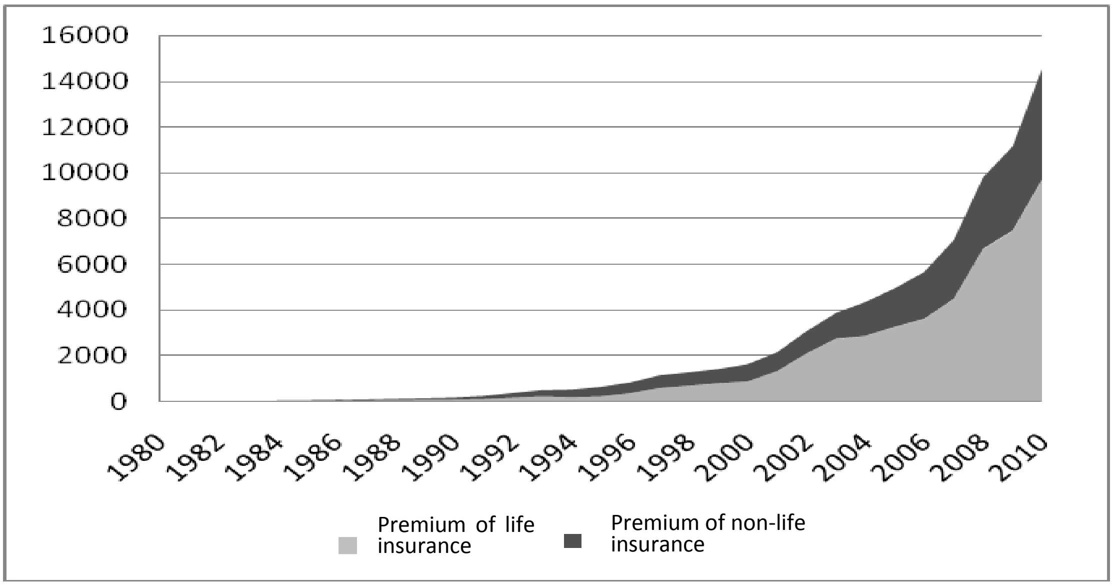
Insurance income grew from RMB 0.29 billion (USD 47 million) in 1980, to RMB 15.05 billion (USD 2.45 billion) in 1990, to RMB 160.34 billion (USD 26.1 billion) in 2000 and RMB 1,453.80 billion (USD 236.53 billion) in 2010. The premium incomes in 2010 are thus 5009 times those in 1980, 97 times those of 1990 and 9 times those of 2000.[71]

Personal insurance dominates. China's insurance industry is divided into **property** and **personal** insurance business. Property insurance covers vehicle insurance, enterprise property insurance, family property insurance, cargo transportation insurance, liability credit insurance

[70] Swiss Re, World Insurance in 2010, *Sigma*, No. 2, 2011.
[71] NBS, 2011.

and agricultural insurance. Personal lines of insurance include life, health and accident insurance. As for market structure, the property insurance sector had the majority of the premium market share in the early 1980s, and the proportion has since gradually decreased. In 1997, the proportion of personal insurance exceeded that of property insurance for the first time, and has since increased. Since 2003, the proportion of personal insurance to total insurance has remained at between 65%-70%. The relative shares of the property and personal business lines in total premium income from 1980 to 2010 are depicted in Figure 4.1 below.

Figure 4.1: Premium growth of life and non-life insurance, 1980 to 2010



Source: CIRC, 2011

In 2010, property insurance premium income was RMB 398.56 billion (USD 64.85 billion), accounting for 26.81% of total premium income in China. The remaining 73.19% of the premium income was attributable to personal insurance premium income, including life, health and accident insurance, among others. Life accounted for RMB 967.95 billion/USD 157.49 billion (66.63%), while health and accident accounted for 4.66% and 1.90%, respectively. The value in 2010 was RMB 1,063.23 billion (USD 172.99 billion), an increase of 28.70% from the previous year accounting.

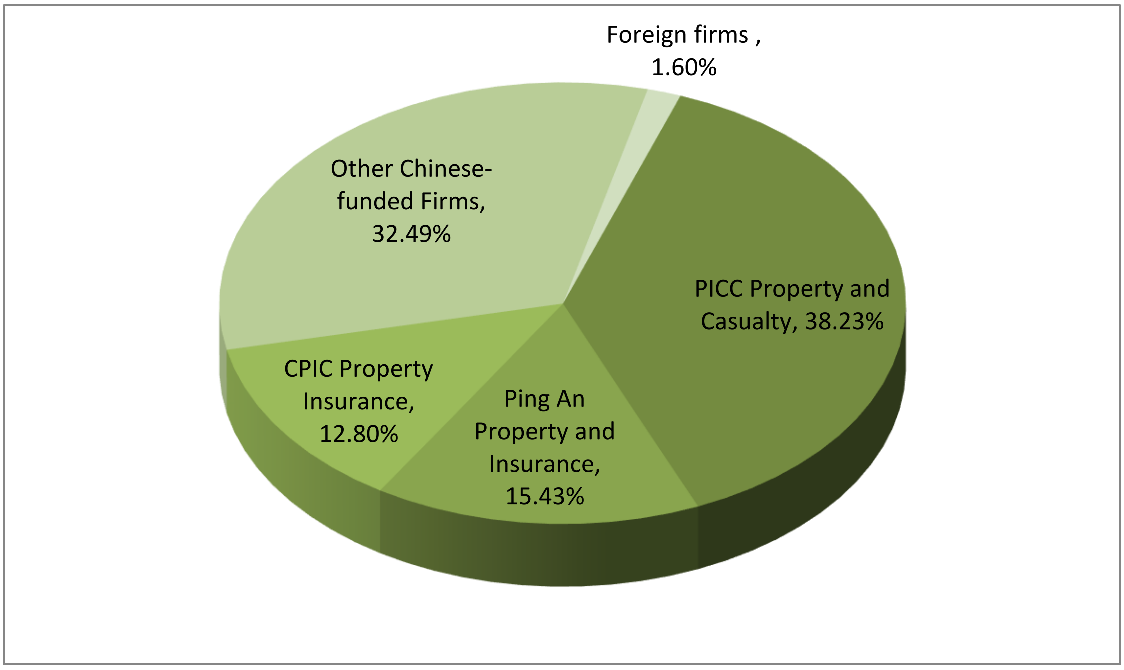
Eastern China has the highest share of premium income, at 58.56%, with Central China at 23.21% and Western China 17.94%.

The insurance industry today. In 2010 there were 53 active property insurance firms in the Chinese insurance market, 34 of which were Chinese funded and the other 19, foreign-invested firms. At the same time there were 61 active personal insurance firms (33 Chinese funded and 28 foreign-invested firms).

Figure 4.2 displays the top three property insurance firms with respect to their market share in 2010 as well as that of other property insurance firms. In 2010, the Chinese-funded property insurance firms held a total market share of 98.94% and the foreign-invested property insurance firms 1.06%. PICC P&C, Ping An Property & Casualty Insurance and CPIC Property

Insurance have the highest market share, at 38.23%, 15.43% and 12.80% respectively. The market share of these firms is much higher than that of the other firms. Their combined market share is 66.46%.

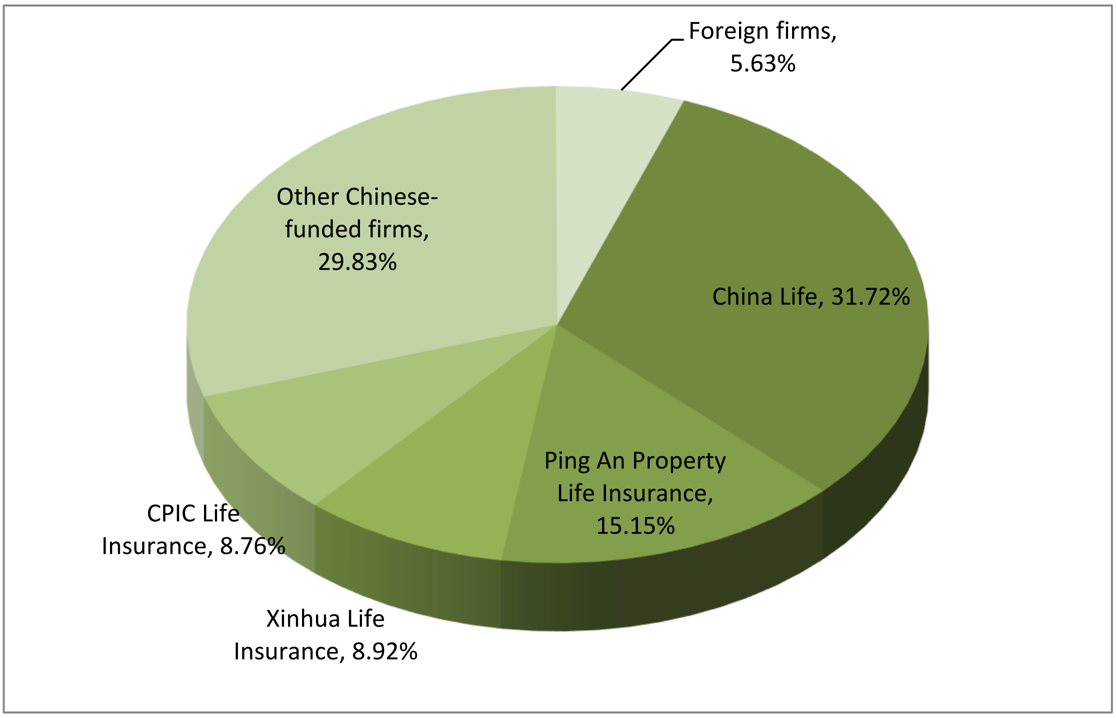
Figure 4.2: Market Share Proportion of Property Insurance Firms in China (2010)



Source: CIRC, 2011.

Figure 4.3 displays the market share of the different personal insurance firms of China in 2010. Chinese-funded life insurance firms had a total market share of 94.37% and the foreign-invested property insurance firms 5.63%. China Life, the Ping An Property & Life and the Xinhua Life Insurance had the greatest market share, with proportions of 31.72%, 15.15% and 8.92% respectively. The fourth to sixth firms are CPIC, Taikang Life Insurance and PICC Life Insurance. The total market share of the top three firms is 55.79% and that of the top six is 80.66%.

Figure 4.3: Market Share Proportion of Life Insurance Firms in China (2010)



Source: CIRC, Data from Companies, 2011.

The top five companies for both personal and property markets in 2010 held more than 70% of the market share. Thus, while competition may be increasing relatively between them, the bulk of insurance business continues to be written by the top five companies in each market.

Assets, Capital and Solvency. The total assets of insurance firms reached RMB 5,050 billion/USD 821.64 billion (i.e. more than RMB 5 trillion/USD 0.81 trillion) by the end of 2010. Moreover, the balance of the insurance capital was RMB 4,600 billion (USD 748 billion). In 2010, the total profits of the insurance industry were 57.67 billion. By the end of 2010, 7 insurance firms failed to comply with the necessary solvency requirements. There were 8 firms which failed to meet the solvency requirements at the beginning of 2010. The key solvency indexes of the non-qualifying firms showed a significant improvement compared to that at the beginning of the same year.

4.2. The provision of rural microinsurance products

4.2.1. Background

Despite the dramatic growth in the Chinese insurance market, the 540 million rural residents identified in section 3.1 above as the microinsurance target market, went largely unserved by commercial insurance companies until recently. The reasons are simple: their incomes are low (below RMB 7,440/USD 1,210.49 per capita in 2010 terms), it is expensive to reach them and their familiarity with insurance is very limited. The demand for insurance in this market was therefore very low.

Agricultural insurance launched in 2004. From 2004, the government of China started a deliberate policy to stimulate the provision of insurance products by commercial insurers to this target market. In 2004 the CIRC launched agricultural insurance pilots in Shanghai, Hei Longjiang, Ji Lin, Xin Jiang, Jiang Su, Si Chuan and Hu Nan. These had very limited success until the central government commenced with premium subsidies for agricultural insurance in 2007. National government subsidies are enhanced by local government subsidies.

Property insurance. The provision of property insurance for rural areas, especially for farmers, was catalysed by the provision of subsidies in 2006. Especially in coastal areas, the schemes were introduced to deal with typhoons and other natural disasters. By 2007 the policy was already introduced in 15 provinces. The premium is either fully or partially subsidised, depending on the province.

CIRC pilot microinsurance launched in 2008. The Life Insurance Supervisory Department of the CIRC commenced their own microinsurance pilot initiative in June 2008 with the issuing of the Rule on Supervising Rural Micro Personal and Personal Accident Insurance (the 2008 Rule). In August 2008 China Life officially launched the first CIRC pilot microinsurance. China Life, CPIC, New China Life and Taikang Life were the first group of companies to be approved by the CIRC to implement microinsurance pilots under the 2008 Rule. Ping An Property & Life Annuity, China Post Life and PICC Life were subsequently approved. See Box 1.3 for more details on the microinsurance product-specification.

Initially the pilots were launched in nine provinces. In April 2009 the CIRC issued the Circular on Further Expanding the Rural Micro-Life Insurance Pilot (see the regulatory analysis in Section 05 for further information on the initial Rule and the subsequent Circular), which allowed insurance regulatory bureaus to expand the pilot provinces to another nine provinces and autonomous regions. As at 2011 eight insurance companies were participating in the CIRC pilot microinsurance program in 24 provinces and autonomous regions. Table 4.1 shows the progress of the CIRC pilot microinsurance program in terms of participating insurance companies and areas covered.

Table 4.1: Progress of CIRC Pilot Microinsurance Program

Year	Participating Insurance Companies	Pilot Area
2008	CPIC, Taikang Life Insurance, China Life Insurance and New China Life Insurance	Guangxi, Gansu, Heilongjiang, Shanxi, Jiangxi, Hubei, Qinghai, Sichuan, Henan
2011	CPIC, Taikang Life Insurance, China Life Insurance, New China Life Insurance, Ping An Property & Life Annuity Insurance, China Post Life Insurance, PICC P&C, PICC Life Insurance and China Continent Property & Casualty Insurance	Guangxi, Gansu, Heilongjiang, Shanxi, Jiangxi, Hubei, Hunan, Qinghai, Sichuan, Hebei, Inner Mongolia, Anhui, Shandong, Hainan, Chongqing, Guizhou, Yunnan, Shaanxi, Ningxia, Henan, Jiangsu, Zhejiang, Xinjiang, Tibet

Source: CIRC, 2011.

The rest of this section explores the size and composition of the total microinsurance market in rural areas. The analysis is based primarily on data provided by the major insurance companies involved in this market.

4.2.2. Size and composition of rural microinsurance market

In order to obtain information on the current supply microinsurance in rural areas, seven of the eight insurers participating in pilots under the CIRC 2008 Rule were requested by the CIRC to provide information on the implementation of their pilots. These seven companies collectively provide the overwhelming majority of personal microinsurance products in rural areas. In addition, PICC P&C was approached to also provide information on their property microinsurance products (primarily housing and agricultural). Data for this study was collected in 2011[72]. The seven insurers who provided information are:

- China Life Insurance Company
- PICC Life Insurance Company
- PICC Property and Casualty (P&C) Company Limited
- CPIC
- New China Life Insurance Company
- China Post Life Company
- Taikang Life Insurance Company

4.2.2.1. Range of Products

Information was provided for a sample of 50 microinsurance products offered by the seven insurers in 2011. Product characteristics are set out in Appendix C. Of the 50 products, 37 were marketed as part of CIRC approved pilots i.e. they fulfilled the requirements as set out in Box 1.1. The range of product types is given in Table 4.2.

Table 4.2: Range of Microinsurance Products Provided by Seven Selected Insurers (data collected in 2011)[73]

Product Type	CIRC Pilot Microinsurance	Number of Products Offered
Agricultural Insurance	No	9
Bundled Term Life and Personal Accident Small-Amount Insurance	No	2
	Yes	26
Personal Accident Medical Expense Small-Amount Insurance	Yes	5
Property Small-Amount Insurance	No	2
Term Life Insurance	Yes	6
Total		**50**

Source: CIRC, 2011.

The generic policy descriptions for the various product types used in Table 4.2 are set out below. The report applies standard actuarial terms for the products based on the terms and conditions in the policy documents applicable to each product. This convention is applied for the sake of comparison rather than utilising the names of the products. Thus, for example, a

[72] It is assumed that the information provided is accurate – auditing the information is beyond the scope of this study.
[73] It is noted that a number of personal lines products from PICC P&C have not been included in the analysis due to lack of detailed information.

product may just have the word 'accident' in the name, but when studying the terms and conditions, it is usually a 'Bundled Term Life and Personal Accident Insurance' product.

The following generic policy descriptions are used:

- *Agricultural Insurance.* These products are currently not included in the ambit of any CIRC Rule on microinsurance. The agricultural insurance classes included both major crop[74] and livestock insurance[75]. Major crop insurance includes Rice, Wheat, Corn, Soy Bean, Cotton and Cole Insurance. Perils covered by these products include damage caused by flooding, storms, heavy rain, tornadoes, hail, droughts, mudslides, other natural disasters and pests. Livestock insurance included Cow[76] and Reproductive Sow[77] insurance.

- *Bundled Term Life and Personal Accident Insurance.* While these policies may only have 'accident' or 'life' insurance in their product name, they all have a benefit pay-out on death or disability of the insured, and have therefore been classified as bundled products. An example of a typical insurable interest clause in the policy terms and conditions is:

  > *'I. If the accidental injury sustained by the insured person directly results in* ***death*** *within one hundred and eighty (180) days from the occurrence of the accident, the Company shall pay the balance benefits after deducting the paid disability benefit and burn benefit and this Contract shall terminate. II. If the accidental injury sustained by the insured person directly results in any* ***disability*** *stated in the "Disability Benefits Table" within one hundred and eighty (180) days from the occurrence of the accident, the Company shall pay the accidental disability benefits which are calculated by the agreed insured amount multiplied by the payable percentage of corresponding level of disability that is specified in above schedule.'*[78]

  Bundled[79] Term Life and Personal Accident Insurance policies also include policies which cover traffic accidents only. Most policies narrowly define the circumstances under which death and disability would be covered.

- *Personal Accident Medical Expense Insurance.* These products are rider policies to the accident insurance and bundled policies i.e. they are add-on products that can only be bought in conjunction with the accident insurance and bundled policies. The trigger for the benefit pay-out is an accidental injury that requires treatment at a second- or higher-level hospital. The benefit pay-out is intended for medical expenses and is usually the balance of the medical expenses after deducting any portion of the expenses paid by the insured's local social security (mostly NRCMS) and other sources after taking into account an excess up to the agreed percentage of cover.

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[74] Also referred to as planting insurance

[75] Also referred to as animal breeding insurance

[76] Perils covered by Cow Insurance policy include damage caused by fires, explosions, heavy rain, flooding, hurricanes, lightning, hail, freezing, mudslides, landslides, earthquakes, collapsed buildings, falling objects and various diseases.

[77] Reproductive Sow insurance covers damages caused by the same perils under the Cow Insurance policy as well as earthquakes and 10 diseases.

[78] Terms and Conditions for China Life Rural Small-Amount Accident Insurance

[79] Also referred to as a "packaged" insurance product. www.investopedia.com defines "Bundling" as: a marketing strategy that joins products or services together in order to sell them as a single combined unit. Bundling allows the convenient purchase of several products and/or services from one company. The products and services are usually related, but they can also consist of dissimilar products which appeal to one group of customers.

- *Property Insurance.* These products are currently not classified as microinsurance by the CIRC. There were two types of Property Insurance microinsurance products offered by PICC P&C: 'Harmonious Countryside' rural portfolio insurance product and policy-based farmhouse insurance. The first is a bundled product including family property insurance, accidental injury insurance and liability insurance, and is promoted by the government in certain areas. The family property insurance includes coverage for the loss of large domestic animals and other production materials such as seeds, pesticides and fertilizers. The second policy-based rural housing insurance product covers damage caused by fires, explosions, flooding, heavy rain and other disasters.

- *Term Life Insurance.* These are life microinsurance policies and only pay out in the event of death of the insured.

- *'Credit' in the policy name.* Where the policy name includes the word 'credit' this is usually to denote the fact that the insured needs to have a loan in order to be eligible to take out the insurance. The amount of the benefit amount may or may not be linked to the size of the loan. These policies are usually distributed by the credit providers.

4.2.2.2. Range of Products by Insurance Provider

Table 4.3 sets out the number of products offered by each provider and states whether or not the products are CIRC pilot microinsurance products.

Table 4.3: Range of Microinsurance and Microinsurance Products by Insurance Provider

Product Type	Insurance Provider	CIRC pilot microinsurance	Number of Products
Agricultural Microinsurance	**PICC P&C**	No	9
Bundled Term Life and Personal Accident Insurance	**China Life**	Yes	9
	CPIC	Yes	3
	China Post Life	Yes	3
	New China Life	No	1
		Yes	3
	PICC P&C[80]	No	1
		Yes	3
	Taikang Life	Yes	2
	PICC Life	Yes	3
Personal Accident Medical Expense Insurance	**China Life**	Yes	3
	PICC Life	Yes	2
Property Insurance	**PICC P&C**	No	2
Term Life Insurance	**China Life**	Yes	4
	China Post Life	Yes	1
	PICC Life	Yes	1
Total			**50**

[80] It is acknowledged that PICC P&C had up to another 23 CIRC personal line microinsurance products, however it was not clear whether these were in force as at the end of 2010.

Source: Milliman Calculations, based on data collected by the CIRC from Insurance Companies.

4.2.2.3. Premiums, Benefits and Product Design

Summary information on the 50 products listed in Table 4.3 above including their key features, premium and benefit ranges and eligibility requirements are presented in Appendix C. In respect of each product it is stated whether it is marketed in terms of the CIRC Rule on personal microinsurance or not. A total of 37 products are marketed in terms of the CIRC Rule and only 2 personal microinsurance products are not marketed in terms of the Rule. Eleven property products are included, of which 9 are agricultural products.

Benefit levels – personal policies. The CIRC Rule constrains pilot personal microinsurance products to a benefit range between RMB 10,000 and 50,000 (USD 1,627 and 8,135) . Most of the microinsurance pilots limit the benefits to this range. However, some pilots provide for pay-outs lower than RMB 10,000 (USD 1,627) , particularly where the policy includes a medical expense rider and the actual amount of the medical expense claimed is less than RMB 10,000 (USD 1,627). It is interesting to note that the two personal microinsurance products that are not issued in terms of the CIRC Rule on pilots – New China Life's Jiedai Anxin Accident Insurance and Additional Term Life Small-Amount Insurance and PICC P&C's Rural Motorist Accident Insurance – do not provide benefits less than 25,000 with Jiedai Anxin's benefit being RMB 50,000 (USD 8,135) on average. The sum insured of the main life products sold by China Life are all determined by and between the applicant and China Life Insurance through consultation with their sale representatives.

Benefit levels – property policies. The benefit levels for all the agricultural policies are below RMB 1,000 (USD 163), with the exception of livestock insurance for cows which have a sum assured range from RMB 2,000 – 8,000 (USD 325 – 1,302) . The sum insured of "harmonious countryside" rural portfolio insurance of PICC P&C is RMB 5,000 - 50,000 (USD 814 – 8,135) and that of farmhouse insurance is RMB 1,000 – 18,000 (USD 163 – 2,929) .

Premium levels. For many of the products the insurers provided rate tables with premiums expressed as either a rate per RMB 1,000 (USD 163) of the benefit amount or a percentage of the benefit amount. The rates, depending on the type of product, varied by age, gender, occupational risk classification[81], whether the insured was a driver or passenger and whether or not the insured participated in social security (particularly in relation to medical expenses). It was not clear from the data how these rates were derived nor which statistics they are based upon, and certain products appeared to have relatively high premium rates at the older ages. China Life also permits its branches to float the rate within the range of 50% of the base rate according to the local conditions. Rate floats of more than 50% of the base rate must be reported to the China Life for the record. From actual sales records, the premium for a sum insured of RMB 10,000 (USD 1,627) is generally less than RMB 100 (USD 163) and most are only RMB 20-50 (USD 3.25- 8.14).

Other than variation in the premiums, pilots reveal a large degree of homogeneity across the products offered by different companies. New China Life, however, has a number of

[81] Different occupations involve different levels of risk. For example, a sedentary desk job involves much less risk than working on a construction site. The occupational risk classification used for setting rates typically groups occupations into categories of similar risk. The riskier the category, the more the rates are loaded to reflect the additional risk and likelihood of a claim event occurring. Each insurer will use a different table based on its own calculations.

innovative products. For example, Xilaibao Insurance is an accident insurance product for farmers and is different from similar products in that the sum insured is linked to the insured's bank deposit and "is five times the insured's average bank deposit balance in the six months before the date of occurrence of insurance accident". This multiplier of 5 applies to average balances between RMB 10,000 (USD 1,627) and RMB 50,000 (USD 8, 135). If the average bank deposit balance is less than RMB 10,000 (USD 1,627) or 0, the sum insured and payout is RMB 10,000 (USD 1,627); if the balance is more than RMB 50,000 (USD 8,135), the sum insured is RMB 50,000 (USD 8,135). This design moves in the direction of microinsurance products in other parts of the world where insurance is linked to the delivery of another service in a type of "loyalty program" manner[82].

An interesting design innovation for the low-income market is the development of 'card policies' (see Box 4.1).[83]

Box 4.1: 'Card' Policies

In order to meet the different needs of different consumers, insurance companies have developed what is called a 'card' policy or 'insurance' card, which has been targeted at the low-income market. This is a simplified policy, which is tailored to the consumer's level of income and education. The coverage of the policy is simple and clear. Underwriting is not needed, so the consumers can buy the card directly from the salesmen. The aim of the card is to simplify the application process. Most card policies cover accidental injuries, medical expenses, and family property – the applicant can select the level of cover according to his or her need. The insured term is usually shorter than one year. Some insurance companies have developed electronic insurance cards so that the consumer can apply online.

Taiking Life, for example offer the Wuyou Card policy.

4.2.2.4. Microinsurance market share by key insurance providers

While premium income data was not available for all CIRC pilot microinsurance and microinsurance products in this study, the available data was collated and aggregated to give a sense of the current size of the market by premium income and coverage. In some instances full information was not readily available because of the manual process in which data is recorded. The estimates will therefore slightly underestimate the true market values. However, they are believed to be of the correct order of magnitude. The results in this section should therefore be treated as estimates and used with caution. The data for this study was collected in 2011, and therefore the latest full year's data available is for 2010. Annual data from all key insurers for each year prior to 2010 by product was not always available, however most of the products in question have only been in operation since 2008 or later, and thus have grown from zero then to the following total in 2010.

The total size of the CIRC pilot microinsurance and microinsurance 'market', represented by all of the insurers contributing to the supply study and using available data, is estimated to be worth around RMB 7.40 billion (USD 1.20 billion) of premium income.[84]

[82] For more information on these types of products, please see "Access to Insurance in Tanzania" (Cenfri, 2012: p67), available at: http://cenfri.org/microinsurance/tanzania-access-to-insurance-diagnostic
[83] Research on the Development of Microinsurance in China; Zurich and Nankai study, 2009
[84] Data for all products was not available and this is therefore likely to be an underestimate although, given discussions with local experts, should be within the correct order of magnitude.

Table 4.4: Total Premium Income in 2010 generated by Microinsurance and CIRC Pilot Microinsurance products from available information[85]

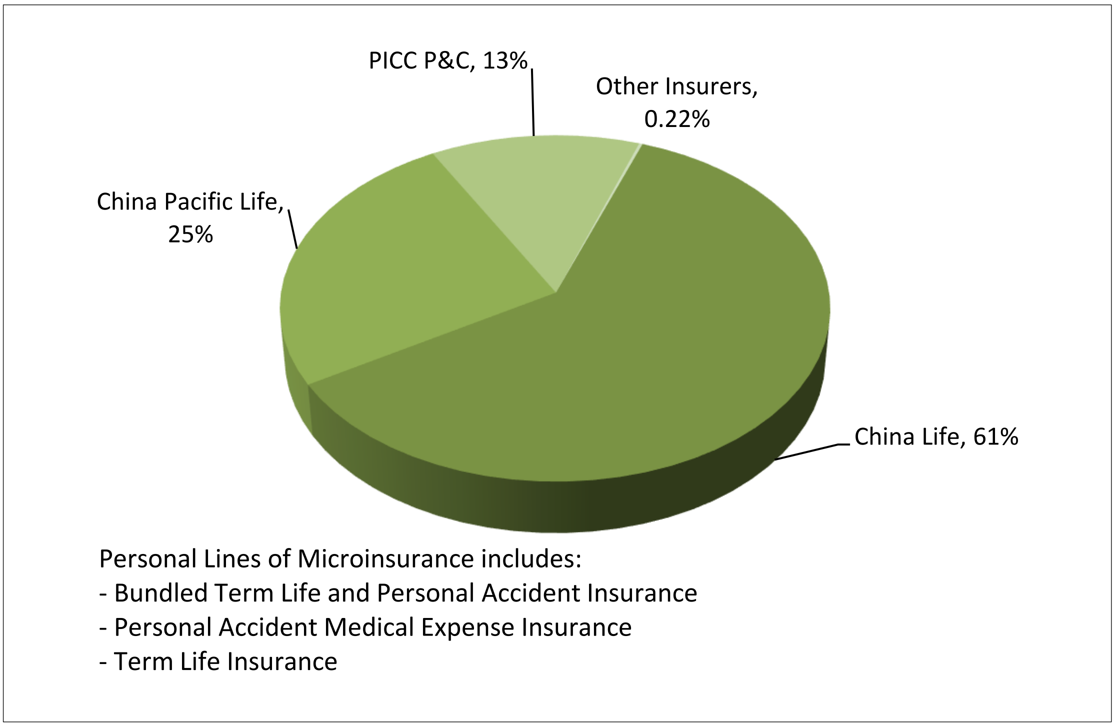
Microinsurance Product Class	Estimated Total Premium Income in 2010 (RMB billions)
Personal (Bundled Term Life and Personal Accident Insurance and Term Life Insurance)	0.86
Property (Agriculture, Property and Portfolio Insurance)	6.54
Total	7.40

Source: Milliman Calculations, based on data collected by the CIRC from Insurance Companies, 2012.

Of the seven respondent companies, PICC P&C is the only insurer currently offering non-life microinsurance classes (agriculture and property insurance). The split of total premium income generated by all CIRC pilot and other personal microinsurance products by insurance provider is given in Figure 4.4. As can be seen, China Life dominates with 61% of this 'market' share.

Figure 4.4: Percentage of Total of Premium Income by key Insurance Provider for

All Personal Lines Microinsurance Products (2010)



Source: Information provided by companies, 2010.

[85] Premium income from New China Life is not included, as there were difficulties extracting the premium and membership numbers for 2010 in isolation. There are also a number of PICC P&C personal products missing, as 2010 specific information was not available.

Looking at the coverage in more detail, a breakdown of the estimated number of policies and estimated total premium by product type for all microinsurance and CIRC pilot microinsurance is given in Table 4.5 and for CIRC pilot microinsurance products only in Table 4.6.

Table 4.5: Coverage by Product Type provided by Key Insurers in 2010 for all Microinsurance and CIRC Pilot Microinsurance Products[86]

Product Type	Estimated Number of Policies Sold in 2010 (millions)	Estimated Total Premium Income in 2010 RMB billions (USD billions)
Agricultural Insurance underwritten by PICC	99.5[87]	6.18 (1.01)
Agricultural Insurance generally (source: China statistical yearbook)	140	
Bundled Term Life and Personal Accident Insurance	16.2	0.8 (0.13)
Personal Accident Medical Expense Insurance	1.4	0.024 (0.004)
Property Insurance	35.2	0.36 (0.06)
Term Life Insurance	2.5	0.06 (0.01)
Total	154.8	7.40 (1.20)

Table 4.6: Coverage by Product Type provided by Key Insurers in 2010 for CIRC Pilot Microinsurance Only[88]

[86] Note that this table excludes New China Life from both columns (for the purpose of comparing them in relation to each other) as membership data was not available at the time of collecting data.
[87] The China Statistical Yearbook reflects the total number of farmers covered by agricultural insurance in 2010 as 140 million. The discrepancy between the two figures is partly explained by the fact that the China Statistical Yearbook figure includes policies that would not be categorised as microinsurance. Secondly, whereas the figure of 99.5 million refers only to policy holders of PICC P&C, the China Statistical Yearbook figure would also include policies underwritten by other insurers.
[88] Note that this table excludes New China Life from both columns (for the purpose of comparing them in relation to each other) as membership data was not available at the time of collecting data.

Product Type[89]	Estimated Number of Policies Sold in 2010 (millions)	Estimated Total Premium Income in 2010 (RMB millions) (USD)
Bundled Term Life and Personal Accident Insurance	16.2	776.4 (126.3)
Personal Accident Medical Expense Insurance	1.4	24.5 (4.0)
Term Life Insurance	2.5	62.1 (10.1)
Total	20.1	863.0 (140.4)

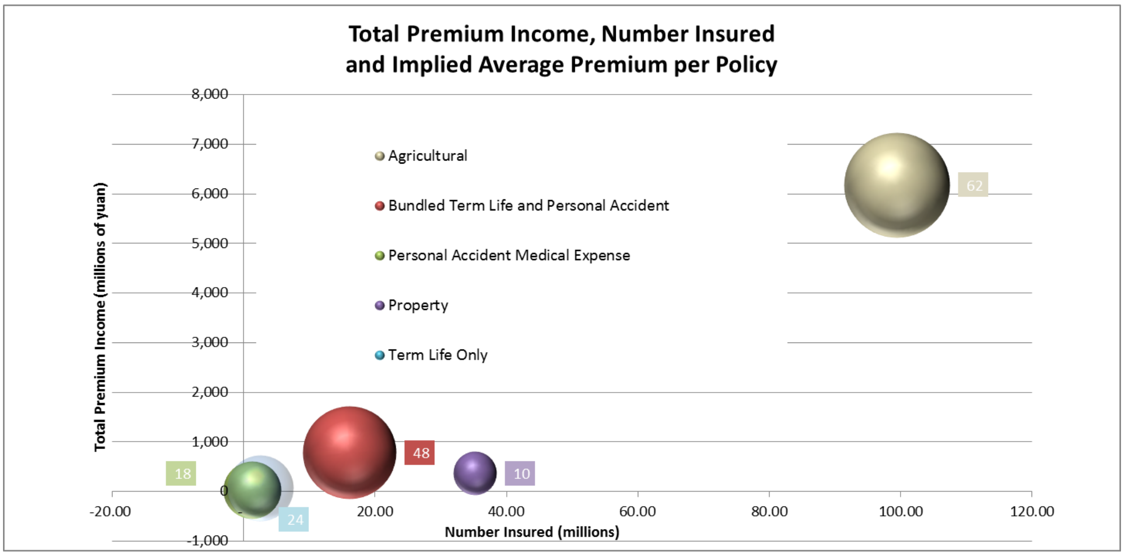
It is clear that Bundled Term Life and Personal Accident Insurance was the most purchased CIRC pilot microinsurance product. This is consistent with the demand-side findings that the risk of accidents is the one that rural residents are most likely to transfer to insurance companies.

It is estimated that upward of 20.1 million CIRC pilot microinsurance policies were sold in 2010 contributing to 11.7% of the total premium income generated by the combination of CIRC pilot microinsurance and microinsurance products for six of the insurance providers in our supply study. This is consistent with other information that, in 2010, roughly 25 million people were covered. It should be noted that the estimated number of policies given in Table 4.5 and Table 4.6 is not the same as the number of people covered due to the possibility of double counting[90]. With reference to the CIRC pilot microinsurance products in Table 4.6, it is unlikely that a person would buy a Bundled Term Life and Personal Accident Insurance policy and a separate Term Life Insurance policy. We know that the personal accident medical expense policies are riders to the Bundled Term Life and Personal Accident Insurance policies and so, by taking this known double counting into account, we estimate that five of the key insurers provided CIRC pilot microinsurance to at least 18.7 million people in 2010.

Figure 4.5 plots premium income against the number of policies sold by product type for all CIRC pilot microinsurance and microinsurance products in 2010. The size of the balls shows the implied average premium per policy for the product type in question. It shows that agricultural insurance, for example, has a significantly higher total premium and number of policies in force compared to the other product types. It is interesting to note that the product types with the highest number of policies sold in 2010 were not approved in terms of the CIRC Rule on microinsurance.

[89] Note: not all microinsurance personal accident and life products reported by the insurance companies were life pilots, and have thus been omitted from this table.
[90] It is possible for the same person/family to have, for example, property, agricultural and Term Life Insurance policies.

Figure 4.5: Premium Income, Number of Policies and Implied Average Premium per Policy in 2010 for Six Key Insurers for all Microinsurance and CIRC pilot microinsurance Products Combined[91]



Growth rate. The overall growth rate of the insured of microinsurance is 79.60%.[92] Although not much data was available, China Life provides an instructive example. Among China Life Insurance's microinsurance products, those with the largest coverage in 2010 are China Life Rural Micro Accident Insurance (24.05%), China Life Rural Micro Group Accident Insurance (19.77%) and China Life Microcredit Borrower Accident Insurance (15.83%). The growth rates in terms of the number of people insured under these three products in 2010 are 40.1%, 134.9% and 101.3% respectively.

4.3. Personal lines microinsurance in China

Since 2008 insurance providers approved to participate in the CIRC's Microinsurance Pilot Program were permitted to experiment with different aspects of microinsurance provision, as long as the products met the requirements detailed in Box 1.1. Out of the many products piloted, stakeholders in the program are most interested in which of the pilots have been successful or show promise of being successful in terms of the ultimate goal of microinsurance: to reach as many low income rural originating citizens as efficiently as possible with affordable, worthwhile microinsurance products. Certain pilots have therefore been identified as potential 'model' microinsurance pilots i.e. that the flexible aspects of the pilots show potential for successful replication nationwide and scaling up to manage far greater numbers of members. Of all the flexible aspects of microinsurance provision, the ***approach to distribution*** was identified as one of the most important features. As part of this study, a specific assessment was done of the main models for personal microinsurance distribution that have emerged as a result of the CIRC's pilot program implemented following the publication of the 2008 Rule. These were grouped and analysed by distribution model. Distribution was identified as an important feature not only because it is involved with access

[91] The size of the balls shows the implied average premium per policy for the product type in question
[92] Due to data limitations, the growth rate here is calculated as number of the effective insured at the end of the first three quarters in 2010/number of the insured at the end of the first three quarters in 2009.

to microinsurance but also because more efficient distribution will bring down the cost per policy helping to improve affordability.

This section starts out with a description of the main models used to deliver personal microinsurance in rural China, followed by an evaluation of the models.

4.3.1. Model 1: Micro-credit and microinsurance

Micro-credit and microinsurance is the main model of microinsurance development in many countries, including China. China Life Insurance's "credit and insurance 1 + 1" model is an example of microinsurance products that are sold through micro credit institutions. The insurance policy is linked to the loan and distributed through the institutions that provide the credit, for example RCCs. The first order beneficiary under the policy should an insured event occur, is normally the credit provider whose outstanding claim against the borrower is covered. The second order beneficiary would be the borrower's family. The concept is that the presence of the micro-credit life insurance policy would increase the willingness of the lender to extend credit to higher risk clients.

Microinsurance linked with a credit offering is typically distributed through rural microcredit institutions and RCCs. These institutions represent existing financial services providers who are able to provide the distribution network and the administrative capacity to distribute these products: RCCs are an established entity; while the rural microcredit institutions are expanding. However, management capacity and technical proficiency varies between the RCCs requiring insurance companies to tailor their product delivery to each cooperative. Credit institutions' operations are governed by additional regulation over and above the required insurance regulation. Since the introduction of the CIRC pilots in 2008, microinsurance linked to credit has become the dominant product, in terms of premium revenue, amongst all the pilot products. According to data provided by China Life, of the 9 microinsurance products analysed, in 2011, the 5 products linked to micro-credit enjoyed a 71.5% market share in terms of premium income. It is worth noting that the premium income market share of China Life Micro Credit Borrower Accident Insurance has increased from 16.23% to 63.43% over the four years since the start of the microinsurance pilot in 2008 and became the microinsurance product with the largest market share. At the end of August 2012, however, the premium income market share of China Life Micro Credit Borrower Accident Insurance had declined to 54.2%.

Data provided by other pilot companies reflects the same trend. For example, CPIC had total microinsurance premium income of RMB 220 million (USD 35.8) in 2010. Of this RMB 219 (USD 35.6) million was from Andaibao microinsurance, a credit-linked product.

Wangcang Model. Encouraged by the CIRC, the Foreign Capital Project Management Center of the Poverty Alleviation and Development Office of the State Council (FCPMC) cooperated with China Life Insurance to introduce microinsurance into the poverty reduction mechanism.

On May 21, 2011, the "poverty alleviation microinsurance" pilot program was initiated at Dadi Village, Wangcang County, Sichuan Province. It was jointly implemented by FCPMC, China Life Insurance and Wangcang County Government.

The microinsurance products offered by China Life Insurance under this project includes "accident insurance for borrowers of rural poverty alleviation micro loan" and "term life insurance for lenders of rural poverty alleviation micro loan". Both of these products are bundled term life and accident insurance. When an insured villager suffers a disease or an accident, affecting loan repayment, China Life Insurance will prioritise the payment of the sum insured to the mutual aid foundation compensating for the amount of the loan not repaid by the villager, a bid to lower lending risk. These two products are the first batch of microinsurance products developed especially for farmers in the national poverty reduction program. These policies are characterized by low premiums (RMB 30/USD 5 covers RMB 30,000/USD 4,881 of accident insurance and additional RMB 10/USD 1.63 covers RMB 1000/USD 163 of accidental medical insurance) and a simple claims process. The main purpose of the pilot poverty alleviation microinsurance program is to reduce the chances of increased poverty caused by accidental injury or disease through the introduction of commercial insurance. As such, it is contributing to the poverty alleviation outcome.

In 2011, 8,800 policies were sold in Wangcang County, covering 52.37% of the poverty population, that is, adults with incomes under the poverty line.

4.3.2. Model 2: Selling group insurance through village committees (the Shanxi Model)

Selling group insurance through village committees is a uniquely Chinese distribution method for microinsurance pioneered by China Life's Jinzhong Branch.

In January 2009, China Life's Jinzhong Branch sold the first group policy to Dongpao Village in Dongguan Town of Qi Xian to provide microinsurance for all the villagers under a model of "One policy for the security of the family, the group and the whole village." Because this model was first piloted in Shanxi, it is often referred to as the 'Shanxi model'.

With this model, microinsurance products are introduced to representatives of a village – the village committee. Village committees are common throughout rural China. Through a process of consultation between prominent villagers, the village committee and an insurance salesperson, if the majority in that village accepts the product, the village committee organises microinsurance on behalf of the entire village. There is one policy that covers all qualifying villagers, which are collectively the insured group. Individual villagers are not underwritten. However, insurance companies can vary premiums depending on what they know about the specific circumstances and risk profiles of different villages in different regions.

The first Shanxi village policy covered a group of 1,332 villagers. Each villager had access to an annual insurance benefit of RMB 10,000 (USD 1,627) in return for an annual premium of RMB 20 (USD 3.25). It was reported that this simplified application process had increased efficiency and reduced operating costs. By the end of 2010, rural group microinsurance had been introduced by China Life in three counties, 31 towns and 1,326 administrative villages in Jinzhong City, covering 780 thousand people (29% of insurable farmers in the city).

In 2010 50% of microinsurance premium income in Jinzhong China Life was attributed to the group accident insurance, and they had sold 727,000 group policies under their 4 group product categories. China Life's Jinzhong Branch has developed a variety of group insurance products catering for local rural circumstances, including group insurance with government subsidies. In rural areas that are less deprived, this government financial support is used to promote rather than subsidise group insurance. At least part of the objective of introducing insurance to farmers in this way is that it will increase their understanding of insurance and provide a positive experience that will lay the foundation for voluntary take-up in the future.

The common advantages among all microinsurance products distributed in this manner – at least in theory – are that underwriting efficiency can be improved, distribution costs reduced and as a result, premiums reduced or benefits enhanced. It also achieves broader coverage than if salespeople attempted to sell individual policies.

Jinzhong China Life has established a 'green channel' to simplify the claims process and pay out timeframes. See Box 4.2 below.

Box 4.2: 'Green channel' claims processes

China Life permits, in addition to conventional case reporting over the counter and case reporting on the phone, claims to be handled by certain rural outlets, rural salespersons or appointed local persons with certain social status or who are working for the government, for example, the grass-roots birth control cadres. Rural outlets of companies which have staff who have received more than 30 hours' professional training on microinsurance from the company and hold a microinsurance agent qualification certificate issued by a local CIRC branch, may handle claims within a specific range (known as 'the green channel'). The rural outlets may pay compensation for cases which relate to reimbursement of medical expenses or subsidy, have clear facts, defined liability, do not need investigation, all required documents are presented and pay-out is below RMB 1,000 (USD 163). Such claims are required to be handled within one hour. The provincial-level branch grants this permission to the rural outlet.

In addition, secondary (or above) hospitals and the rural health centres with the qualification of an appointed hospital for social insurance may also handle claims. Other well run medical institutions may be appointed to facilitate claims.

In addition to arbitration and litigation, the branches may settle the disputes arising from rural micro compensation cases through mediation.

Village committees and rural grass root organisations are established entities with organisational capacity that have existing ties with the communities, such as existing support provided to community members. Given the structure of these entities, it is difficult for insurance companies to exert control over the sales and administration of insurance policies, which could lead to fraud.

A recent report by the CIRC on microinsurance in Shanxi suggests that this is not a sustainable model. Year-on year premium growth rates for rural microinsurance sold in Shanxi slowed in 2011 and were negative for 2012, with low renewal rates of 55%. The reasons cited were that the premiums were too high and the portfolio of products offered too limited. Furthermore, the premium payment support from the village committees was not stable. Uncertainty in premium subsidies negatively affects the provision from one term to the next.[93]

[93] Presentations by Tan Xuequng, from Shanxi CIRC supervisory office, 13 September 2012.

4.3.3. Model 3: Distribution through the Postal System

This method of distribution was being piloted by China Post Life. The key advantage of this model for China Post Life is that the postal network is already established and is extensive. Zhejiang, for example, has 1,562 postal financial outlets of which 80% are located at or below the county level. China Post Life has started to implement “one-stop” services at local postal financial outlets, including new policy acceptance, gathering underwriting information and settling claims. As can be seen from the earlier statistics on coverage by China Post Life, this model microinsurance pilot is still in the exploratory stages. Data on its success is currently limited and it may therefore be premature to draw conclusions on this distribution model. While it is considered by many to have great potential as an important microinsurance business model, at the time of the data collection process for this report, the logistics of launching the pilots in numerous locations were complex. There were many grassroots postal outlets and many different levels of human resources to take into account which made implementation difficult.

4.3.4. Model 4: Individual sales

Microinsurance in this model is distributed by rural marketing staff or other trusted persons of high standing and influence within local communities. The main advantage of this method is that more care can be taken to underwrite the individual or family group to ensure that the premiums charged more closely reflect their true underlying risk profiles. Individual agents and the company’s village salesmen play the insurance advocate’s role while providing insurance services for the insured residents. The main disadvantage is that this method of distribution is time intensive and involves much higher per policy expenses.

4.3.5. Model 5: Migrant worker insurance

We include life insurance for migrant workers as a separate model for consideration. For a description of the profile of the migrant worker-market, see section 2.2.3.

Microinsurance targeted specifically at migrant workers was piloted by PICC P&C in 2009. The pilot first started in 10 cities and counties in Chongqing and Guangdong and expanded during 2010 to 30 cities and counties in seven regions. The insurance offering achieved significant scale with 1.05 million migrants covered by the end of 2010 and premium income of RMB 13.37 million (USD 2.18 million). The programme enjoyed government support with more than 40% of premium income directly subsidized by government. The largest premium subsidy for migrant worker insurance was in Hubei province reaching 98% of total premiums. In 2011 PICC P&C collected premium income of RMB 11.51 million (USD 1.87) from migrant worker insurance. This increased significantly in 2012 with premium income of RMB 32.56 million (USD 5.30) in the first six months.

Product features vary across regions. Cover typically includes at least one of the following: hospitalisation expenses, outpatient expenses, death and disability cover. Premiums range between RMB 5 (USD 0.81) and RMB 100 (USD 16.27) and maximum benefits levels range between RMB 6,000 (USD 976) and RMB 50,000 (USD 8,135). This product is also included in Appendix C:, listing all the microinsurance products included in this report.

The product has been typically distributed through public agent institutions, direct sales, personal agents and brokers.

0 below contains a SWOT analysis of the various models, including particular reference to commercial banks as distribution channels as well.

4.3.6. Loss ratios

Currently, there is a big difference between the loss ratios of different products and of different companies with some product lines clearly not commercially viable. A selection of loss ratios for companies providing pilot microinsurance products are given in Table 4.7.

Many of the loss ratios provided for personal accident products are in the 50-70 % range (as can be seen in Table 4.7) which is in line with international experience. However, the loss ratios for policies covering medical expenses are significantly higher in the order of 80% and above. This may indicate that these products are not commercially sustainable unless some product adjustments are made. The lowest claims ratios are for credit-linked products. For example, Taikang Life's borrower (micro agro-credit) accident insurance had a claims ratio of under 25% and CPIC Life's Andaibao accident insurance (also credit-linked) had a claims ratio of 26%. It can be expected that China Life's micro credit borrower accident insurance (accounting for 63% of their total microinsurance premium income in 2011) would have a similar claims ratio[94]. These claims ratios explain the migration of most microinsurance pilots towards credit-linked products.

Table 4.7: Loss ratios of some microinsurance products

Product	Product type	Relative contribution to total pilot premium income[95]	Loss ratios (2010)
China Life			
China Life rural micro accident insurance	Bundled Term Life and Personal Accident Insurance	10.69%	56.77%
China Life rural micro group accident insurance	Bundled Term Life and Personal Accident Insurance	9.9%	58.41%
China Life additional rural micro medical insurance for compensation on accident expenses	Personal Accident Medical Expense Insurance	6.02%	79.62%
China Life additional rural micro medical insurance for compensation on traffic accident expenses	Personal Accident Medical Expense Insurance	0.01%	51.21%
China Life additional rural micro group medical	Personal Accident Medical Expense Insurance	3.23%	82.8%

[94] The actual claims ratio for this policy was not included in the data provided to the CIRC for this study.
[95] China Life only for 2011

insurance for compensation on accident expenses			
China Life micro credit borrower accident insurance	Bundled Term Life and Personal Accident Insurance	63.43%	-
CPIC			
Anquanbao micro accident insurance	Bundled Term Life and Personal Accident Insurance	-	45.55%
Andaibao accident insurance (coverage: under RMB 50,000/USD 8,135)	Bundled Term Life and Personal Accident Insurance	-	26.40%
Anxinbao micro group term insurance clauses	Bundled Term Life and Personal Accident Insurance	-	67.47%
Taikang			
Taikang micro accident insurance	Bundled Term Life and Personal Accident Insurance	-	151%
Taikang borrower (micro agro-credit) accident insurance	Bundled Term Life and Personal Accident Insurance	-	14%

Source: Based on the statements submitted by various insurance companies.

4.3.7. Qualitative Feedback from Providers of CIRC pilot microinsurance and Microinsurance

Each of the seven insurers involved in this study were also asked to provide some qualitative commentary on their experience with microinsurance. The insurance companies have different years of microinsurance experience. China Post Life, for example, only started formally piloting CIRC pilot microinsurance products in April 2010. Nevertheless, their feedback has been analysed and combined into main themes. Many of the problems can also be considered as barriers to entry for companies not yet offering microinsurance products.

Low income people reluctant to buy insurance. Despite efforts by market participants to publicise the importance of rural microinsurance, insurers found that some low-income people are still reluctant to buy insurance and believe this is mostly because of their lack of understanding. Insurers believe that these attitudes have hindered the growth of both renewal and new business.

Many do not buy insurance because it is not a priority given their low disposable income. Their top priorities are to earn enough money to buy food and clothing. Less attention is given to planning for and securing the future.

High sales costs/lack of economies of scale/low or no profits. In the countryside, the population is widely dispersed and the highways, communication and other infrastructure facilities are poor. One insurer commented that its agents sometimes have to drive a long way to collect individual premiums of just tens of RMB. Consequently, the time and cost they spend on microinsurance is disproportionate to the premiums collected. Another insurer said that there were “high expansion costs, little profits and a lack of enthusiasm” within their branches for microinsurance business. Other issues flagged related to the lack of distribution networks and the costs of investing in new networks as well as the cost and resource requirements for educating both sales staff and the public.

Approval of new CIRC pilot microinsurance products process could be more streamlined. One insurer suggested that the CIRC could consider reviewing the way in which pilots are approved by local CIRC offices and that a more streamlined strategy aimed at speeding up the process would be beneficial.

Less local government support than for agricultural insurance. Insurers commented that, compared to agricultural insurance, they experience a limited amount of support for the CIRC pilot microinsurance.

Other problems noted by surveyed companies include:

- The lack of IT and other systems to service the low-income market;
- The definition of pilot microinsurance being too narrow (and thus non-life companies being unable to participate in the pilots);
- The inability to adequately measure and understand the risk of entering into the rural market;
- Illiteracy or low levels of literacy in some rural areas; and
- Low internet penetration, thus making the internet an ineffective tool for distribution.

Continued government endorsement is essential to the expansion of the microinsurance program. Government promotion and support has played an important role in the development of the CIRC pilot microinsurance program to date. On the whole, rural low-income people trust the government more than they trust insurance companies. Continued endorsement by the government is therefore essential.

Importance of the village salesperson/team. Given the low levels of insurance understanding and awareness in the rural areas, some insurers believe the solution lies in recruiting the assistance of village salespeople or sales teams to promote insurance and provide insurance education to rural residents. Efforts are therefore being put towards developing, managing and training village salespersons and sales teams.

Innovation. Comments were made that active innovation is needed for sustainable development. Innovation is needed in product design, publicity methods, marketing models and marketing channels.

Improving the level of customer service is important to sustainable development. The insurers noted that, given that rural residents largely distrust insurance companies, it is of utmost importance that those who claim have positive experiences. Insurers are considering how they can simplify the claims process to make it as quick and hassle free as possible.

Individual policies are being sold at a faster rate than group policies. This was the case for China Life’s microinsurance policies, where more rural residents were covered by individual than group policies for each year between 2008 and 2010.

Factors influencing the renewal of microinsurance policies. The insurers are aware of the importance of renewal business in maintaining and growing their membership base. The insurers cited the following as necessary for high levels of renewal business: value for money, maintaining a good reputation, acceptable compensation levels (moderate to high loss ratios), good service, convenience, publicity and government support.

4.4. Micro-property insurance

Besides the microinsurance products marketed in terms of approved CIRC personal microinsurance pilots, a number of property insurance models have been rolled out to meet the needs of low-income rural households. These have been primarily housing insurance and agricultural insurance. This section describes the various models that have emerged to deliver rural property microinsurance.

4.4.1. Rural housing insurance

Product design. Rural housing insurance, as a type of micro property insurance, has rapidly developed as a result of the backing and subsidies provided by the state. For most farmers, housing is their most important property. Compared to crop insurance, rural housing insurance has a lower premium with less risk and, by implication, fewer pay outs. The property insured by the rural housing insurance is both the farmers' domestic residences, inhabited by the members of the household, as well as the so-called "agricultural production houses". These are used for storage of tools and materials used in production, finished or semi-finished products equipment for farming, forestry, animal husbandry and fishing, as well as the "production houses" for farm products, livestock and poultry sheds, and aquaculture.

Presently, the rural housing insurance is primarily used to insure farmers' domestic residences. In fact, in many cases farmers' domestic residences are not completely separate from the production houses. This is because many families keep agricultural production tools and other production materials and agricultural products, such as fertilizers, pesticides, seeds and harvest food in the house. The farmers conduct agricultural processing activities in their domestic residences, such as threshing, sorting and packing.

Distribution models. Since 2006, several provinces[96] have introduced rural housing insurance. There are two development models[97]:

*The **blanket insurance** model between insurance company and local government, led by Fujian.* The Fujian Province implemented the rural housing insurance scheme in August 2006, contracting with commercial insurers to cover 6.63 million households in the province (excluding Xiamen). Under the scheme, insurance companies in all counties (cities and districts) provide a unified insurance policy with a 1-year term period. The total premium is RMB 35 million (USD 5.69 million), with an average household premium of RMB 5.3 (USD 0.86) and a RMB 5,000 (USD 813.5) insured amount. The premium is split 50/50 between the provincial government and municipal (city and district) government (from the second year onwards in pilot areas, the annual premium of 35 million will be paid entirely out of the provincial finances). In Xiamen municipal, the insurance is fully funded by the municipal and

[96] Fujian, Zhejiang, Gansu, Sichuan, Hunan, Yunnan, Guangxi, Guizhou and other places.

[97] See Ding Shaoqun and Tuo Guozhu, Development Model and Suggestion of Chinese Farming Housing Insurance, *Insurance Professional Journal,* 6th issue in 2009

district level governments together. No further information on how the existence of the policy is communicated to the insured or on how claims are filed and processed is available.

*The **market-oriented model** promoted by government subsidies with voluntary participation of farmers, led by Zhejiang Province.* Zhejiang Province is located along the southeast coast where typhoons and other natural disasters frequently occur. The typhoons in recent years have been particularly damaging, leaving a large number of rural property badly damaged. There is an increasing need for protection from the effects of these natural disasters.

In November 2006 various arms of the Zhejiang provincial government launched a new rural housing insurance model in co-operation with PICC P&C. Zhejiang policy-based farmhouse insurance covers the collapse of the insured houses due to natural disasters or accidents (not including earthquakes and nuclear reactions). Following assessment of the damage, the maximum compensation payable is RMB 18,000 (USD 2,929) per household and sum insured of each room is RMB 3,600 (USD 586). The Zhejiang province is divided into two major risk areas and premiums are determined accordingly. In the higher risk area, total premium is RMB 15 (USD 2.44) per year of which the farmer contributes RMB 5 (USD 0.81), the province RMB 4 (USD 0.65) and the city and county RMB 6 (USD 0.97). In the lower risk area, premiums are RMB 10 (USD 1.62) per annum, split between the farmer (RMB 3/ USD 0.49), the province (RMB 3/ USD 0.49) and city and county (RMB 4/USD 0.65).

Participation in this scheme by farmers is voluntary. However, in order to stimulate grass—roots support and farmer participation, an incentive mechanism of "three combinations" was introduced: the first is the combination of farmers' voluntary participation with government subsidies; the second is to combine the provincial financial aid with the insurance rate of farmers. In city and county, provincial fiscal subsidies will not be allowed if the insurance rate of farmers does not reach 50%. The third is the combination of central and other relief fund grants with farmers' participation in insurance – the higher the level of farmers' participation in the insurance scheme, the more relief funds will be channelled to that area.

As an additional incentive to encourage farmer participation, any relief funds for restoration and reconstruction will first go to rural households who participated in the insurance program. At the same time the province has established a simplified claims procedure and accelerated the handling of claims with payment usually made within three working days after the damage assessment. The provinces of Guangdong, Zhejiang, Ningbo, Tianjin, and Yunnan have implemented similar schemes.

PICC P&C main underwriter of rural housing insurance. At present, the rural housing insurance is mainly provided by PICC P&C. According to their statistics, the rural housing premium has increased from RMB 35 million (USD 5.69 million) in 2006 to RMB 343.7 million (USD 55.9 million) in 2010, and claims payments from RMB 24.17 million (USD 3.93 million) in 2006 to RMB 294.04 million (USD 47.84 million) in 2010. The claims ratio (compensation of the year/written premium of the year) for this product is high with a ratio of 75.03% in 2010. From 2006 to 2010, the lowest loss ratio was 53.08% in 2009 and the highest loss ratio was 75.03% in 2010.

4.4.2. Agricultural Insurance

Agricultural insurance is a form of property coverage that protects against farming losses and is primarily concerned with crop[98] and livestock losses[99].

Background. Since 1979, China's agricultural insurance has gone through three stages. From 1982 to 1992 (the first stage), the commercial insurance companies were involved with government oversight. In 1982, PICC P&C began with livestock insurance on a trial basis. At this stage, PICC P&C was responsible for providing agricultural insurance with government support. The policy was that agricultural insurance should be provided on a non-profit basis.

The second stage, also known as the "wandering stage" of agricultural insurance, lasted from 1993 to 2003. During this period, the government, in line with the principles of commercial insurance, no longer provided policy support or financial subsidies for the agricultural insurance providers. Without the government financial subsidies, farmers did not want to nor could afford to pay the higher premiums. Thus, the agricultural insurance providers had to scale down, resulting in the shrinking of the agricultural insurance market.

From 2004 all levels of government became involved in policy guidance, financial subsidies and legal and regulatory aspects of agricultural insurance. Its pilot areas have been gradually expanded since 2004 when it was initiated in 9 areas. During this period, China's agricultural insurance began to enter a rapid recovery phase.

Distribution models. Currently there are seven pilot models for policy-based agricultural insurance in China. These include "mutual aid", "Anxin", "Anhua", "co-insurance", "commission service", "joint co-insurance" and "united insurance". In 5 of the 7 models (the models of "Anhua", "co-insurance", "commission service", "joint co-insurance" and "united insurance") the insurance company is in a subordinate position, and the government plays a dominant position. Firstly, the government is responsible for raising premiums. For all types of agricultural insurance the state subsidises at least 50% of the premium, with as much as 80% in some cases. In addition, many insurance companies in rural areas do not have widespread marketing networks and rely on the government for premium collection. Secondly, claims survey and loss prevention are inseparable from the government's functional departments. Government departments assist with technical loss prevention measures advising farmers on planting and livestock. Thirdly, government agencies also assist with claims payment.

The other two models also depend on government subsidy of the premium, but enlist technology to deal with some of the other challenges particular to agricultural insurance. The first model is the "mutual aid" system, implemented through an agricultural insurance company set up by the Heilongjiang Provincial Land Reclamation Bureau. It has its own technical staff and does not rely on state technical support. The second model is the "Anxin" model in Shanghai where the insurance companies and the agricultural science and technology department co-sponsor agricultural insurance. This pooling of skills and resources alleviates the problem of skills shortage of manpower that the insurance companies face regarding loss prevention and damage assessment.

[98] Crop insurance protects against a loss of crop yield due to a variety of perils; primarily weather, pests, and disease.
[99] Livestock insurance protects against a loss of livestock due to a variety of perils; primarily disease.

Industry size. The CIRC statistics showed that, **in 2010, China's agricultural insurance premium income was RMB 13.586 billion (USD 2.21 billion),** covering farming, breeding, forestry and some local agricultural endeavours. The coverage of the major grain, oil and cotton crop insured by the agricultural insurance reached 680 million mu (10mu being ~1.647 acres), 35% of the national planting acreage. Agricultural insurance has become a significant source of funding for the farmers' post-disaster recovery. In 2010 the agricultural insurance coverage reached 140 million households. About 21 million received insurance compensation after disasters and the insurance industry paid compensation of RMB 2.7 billion (USD 0.44 billion) for flood disasters. With the steady expansion in coverage area, the protection level of agricultural insurance has gradually improved and the variety of insured events is increasing. In addition to the premium subsidies of central government, local governments have also launched and supported insurance schemes. At the same time, the commercial sector's involvement is increasing, with each major grain producing province having more than two commercial insurers offering agricultural insurance.

According to data from PICC P&C, crop insurance (except forestry) has the largest share of premiums, accounting for 69.81% of the total agricultural insurance premiums in 2011. Rice, wheat and corn are the main insured varieties, of which rice accounted for 33.61%, wheat 14.14%, and corn 27.44%[100] (see Table 4.8 below)

Table 4.8: PICC P&C's agricultural insurance

Insurance Type			Gross Written Premiun (RMB) (USD)			Loss Ratio		
			2008	**2009**	**2010**	**2008**	**2009**	**2010**
Crop Farming (except forestry)	Total		**3,120,843,577 (507, 764, 000)**	**4,260,753,322 (693,228,000)**	**4,958,003,123 (806,671,000)**	**55%**	**63%**	**59%**
	Major insurances	Rice	1,294,890,142 (1,294,890,142)	1,560,504,873 (253, 995,000)	1,845,396,479 (300,248,000)	47%	51%	52%
		Wheat	284,155,518 (46,232,300)	555,924,588 (555,924,588)	**760,341,549 (123,708,000)**	26%	41%	40%
		Corn	599,866,357 (97,598,800)	1,043,005,472 (169,698,000)	1,019,261,415 (165, 835, 000)	52%	82%	83%
		Soy bean	22,615,736 (3,679,600)	57,399,669 (9,338,970)	63,866,634 (63, 866, 634)	33%	76%	59%

[100] PICC P&C provided updated figures for 2011 in the text but not for the figures in table 4.9, which are thus only up to 2010.

Insurance Type			Gross Written Premiun (RMB) (USD)			Loss Ratio		
			2008	2009	2010	2008	2009	2010
		Cotton	573,163,184 (93,254,100)	495,333,828 (80,591,200)	617,872,634 (100,528,000)	59%	72%	65%
		Cole	37,595,565 (6,116,830)	174,656,911 (174, 656, 911)	246,661,928 (40,132,100)	34%	31%	30%
Livestock breeding	Total		**2,782,567,994 (452,726,000)**	**2,589,809,465 (421,364,000)**	**1,844,348,287 (300,077,000)**	**69%**	**116%**	**137%**
Livestock breeding	Major insurances	Cow	266,817,594 (43,411,400)	278,288,431 (45,277,800)	284,156,256 (46,232,500)	24%	121%	101%
Livestock breeding	Major insurances	Reproductive sow	2,060,103,167 (335,181,000)	1,876,325,434 (305, 280, 000)	1,080,008,627 (175,718,000)	71%	117%	171%

4.5. Next generation of distribution channels/alternative distribution methods

While the use of alternative distribution channels such as retailers, mobile phones and other retail payments infrastructure to distribute insurance is not yet prevalent in China, industry consultation revealed an interest from insurance providers and government to better understand the potential role these channels can play in expanding access to insurance throughout the country.

Alternative distribution channels have been successful in other regions as they provide insurance companies with an additional physical footprint and act as a potential low-cost client aggregator. Many alternative distribution channels can facilitate premium collection and policy administration over and above providing a marketing and policy origination function. These functions can often be provided at low-levels of additional effort by the channel as they make use of existing sales staff[101] and payments[102] and communications infrastructure while the existing business operations can be complemented through this product offering.

This section will talk to the potential opportunity by highlighting international examples of insurance distribution using alternative distribution channels and relating it to the realities of the Chinese market.

[101] Refer to examples of alternative distribution channels below. Channels that make use of active sales have achieved the highest-levels of take-up.

[102] Alternative distribution channels have existing relationships with clients and banks to facilitate payment. In addition, payment mechanisms such as Point of Sale (POS) devises can provide client with the required policy documentation.

4.5.1. Use of retailers

Use of formal and informal retail stores to distribute insurance is prevalent across the developed and developing world. This channel has been effectively used for microinsurance policy origination and premium collection in Latin America, Africa and Asia.

4.5.1.1. Use of formal retailers

Global trend for retailers to provide financial services. As part of a strategy to leverage their large distribution footprint, access to customers and brand loyalty, it has become increasingly common for retailers to expand their product offering to financial services, particularly to their low-income market segment. This trend is noticeable across the retailer spectrum with Fast Moving Consumer Goods (FMCGs) retailers, white-label goods retailers, pharmaceutical chains and clothing retailers now offering insurance products to the low-income market. The primary motivation for retailers to enter this space has been the diminishing profit margins associated with retailers' traditional product offering, with profits derived from financial services in some cases exceeding those derived from their core product offerings.

Large multinational retailers first movers in financial services arena globally. Large multinational retailers operating across Latin America, Africa and Asia (including China) such as Carrefour, Wal-Mart, Elektra, IKEA, Shoprite, PEP and SPAR have adopted and implemented financial services strategies as part of their business model and global strategy. Early signs, with the application of Wal-Mart for an insurance intermediation licence from the CIRC, indicate that international retailers are interested in distributing mass insurance in China.

Chinese convenient chain stores first movers in insurance distribution in China. Recent developments (May 2012) have seen the launch of personal accident insurance sold through 1,420 Kedi and Allday convenient stores in Shanghai. The product is underwritten by China Life (Shanghai) and sold in the form of activation cards that can be activated through the internet, text message or phone call after being purchased in-store[103].

China's retailer footprint growing rapidly in urban and rural areas. A 2010 survey by China Chain Store & Franchising Association (CCFA) of the top 100 retail chains in China shows annual increases in retail sales of consumer goods by 18.8% in urban areas and 16.1% in rural areas. This has been facilitated through more than 150,000 retail stores nationwide. The largest[104] retail groups consist of supermarkets, convenience stores, electronic stores, pharmacies and department stores. A study conducted by Deloitte entitled "China power of retailing 2011" signals that retailers, due to increasing competition in 1st and 2nd tier cities, have shifted their focus and expansion drive to provincial cities in less developed areas and county-level towns. However, rural retail development still significantly lags urban with McKinsey reporting[105] (2009) that supermarkets, hypermarkets, convenience stores and malls accounted for only 20% of rural consumption compared to 65% of urban consumption. It is noticeable that the retail segment most prominent internationally in insurance sales – multi-sector,

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[103] China Life Insurance Will Sell Products Via Convenience Stores In Shanghai May 3, 2012. Accessed: 01 August 2012. Available at: http://www.chinaretailnews.com/2012/05/03/5510-china-life-insurance-will-sell-products-via-convenience-stores-in-shanghai/

[104] Largest retail groups in China: Sunning Appliance Group, Gome Electrical Appliances, Bailian Group, Dashang Group and Vangaurd, Carrefour and Wal-Mart

[105] Marketing to rural China. McKinsey&Company. Consumer Shopper Insight. December 2010. Available at: http://csi.mckinsey.com/~/media/Extranets/Consumer%20Shopper%20Insights/Reports/RuralChinalRDY.ashx

supermarkets, departmental, convenience, electronics and drug stores – has the largest share of the top 100 store footprint in China.

Government policies promote establishment and professionalisation of rural retail stores and stimulate consumption. As part of a government strategy to increase the efficient delivery of goods and services in rural areas, the Ministry of Commerce launched the Ten Thousand Villages project, which encourages government-certified urban chain stores to expand into rural areas[106] (Intel, 2009). In addition, the national government provides a RMB 6,000 (USD 976) subsidy for the establishment of a rural store. As part of a government strategy to encourage domestic consumption demand[107] the Ministry of Commerce has enacted several policies, including direct subsidies, to stimulate demand in rural and urban areas. The policies have had the intended effect of supporting the development of retail chains and thus present an ever-growing opportunity for the development of retailer insurance distribution.

Some international examples of insurance products sold through formal retail chains are described in Box 4.3 below.

Box 4.3: International example of insurance sold through formal retailer

Supermarket store: Carrefour, Colombia
Carrefour, a French retailer, started operations in Colombia in 1998 and targets the low-income market through an adapted hypermarket format called Tintalito. Carrefour has 9,200 employees and more than 60 stores in 28 cities around Colombia.

Insurance product sales takes one of two forms:

- It is sold by the cashier at the end of a normal sales transaction. The client can either request the insurance from the cashier, or the cashier could ask the client whether s/he would like to purchase the product. The policy document is printed at point of payment with only one cash premium for the duration of the cover. Policy cover is immediate and lasts for a set period (usually 30 days).
- Insurance can be obtained from an insurance desk in-store.

Product range includes accidental death insurance, medical assistance insurance, household content insurance, life cover in the form of monthly payments and life cover for educational support to child dependants.

Take-up: Distribution model has achieved significant levels of take-up, achieving scale and profitability.

White label goods store: Casas Bahia, Brazil
Casas Bahia was founded in 1957 and is the largest appliance retail chain in Brazil with 510 stores in more than 200 cities across Brazil. Casas Bahia focuses specifically on the low-income market and has 22 million active customers.

Insurance product is obtained in-store at a cost of US$40 p.a. and consists of several components: Financial protection, life insurance (double coverage in case of accidental death using public transport), hospitalisation cover, discounts on pharmaceuticals and a lottery ticket component.

[106] Case Study: PRC: Thousand Villages Project
[107] 11th and 12th Five-year Plan ratified by the National People's Congress.

Take-up: Distribution model has achieved significant levels of take-up, achieving scale and profitability.

Clothing retailer: PEP Stores, South Africa

Pep Stores, founded in 1965, actively targets the low-income market through its 1,159 clothing retail stores throughout South Africa. Pep, through a joint venture with Hollard Insurance Company, exclusively distributes insurance products underwritten by Hollard.

Product takes the form of a prepaid cell phone "starter pack" available off the shelf. The starter pack contains the policy card, policy document and any other information the customer might require about the product. Current product offering only includes funeral cover. Product is purchased in store and cashier capture's policyholders name and surname. A call centre will contact the client within 48 hours to activate cover and register beneficiaries. Monthly premiums are payable in-store. Claims are settled directly with the insurance company whereby the beneficiary must contact a call centre and email or fax the death certificate and other supporting documents. The claim is paid out into the beneficiary's bank account.

Take-up: Distribution model has achieved significant levels of take-up, achieving scale and profitability.

4.5.1.2. Use of informal retailers

Several attempts to distribute insurance through informal retailers. Informal retailers selling convenience goods such as basic foods, cellular airtime and cigarettes are prominent across the developing world. These stores are often found at grass root levels providing an access point to client groupings in rural settings. Examples where informal retailers have been used for policy origination and premium collection are found in the Philippines, India, South Africa and Kenya. In China, industry consultation revealed that microinsurance pilots using local village convenience stores have emerged. This type of enterprise could potentially become more viable with initiatives such as Sichuan Ministry of Commerce partnership with Intel China and Sichuan Telecom Company to provide ICT (including broadband connection) solution to 18,000 retail stores, with an additional 40,000 stores identified in towns and villages in the Sichuan province (Intel, 2009).

Box 4.4: International examples of insurance sold through informal retailers

Max Vijay, India

Max Vijay makes use of various telecom, neighbourhood grocery and appliance stores (formal and informal) in the sale of its insurance policy Max Vijay.

Max Vijay is designed to be a flexible premium, life insurance product with a built in savings component. Insurance takes the form of a box available in-store. The box contains a policy description and application form. Once the individual has filled in the required application form, he/she is presented with an acknowledgement of purchase document. The policyholder will have to return to the shop at a later stage in order to pick up the official policy document. The product is not explained or actively sold to the individual in-store and is specifically targeted to low-income earners with non-fixed income.

Take-up: Distribution model achieved moderate levels of take-up.

4.5.2. Use of mobile phones

Mobile networks provide access to large populations over a large geographic space. Large investment in mobile network infrastructure, increased coverage, reduced cost of mobile handsets and increased affordability of mobile phone services has seen significant take-up of mobile phone usage globally. The take-up of the services, especially in the low-income segment of the population, has placed mobile operators in an ideal position to extend financial services to the underserved. Furthermore, large investments have been made by Mobile Network Operators (MNOs) and financial institutions to roll-out financial services through the use of mobile phones.

Widespread mobile phone usage in China presents opportunity to access clients in rural markets. The Ministry of Industry and Information Technology indicated that the number of Chinese phone subscribers stood at 769 million by the end of May 2010[108]. This represents a significant portion of the global mobile subscriber market of nearly 6 billion subscriptions (International Telecommunications Union, Nov 2011). After several years of aggressive investment in rural areas by China's largest telecoms player, China Mobile, it's expected that 98% of Chinas' rural districts will have mobile network coverage[109] by the end of 2012 (Alpha Male, 2009).

Developments in mobile payments arena provides opportunity for microinsurance. Developments in the mobile payments environment such as the joint venture between China Mobile and China UnionPay - Union Mobile Pay (UMPay) – could potentially open a premium collection platform for microinsurance. Examples from Kenya, Ghana and South Africa show that mobile banking services provide a unique opportunity to distribute microinsurance products. In these, and other examples, mobile phones have been used for the purpose of marketing, policy origination, premium collection, policy administration (as it relates to capturing client information and communication with client), and policy renewal and claims settlements.

Box 4.5: International examples of insurance sold through mobile operators

Mi Life, Ghana

The Mi Life insurance product is a mobile payments-based insurance product launched in Ghana in March 2011 on a pilot basis. The project is a partnership between MTN Ghana (a mobile network operator), MFS Africa (a mobile financial services technology provider), MicroEnsure, UT Life (a Ghanaian life insurer) and Hollard Insurance. Mi Life covers the lives of two beneficiaries, the policyholder and his/her nominated next-of-kin. An MTN Ghana subscriber who chooses to buy the product can expect to pay anything between US$0.66 and US$3 in monthly premiums. The

[108] MobiThinking reported November 2011 Chinese mobile usage subscriptions to stand at 963 million. See http://mobithinking.com/mobile-marketing-tools/latest-mobile-stats#chinasubs

[109] This comes as part of agreement between China Mobile and the Ministry of Agriculture to include more than 10,000 villages annually over a period of 3 years under its network coverage. See http://seekingalpha.com/article/149376-china-mobile-stays-ahead-of-competitors-with-rural-expansion

associated cover ranges between US$330 and US$1,300 for the two lives (Microinsurance compendium, *in publication*).

Take-up figures: Distribution model is new with early signs showing that the model will achieve high take-up and achieve scale and profitability.

China is the world's fastest growing smartphone market providing increased access to the internet through mobile phones. China has both the world's largest smartphone market by shipment volume, and the largest number of mobile internet users at 224 million (mobiThinking, 2011). According to a study by ondevice research, 45% of rural and 29% of urban Chinese mobile internet users in 2011 only accessed the internet through their mobile phones. In addition, more than 25% of mobile internet users make use of their mobile phone for banking purposes, potentially signalling a willingness to interact with other financial services such as insurance. See Box 4.5 above.

4.5.3. Complementary channels

While retailers and mobile banking models form part of the retail payments ecosystem, innovative microinsurance distribution models have also made use of other aspects of the retail payments system, such as self-service Point of Sales (POS) devices , ATMs as well as the internet and outbound call centres to distribute microinsurance.

Large ATMs network forecasted to grow. Early experiments with insurance sales through ATMs in Mexico, Brazil and South Africa suggest that this channel could see significant growth in the near future. The insurance is offered to existing bank customers when they make use of a bank ATM. As part of an effort to improve convenience to customers and reduce costs associated with serving clients in branches, large investments have been made in improving and expanding ATM infrastructure globally by most retail banks. This has led to the creation of a significant ATM footprint. At the end of 2009, China had 210,000 ATMs country-wide. This is projected to grow to 545,000 ATMs by 2015.

Self-service POS devices allow on-sight policy origination. Self-service POS devices, which are similar to ATMs in functionality but are cheaper and assisted, provide a platform for client contact and premium collection. The devices are typically provided by third-party technology providers and are located inside retail stores, malls and fuel stations. They provide either an open platform (any bank user can purchase goods and services via the POS) or a closed platform (only store-card members have access to the platform).

Outbound call-centres or telesales increasing in popularity. Outbound call-centres or insurance telesales is a growing phenomenon globally as the cost of telephony decreases and penetration of and familiarity with telephony increases. Several Chinese insurance companies have entered the telesales market after 2007 when the CIRC signalled their interest in sustainable development of this market by providing insurance companies with guidelines on internal management and customer interaction[110]. Insurance companies who have existing

[110] 24 April 2007 Notice Telemarketing of non-life products.

telesales operations such as Pin An[111], Bohai Property Insurance[112] and Min An Insurance have signalled an intention to further expand their telesales efforts while others have signalled their interest in entering this market.

Internet usage and associated e-commerce projected to grow rapidly. In 2011, China – the world's largest internet user market - had 23% of the world's internet users totalling an estimated 485 million[113]. This figure is estimated to increase to 700 million by 2015, with total e-retail sales of USD 360 billion (Internetretailer, 2012)[114]. Chinese insurance companies, such as Pin An Insurance, have started using internet-based sales in the auto insurance sector. This has similarly been the entry point for other regions, with gradual expansion to other insurance lines such as life insurance.

4.5.4. Early lessons from alternative channels globally

Active sales still most successful sales method. Distribution models with active face-to-face sales still prove to be the most successful sales channels. Channels where retail sales agents sell (Carrefour, Casas Bahia) or promote insurance products prove more effective than passive sales where the consumer is responsible for initiating the insurance purchase. While passive distribution channels (mobile, internet etc.,) are effective as a complimentary channel or with insurance products that have been commoditised – where the product and cover is well known and in high demand – insurers should be cautious of relying only on this channel alone for microinsurance sales.

Real time connection a critical success factor. An additional success factor of alternative distribution channels lies in quick, effective and low-cost policy origination and premium collection. Models that can facilitate and communicate real-time policy origination and premium collection have proven most successful. In addition, access to a national database to verify identification can assist in fraud prevention and policy administration.

Insurers choose to use multiple channels. Insurance companies often rely on multiple sales and communications channels to sell insurance policies and collect clients' information. For example, the insurance company may rely on the retail store to stock insurance policies and collect clients name's and identity numbers while using an outbound call centre to phone the client and collect their beneficiaries' information. Further, multiple examples exist of insurance companies combining internet sales with outbound call centre services while using mobile text notification to improve policy renewal.

Regulatory environment strongly influences success of alternative distribution channels. The development of alternative distribution channels by insurance companies has been greatly affected by the regulatory environment of the countries in which they operate. Key regulatory

[111] Tim Dreyers. 1 March 2012. Contact Center Efficiency Doubles Agent Sales Per Hour for Chinese Financial Services Company. Available at: http://blogs.aspect.com/index.php/2012/03/01/contact-center-efficiency-doubles-agent-sales-per-hour-for-chinese-financial-services-company/
[112] Enterprise Innovation. 19 March 2009. China Insurance Firm to Expand Call Center. Available at: http://crm.enterpriseinnovation.net/content/china-insurance-firm-expand-call-center
[113] Internet World Stats. Top 20 Countries with the highest number of internet users. 2012. Access document at: http://www.internetworldstats.com/top20.htm
[114] Internet RETAILING. 13 April 2012. Chinese e-retail sales set to triple to $350 billion in 2015. Source: http://www.internetretailer.com/2012/04/13/chinese-e-retail-sales-set-triple-360-billion-2015

issues relate to intermediary regulation and electronic commerce regulation – allowing for non-face-to-face policy origination.

4.6. Conclusions

Rapid development. China's insurance sector has seen rapid growth and development since the re-opening of the market at the beginning of the 1980's. By 2010 China's total insurance premium amounted to RMB 1.45 trillion (USD 0.24 trillion), of which 66.6% was for life business and the balance for property. This accounted for 4.95% of global insurance income, with the country's insurance sector ranked sixth in the world. However, insurance density was still only at USD158 compared to the global average of USD 627. Insurance penetration stood at 3.8%, compared to the global average of 6.9%.

Structure of the insurance industry. The industry is dominated by large Chinese-owned firms, the lead firms in both life (China Life – with 31.7% market share) and property (PICC P&C, with 38.23% market share) being largely state-owned. In 2010 there were 53 active property insurance firms and 61 active life insurers. In both the life and property sectors the top five companies hold more than 70% of market share.

Rural microinsurance triggered by public policy since 2004. The first agricultural insurance pilots were launched in 2004, but only took off in 2007 when extensive government subsidies were introduced. Property insurance was introduced in 2006 –either wholly or partly subsidised – especially in coastal areas to deal with typhoons and damage caused by other natural disasters. The CIRC launched its personal microinsurance pilot program in 2008, but without national subsidy. Premium subsidies are provided at local level.

Current size of rural microinsurance market. Based on data supplied by the seven insurers who provide the bulk of rural microinsurance, total premium income for rural microinsurance in 2010 is estimated at RMB 7.40 billion (USD 1.20 billion) of which about 11% (RMB 0.79 billion/USD 0.13 billion) was for personal microinsurance and the balance for property. This represented 154.8 million policies sold - 99.5 million for agricultural insurance, 35.3 million for property insurance and 20 m for micro personal insurance.

Current size of personal rural microinsurance market. Of the 20m policies sold in 2010 under the CIRC rural micro personal insurance, just more than 80% were bundled term life and personal accident policies (16.2 million), 12.5% were term life insurance (2.5m) and the balance personal accident medical expense insurance (1.3m). If account is taken of double counting, it is estimated that the five insurers between them covered 18.7 million people in 2010.

Credit-based distribution dominates personal microinsurance premium, but not number insured. China Life wrote 61% of total micro personal premiums in 2010 and CPIC 25%. Between them they therefore account for more than 86% of total premium. Five products distributed through credit providers account for 72% of China Life's total microinsurance premium in 2011, but, only 22% of people are covered. The premium income of its single largest product – China Life Micro Credit Borrower Accident Insurance – grew from 16% of total microinsurance premium at the start of the pilot phase to 63% in 2011. In the case of CPIC, their credit-linked product – Andaibao microinsurance – accounted for 219 million of their total microinsurance premium of 220 million in 2010.

Group insurance sold through village committees. The only other model to reach some sort of scale is the distribution of group policies through village committees, where the policy covers the entire village and the premium is paid by the village committee. The decision to purchase insurance is preceded by a consultation process between the insurance sales person and the villagers.

Distribution though postal system still untested. Although China Post Life has arguably the largest network of formal service outlets in rural areas – with more than 240 000 postal agencies in rural areas - its model microinsurance business is in an very early stage, having only received approval for its pilot work in 2010. With a loan portfolio of RMB 140 billion (USD 23 billion) it sees credit-linked microinsurance as a potential product leader.

Individual sales remain limited. Although the individual sales model has the great benefit of direct interaction with the client and thus being able to grow insurance awareness and target products at the exact need of the clients, the success rate is not high and the sales expenses high compared to the premium income. To date it has not proven a commercially viable model for insurers. To date, this model has been applied by insurers in only a few cases.

Personal accident insurance dominates – no savings-based products provided. The bulk of the personal products offered in the microinsurance pilots are personal accident products. The medical expenses policies are also linked to personal accident risks. Given the very high savings propensity of Chinese citizens as well as the fact that the most important risk identified by all groups in the FGD research is providing for the education of their children, it is noteworthy that not a single microinsurance product contains a savings element. This contrast sharply with the established urban market where the bulk of insurance products sold is savings-based.

Commercial viability of credit-based distribution highest. Although the information provided by participating insurers regarding product loss ratios was uneven, a pattern does emerge. Loss ratios for personal accident products seem to vary between 50 and 70%, which is in line with main stream commercial personal accident claims ratios. However, if the distribution costs are high (as they would be for all the non-credit based models), the products are likely to be loss-making. The loss ratios for products covering medical expenses are significantly higher – in the order of 80% or above – indicating loss-making product lines. The lowest claims ratios are for credit-linked products. Taikang Life’s borrow (micro agro-credit) accident insurance had claims ratio of under 25% and CPIC’s Andaibao credit-linked accident insurance had a claims ratio of 26%.

Two distinct models for rural housing insurance. Since 2006 rural housing insurance has been driven by provincial authorities, with two distinct models emerging. The Fujian model contracts commercial insurers to provide blanket housing insurance to all rural households. Participation is thus “automatic”. The premium is fully paid by the provincial and municipal governments and the insured amount RMB 5,000 (USD 813.5). Zhejiang Province, on the other hand, initiated disaster insurance for especially weather-related damage where the premium is jointly paid by the farmer, provincial government and local government. Participation in this scheme is voluntary. However, the state has implemented specific incentives to encourage rural participation. Firstly, provincial subsidies are dependent on at least 50% of farmers participating. Secondly, the higher the farmer participation rate, the more public relief funds will be channelled to the area once damage is caused. And thirdly, public relief funds flow firstly to farmers who participate in the in the scheme. Maximum compensation payable is RMB 18,000 (USD 2,929). PICC P&C is the main underwriter of rural housing insurance and reported a claims ratio of 84% in 2010.

Agricultural insurance. China has one of the largest agricultural insurance markets in the world, with total premium income in 2010 of RMB 13.586 billion (USD 2.21 billion). Not all of this can be classified as microinsurance, but the bulk of beneficiaries would fall in the microinsurance target market as defined earlier. Agricultural insurance relies heavily on state support, not only for premiums – state subsidy varies between 50% and 80% of premiums – but also to provide technical agricultural services for loss prevention, premium collection, loss assessment and claims payments. Crop insurance accounts for 70% of premium, with livestock and forestry accounting for the rest. In 2010 the aggregate loss ratio for crop insurance was 59% and for livestock insurance 137%.

Very little to no use made of commercial mass distribution channels. Whereas commercial insurance companies implementing microinsurance pilots in China are able to draw extensively on state support (notably more so in the case of housing and agricultural insurance than micro personal insurance), they have made very little to no use to date of the type of mass distribution channels increasingly utilised by commercial insurers serving the low income market in other countries. These mass-based distribution channels include formal and informal retailers, mobile phones and complementary channels such as ATM networks, POS devices, outbound call centres and the internet. In the mainstream market, Chinese insurers are starting to utilise these channels, but not yet in the low-income market. International experience, however, suggests that the most effective channels are those that facilitate active sales.

Three distinct models of government involvement in microinsurance provision emerged. The role that national, provincial and local governments play in promoting the extension of microinsurance can be categorized into three broad categories. The level of Government involvement has been largely influenced by the nature of the product offering and the public objectives sought to be achieved:

- **Promotion through regulatory concessions**. In this model the government provides a favourable regulatory environment for the provision of microinsurance by providing regulatory concessions and other policy-based support. Insurance companies market microinsurance products without direct or indirect subsidies. Products are designed and offered independently from current social security provision. This level of government involvement has worked well for microinsurance bundled with credit such as China Life's insurance offering through microcredit institutions and CPIC's microcredit-linked products (see section 4.3.1) This amounts to a purely commercial model of microinsurance.
- **Promotion through semi-public provision.** National, provincial and/or local governments promote the extension of microinsurance through partial premium subsidies and/or supporting commercial insurance companies to intermediate microinsurance, for example through the performance of various intermediary functions such as marketing, premium collection, loss assessment being performed by state structures. This type of government involvement has been adopted by Jinzhong province where local government partially funds a variety of group life insurance. It is perhaps most developed in the various agricultural and rural housing insurance products. This form of government involvement is intended to meet various objectives. These include the mitigation of specific risks,

notably disaster risk, that hold significant fiscal exposure for the state. A further objective is to increase the insurance understanding of rural residents and lay the foundation for voluntary insurance take-up in the future.

- **Promotion through public provision.** In this modality, the full cost of insurance distribution as well as the risk premium is subsidised by the state, with no premium or portion thereof being paid by the insured. Commercial insurance companies are enlisted to distribute the product due to their higher efficiency levels and existing capacity as well as their ability to access and manage reinsurance. This model of microinsurance provision reduces distribution cost and has high-levels of uptake as it's often packaged as a "blanket cover". This model has proven successful in the provision of agriculture insurance but has shown less favourable results for personal insurance lines where government support is often inconsistent (see section 4.3.2). For example, the Shanxi model has witnessed declining revenues and coverage.

5. The regulatory framework for microinsurance

China's insurance regulation is well developed and extensive. The Insurance Law was revised in 2009. Specific regulation dealing with microinsurance dates from 2008 when the CIRC issued the *Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance*. The 2008 rule invited personal insurance companies in China to register pilot projects that would deliver personal insurance products to low income clients in rural areas. The Rule was amended in *Circular on Further Expanding the Pilots of Small-amount Life Insurance in Rural Areas* issued on 21 April 2009. The CIRC issued a new rule, the *Concept for Comprehensive Roll Out of Micro Personal Insurance*, on 12 June 2012. The new rule issued in 2012 replaces the two previous rules. The successive rules mark the evolution of the implementation of personal microinsurance in China based on the application of the pilot approach. Although the special regulatory regime for micro personal insurance was only promulgated by the CIRC in 2008, concessionary dispensations for agricultural and property insurance targeting the low-income market in rural areas came about earlier.

This section explores the insurance regulatory landscape in China as it has shaped the development of the microinsurance market. It will broadly cover the following sections:

- **Financial inclusion policy landscape in China**; this section provides a brief introduction to financial inclusion policy in China.
- **Institutional landscape for insurance regulation;** this section reviews institutions involved in the supervision and regulation of the insurance sector and rural financial institutions that distribute microinsurance products.
- **Regulatory framework that bears upon microinsurance;** this section reviews key general insurance regulations that impact on underwriting and distribution of microinsurance products.
- **Special provisions for microinsurance;** this section reviews the special dispensation provided by the CIRC for microinsurance provision.
- **Other provisions that impact rural microinsurance;** this section will consider specific provisions impacting on the use of Bancassurance channels and the issuing of personal accident insurance policies.

5.1. Financial inclusion policy landscape

Financial inclusion is a policy objective. The PRC has shown interest in financial inclusion as a tool for poverty alleviation and economic development through policy amendments, guidelines, rules and membership affiliations. PRC state organs such as the Ministry of Finance, PBOC, CBRC; Ministry of Human Resources and Social Security; the Lead Group Office of Poverty Alleviation and Development and the CIRC have been the principal institutions driving financial inclusion in China.

Financial inclusion policy has focused on rural areas. Government policy regarding financial inclusion has focused predominantly on rural areas due to the greater extent of financial exclusion in these areas. This was led by special regulatory dispositions for the establishment of Rural Credit Cooperatives (RCCs)[115] in July 1999 and was followed by a series of policy interventions in the credit market. The CIRC Rule on Micro Personal Insurance issued in 2008

[115] PBOC. *Temporary Management Methods for Rural Credit Cooperative Microcredit Loans*. July 1999. ,

focused exclusively on rural areas. This was only revised in 2012 when low-income urban households were included for the first time in the target market for micro personal insurance.

5.2. Institutional landscape for insurance regulation

The earlier market analysis makes it clear that the impetus for the development of rural microinsurance in China has primarily come from the state. State support has taken many forms, notably subsidies at various levels of government, distribution support from state agencies and a concessionary regulatory framework in the case of personal insurance. This section briefly sets out the public institutional architecture that supports the development of rural microinsurance.

Different levels of government have fiscal autonomy. The PRC can broadly be divided into national, provincial, local governments and autonomous regions. Each category has the legal power to formulate rules[116] and allocate government funds.[117] The division of functions between the central government and local state organs are guided by "the principle of giving full scope to the initiative and enthusiasm of the local authorities under the unified leadership of the central authorities."[118] Due to highly decentralised government spending[119], local governments (at all levels) have considerable autonomy in dictating local spending priorities.

Legislative and executive authority. The National People's Congress (NPC) is the legislative organ of the government of the PRC[120] and is tasked with enacting and amending basic laws. The day-to-day duties of the NPC are exercised by its Standing Committee, which is responsible for legal interpretation as well as supplementing and amending laws enacted by the NPC. The State Council, under authority of the NPC, is responsible for drafting administrative regulation in order to implement the provisions of laws.[121] If the State Council deems the regulation to be appropriate, a formal request is made to the NPC to make it a law.

The CIRC was established in November 1998 as an agency of the State Council. The role of the CIRC is to administer and supervise "the insurance industry, safeguard the order of the insurance market and protect the lawful rights and interests of proposers, insured and beneficiaries in accordance with this La[w]."[122] The CIRC formulates rules to govern the insurance industry in accordance with the laws, administrative regulations, decisions and orders of the State Council. Rules made by the CIRC are formulated by the departments[123] of the CIRC and promulgated by an order signed by the chairperson of the commission.

The CIRC consists of fifteen departments as well as a general office[124] to fulfil its prescribed functions.[125] The departments most relevant to this study are the Property Insurance Regulatory Department, the Personal Insurance Regulatory Department, and the Insurance

[116] Legislation Law of the People's Republic of China (Order of the President No.31) Section 2. Article 73.
[117] The People's Republic of China. Country Report on Local Government Systems: China (2001). United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)
[118] Constitution of the People's Republic of China adopted by the 5th National People's Congress 4 December 1982. Chapter 1 Article 3.
[119] Budget Law of the People's Republic of China *Adopted by the Second Session of the Eighth National People's Congress on March 22, 1994, promulgated by Order No 21 of the president of the People's Republic of China on March 22, 1994, and effective on January 1, 1995) Chapter 1 Article 2*
[120] Legislation Law of the People's Republic of China (Order of the President No.31). Chapter 2. Section1. Article 7.
[121] Legislation Law of the People's Republic of China (Order of the President No.31). Chapter 3. Article 56.
[122] (Amended) Insurance Law of the People's Republic of China, 28 February, 2009, Chapter VI.
[123] Legislation Law of the People's Republic of China (Order of the President No.31). Chapte4. Article 75.
[124]
[125] Circular from State Council on Responsibilities and internal setup of the CIRC [Guo Ban Fa [2003] No. 61

Intermediary Regulatory Department. In line with its status as an agency under the State Council, the CIRC has local offices in all provinces and autonomous regions, as well as municipalities directly under the Central Government and with independent planning.[126] The local offices are under the direct leadership of the CIRC and are responsible for supervising local insurance operations (including microinsurance) to ensure compliance with CIRC regulations.

Ministry of Finance. The Ministry of Finance (MoF) resorts under the State Council and is tasked with oversight of fiscal revenues and expenditure, and fiscal policies. In partnership with the PBoC, CBRC, China Securities Regulatory Commission (CSRC) and CIRC, the MoF also manages state-owned assets in financial enterprises[127] which include insurance companies owned by the state.

Banking regulation and supervision. The PBOC, established in 1948, is a state organ directly under the State Council endowed with administrative functions and is tasked with monitoring the operations of China's financial markets, conducting "macro-control" of these markets and promote their coordinated development.[128] It can task the CBRC to "inspect and supervise the financial institutions of the banking industry"[129]. The PBoC has actively promoted microfinance through microcredit pilot programmes[130] including the establishment of RCCs actively used for the distribution of microinsurance.

The CBRC, established in March 2003, is a ministry-level supervisory office directly under the State Council and is tasked with the supervising and drafting of laws and administrative regulation for banking supervision**.** The Postal Savings Bank of China (PSBC) is one of several state-owned commercial retail banks, supervised by the CBRC. The CBRC is responsible for the oversight of rural financial institutions including RCCs, village banks and finance houses. The financial sector is discussed in section 2.

5.3. Regulatory framework that bears upon microinsurance

The broad regulatory framework for the delivery of all insurance in China, including microinsurance, is provided by the Insurance Law of the PRC (herein referred to as the Insurance Law) first adopted in 1995 and subsequently amended in 2002 and 2009. The current amendment came into effect on 1 October 2009. The material provisions of the Insurance Law that condition the provisions of microinsurance can be summarised as follows:

Insurance providers. The insurance law makes provision for insurance companies to take the form of stock companies with limited liability or solely state-owned companies[131] as outlined in the *Company Law of the People's Republic of China*[132]. The law further provides for other

[126] Circular from State Council on Responsibilities and internal setup of the CIRC [Guo Ban Fa [2003] No. 61

[127] Non-financial state assets are managed by the State-owned Asset Supervisory and Administration Commission (SASAC), a commission directly under the state council, which was created in March 2003.

[128] Law of the People's Republic of China on the People's Bank of China Adopted at the Third Session of the Eighth National People's Congress on March 18, 1995, promulgated by Order No. 46 of the President of the People's Republic of China on March 18, 1995, and amended in accordance with the Decision on Amending the Law of the People's Republic of China on the People's Bank of China adopted at the 6th Meeting of the Standing Committee of the Tenth National People's Congress on December 27, 2003) Chapter V, Article 31.

[129] Law of the People's Republic of China on the People's Bank of China Chapter V Article 33.

[130] CreditEase. Overview of China's microfinance sector. Accessed: 02 August 2012. Available at: http://english.creditease.cn/pressroom/IndustryObservation/2012/0426/52.html

[131] The Company Law of the PRC creates special dispensation for state-owned financial enterprises; they are governed by the PBOC, Ministry of Finance, CBRC, China Securities Regulation Commission (CSRC) and CIRC.

[132] Company Law of the People's Republic of China Chapter I Article 2.

types of insurance organisations specified in laws and regulations[133]. These institutions include, for example, "rural mutual insurance organisation"[134] set out in the 2008 *Rule on Supervising China Rural Micro Insurance on Life and Personal Accident Insurance***.** Institutions that are not insurance companies or organisations stipulated in the law and other administrations may not conduct insurance business.

Minimum capital requirements. The minimum capital requirements to establish an insurance company is RMB 200 million (USD 32.54 million)[135]. The CIRC has the authority to adjust the capital requirements upwards, in accordance with the proposed scope of business and scale of operations. Unlike the situation in some other markets, such as Brazil, there is no provision for the CIRC to adjust the minimum capital requirement downwards to allow smaller or community-based providers of microinsurance to enter the market.

Demarcation of insurance business. The Insurance Law[136] demarcates the business of an insurance company as either personal insurance business or property insurance business. Personal insurance business is defined as including life insurance, health insurance and accidental injury insurance. Property insurance business is defined as including property loss insurance, liability insurance, credit insurance and guarantee insurance. The CIRC may approve other business related to insurance to be conducted by insurance companies. No insurer may concurrently engage in both the business of property insurance and personal insurance. However, an insurance company engaged in the business of property insurance may, upon approval by the CIRC, operate the short-term business of health insurance and accidental injury insurance[137].

Product approval. "Insurers must submit the policy terms and conditions and premium rates for types of insurance that are of immediate interest to the public, types of insurance that are mandatory in accordance with the law and newly-developed types of life insurance to the insurance supervision and administration department for examination and approval. The insurance supervision and administration department under the State Council shall abide by the principles of protection of public interest and prevention of unfair competition in the examination and approval. (article 136 of the 2009 Insurance Law). This provision applies to micro personal insurance products (see 2012 Micro Personal Insurance Rule, article 18). Article 136 of the Insurance Law makes it quite clear that the purpose of this provision is "protecting the public interest and guarding against unfair competition".

Insurance intermediaries. Market conduct regulation is stipulated in the Insurance Law, departmental rules and circulars and guidelines issued by CIRC and CBRC[138]. The insurance Law makes provision for three classes of intermediaries namely Agents, Brokers[139] and Insurance Salespersons[140] and sets out minimum capital requirements[141] for agents and

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[133] (Amended) Insurance Law of the People's Republic of China, 2002, Article 6.
[134] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, 2008, Bao Jian Fa [2008]No.47, section 5.5.
[135] (Amended) Insurance Law of the People's Republic of China, 2009, Article 68.
[136] Insurance Law of the People's Republic of China, 2009. Chapter 4. Article 95.
[137] Insurance Law of the People's Republic of China. 2009. Chapter 4. Article 95.
[138] The Rule on Supervising China Rural Micro Insurance on Life and Personal Accident Insurance; Rules on Administration of Insurance Agency Institutions; Rules on Administration of Insurance Brokerage Institutions; Rules on Administration of Insurance Sales Person; and Notice of Related Matters on the Implementation of Systematic Management on the Qualification of Rural Insurance Agents; as well as several Bancassurance circulars and guidelines issued by CBRC and CIRC.
[139] (Amended) Insurance Law of the People's Republic of China, 2009, Article 5, Article 116.
[140] Insurance Law of the People's Republic of China, 2009. Chapter 5. Article 116.
[141] (Amended) Insurance Law of the People's Republic of China article 5 Article 120.

brokers. The CIRC further sets out minimum education requirements, examination and certification for Insurance Salesperson through *Regulation on Administration of Insurance Salesperson.*

Bancassurance distribution. Regulations issued by the CBRC and CIRC regulate the distribution of insurance through banks (commercial and state-owned) as well as RCCs, village banks and finance houses [142]. The regulation stipulates that insurance may only be sold by an employee of the financial institution who has been certified by the CIRC[143]. Furthermore, the regulations limit the number of insurance companies, to three, that financial institution may partner with.

Commission. The Insurance Law stipulates that commissions may only be paid to "lawfully qualified insurance agents (including insurance salespersons) or brokerages, and may not be paid to any other party."[144] The CIRC has issued guidelines on commission relating to personal insurance business[145] and commercial insurance of motor vehicles[146]. The Circular on Issues Relating to the Regulating the Operations of Personal Insurance Business pertains to personal insurance companies and property insurance companies who underwrite accidental and short-term health insurance business. The circular limits the commission payable for personal insurance policies to 4% of total premium for once-off payments and 5% of total premium for instalment payments. Micro-personal insurance and personal insurance with a term of less than 1 year are exempt from commission caps.

Microinsurance rules. The provisions of the Insurance Law as set out above impact on microinsurance in that they form the general parameters or "rules of the game" within which the insurance market operates. Since 2008 there has also been a dedicated regulatory dispensation for microinsurance, set out in various rules. These Rules are unpacked in Section 5.4 below.

The Insurance Law does not govern the provision of insurance business that relates to agricultural production. The Law states that agricultural insurance shall be "governed by other laws and administrative rules and regulations" [147]. On 24 October 2012 the Agricultural Insurance Regulation[148] was approved by the 222nd Executive meeting of the State Council, to be effective on 1 March, 2013.

Insurance-related provisions in other regulatory fields. In addition to the Insurance Law and CIRC microinsurance rules, two other areas of regulation are of direct application to insurance[149]:

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[142] Circular on further strengthening of sales compliance and risk management of bancassurance business of commercial banks (CBRC Circular [2010] No. 90 dated 1 November 2010) (CBRC Circular No. 90). Circular on strengthening the restructuring and improving the healthy development of banks acting for life insurance services (CIRC and CBRC Circular [2011] No. 4 dated 13 January 2011) (CIRC/CBRC Circular No. 4). Guidelines for supervision of bancassurance services of commercial banks (CBRC and CIRC Circular [2010] No. 10 dated 7 March 2011) (CIRC/CBRC Guidelines).

[143] Notice of China Banking Regulatory Commission on Further Strengthening the Sales Compliance and Risk Management of Bancassurance of Commercial Banks Article 12 & 13.

[144] (Amended) Insurance Law of the People's Republic of China article 5 Article 130.

[145] Regulating the Operation of Personal Insurance Business (CIRC [2011] No.36), issued on June 27, 2011.

[146] Circular on Strengthening Administration on Insurance Terms and Premium Rates of Commercial Insurance of Motor Vehicle (CIRC [2012] No.16), issued on February 23, 2012.

[147] (Amended) Insurance Law of the People's Republic of China Chapter VIII Article 155.

[148] China issues draft proposal on agricultural insurance regulations, 04 May 2012, China.org.cn see: www.china.org.cn/china/2012-05/04/content_25304815.htm

[149] In addition, bancassurance regulation issued by the CBRC impacting on the distribution of microinsurance through rural Financial institutions. These will be considered briefly where relevant.

- *Notice of CBRC on Further Strengthening the Sales and Risk Management of Bancassurance Business of Commercial Banks* was issued in January 2010 (referred to as the Bancassurance Notice 2010). We will consider the guidelines in this notice as they relate to agreements between banks and insurance companies and in-branch sales.
- *The Circular on Promulgating the Standards for Operating Personal Accident Insurance Business* was issued on 17 August 2009 (referred to as the Personal Accident Circular 2009). We will consider the guidelines of this circular as they relate to policy origination, administration and sales.

These ancillary regulatory fields are the topic of Section 5.5.

5.4. Special provisions for microinsurance

The CIRC has provided two primary categories of concessions for the provision of microinsurance. Special rules for micro personal insurance and a further intermediary dispensation for rural insurance distribution. This section will review the special dispensation provided in-terms of distribution, underwriting and commission fees exemptions.

5.4.1. Special Rules for Micro Personal Insurance

Since 2008 the CIRC has issued three different rules to facilitate the delivery of personal microinsurance to rural low-income clients. The first rule was issued in 2008 titled *The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance* (Bao Jian Fa [2008] No. 47), henceforth referred to as the 2008 Rule. The 2008 Rule was supplemented on 21 April 2009 by the *Circular on Further Expanding the Pilots of Small-amount Life Insurance in Rural Areas* (Bao Jian Fa [2009] No. 59), henceforth referred to as the 2009 Circular. The 2008 Rule and the 2009 Circular were intended to stimulate the roll-out of micro life pilot projects, initially in 9 provinces only, and subsequently extended to include 10 more provinces. These pilots have now produced four years of experience and provided cover to nearly 24 million farmers[150]. Consequently the CIRC issued a new Rule on 12 June 2012 titled the *Concept for Comprehensive Roll out of Micro Personal Insurance* (Bao Jian Fa [2012] No. 53, referred to below as the 2012 Rule). The 2012 Rule abolishes the 2008 Rule and the 2009 Circular and generally extends the target market and reach of the concessionary dispensation created by the CIRC for micro personal insurance. This section describes the provisions of the 2008 Rule and the 2009 Circular – since these were the provisions that shaped the pilot projects evaluated in Section 4. The provisions of the 2012 Rule are compared with those of its predecessors to indicate the likely future course of the development of the micro personal insurance market.

The 2008 Rule based the supervision of micro personal insurance on five principles[151]. These principles, listed below, form the basis for the provisions of the Rule and subsequent amendments:

1. Encouraging creativity
2. Maintaining moderate competition

[150] *Concept for Comprehensive Roll out of Micro Personal Insurance* issued on 12 June 2012.
[151] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 2.

3. Prudent supervision
4. Appropriate protection
5. Pursuing sustainable development

Definition and characteristics of microinsurance. The 2008 Rule, issued by the Personal Insurance Regulatory Department of the CIRC, stipulates that microinsurance is defined as a life and personal accident insurance policy sold in rural areas or alternatively rural micro-life insurance[152]. The characteristics of a rural micro-life product include: low premium, appropriate coverage, understandable policy and simple underwriting and claims[153].

Prescribed parameters of microinsurance policy(ies). The CIRC has prescribed, in the 2008 Rule and through further amendments contained in the 2009 Circular, the nature of the risk events covered, the geographical locations of operations, the minimum and maximum sum insured value and the duration of cover:

- Risk events prescribed in the Rule refer to general life insurance cover[154] which was expanded in the 2009 circular to include small value health and pension insurance products.
- The CIRC prescribed 9 pilot areas in western China. This was expanded in the 2009 circular to include another 10 provinces, namely: Hebei, Inner Mongolia, Anhui, Shandong, Hainan, Chongqing, Guizhou, Yunnan, Shaanxi and Ningxia.
- The sum insured should range between RMB 10,000 and 50,000 (USD 1,627 and 8,135).
- The period of the insurance ranges from 1 to 5 years.

The 2012 Rule expands the micro personal insurance target market to include urban residents on Minimum Living Standard Security and migrant workers without urban residential registration[155]. The prescribed duration of cover remained unchanged while the geographical limitation for the provision of microinsurance was removed. The 2012 Rule further removes the provision for micro-pension products while increasing the maximum sum-assured value to RMB 100,000 (USD 16,270)[156].

Approval of microinsurance pilots. Insurance companies who wished to enter into the area of microinsurance first needed to obtain approval from the CIRC[157]. Pilot companies needed to comply with the following four conditions[158]:

1. The headquarters of the insurance company should emphasise the development of rural life insurance and have clear strategic arrangements for microinsurance as well as financial and organisational support;

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[152] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 1.
[153] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 1.
[154] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 4.1.
[155] Concept for Comprehensive Roll out of Micro Personal Insurance, 2012, Section 1.2 a & b.
[156] However, ssupplemental medical insurance products in conjunction with the New Rural Cooperation Medical Insurance shall not exceed RMB50,000 (section 2.2).
[157] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 3.
[158] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 3.

2. The insurance company should have established security and claims institutions (branch offices) in the counties, or the districts under the county-level, in the experimental provinces (districts) to oversee the sales and services;
3. The insurance company should have an independent accounting system for microinsurance;
4. The branch office of the insurance company in the experimental provinces (districts) should be capable to provide specialised organisational, personnel and financial support.

With the advent of the new Rule, insurance companies no longer need to apply for pilot approval for micro personal insurance. However, insurance companies need to fulfil a set of prerequisites, as stipulated in the 2012 Rule Section 4.1, and submit a concept note to the CIRC which must include a three-year business plan for the delivery of micro personal insurance business[159]. The 2012 Rule further sets out stricter reporting requirements for micro personal insurance business[160].

Establishment of an alternative underwriting vehicle. The 2008 Rule encouraged insurance companies to explore the establishment of rural mutual insurance organisations to provide mutual, collaborative support based on existing farmers associations and organisations.[161] In contrast, the 2012 Rule does not provide for the establishment of rural mutual insurance organisations, presumably because this model was not successfully utilised in the microinsurance pilots.

Supervisory premium fee regime. The 2008 Rule stipulates that the supervisory institution should consider reducing or exempting the supervision fee if the products sold comply with the definition of microinsurance products[162]. The favourable treatment for microinsurance with regard to regulatory fees is maintained in the 2012 Rule: it exempts micro personal insurance in rural areas from regulatory fees while "authorities will coordinate to exempt from supervisory fees" micro personal insurance delivered in urban areas[163].

Encourages innovation. Insurance companies are encouraged to make use of technology specifically around client servicing, policy origination and premium collection. The Rule proposes the use of integrated auto telephone servicing system and encourages cooperation with banks and telecom operators by using the Automatic Teller Machines (ATM) of banks, using mobile communication devices, and by using mobile terminals to issue policies, print invoices and complete transactions "anytime, anywhere"[164]. The 2012 Rule, likewise, incorporates provisions aimed to promote the use of innovative distribution technologies.

Simplified policies. The Rules provide for the issuing of "simple insurance certificates to the clients"[165]. "The certificate should contain necessary information, such as the name of the applicant, the name of the insured, the name of the beneficiary, the type of the insurance, the name of the insurance, the sum insured, the period of insurance, the premium for each period,

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159 Concept for Comprehensive Roll out of Micro Personal Insurance Section 5.1.
160 Concept for Comprehensive Roll out of Micro Personal Insurance Section 4.5.
161 The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 8.2.
162 The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 7.
163 Concept for Comprehensive Roll out of Micro Personal Insurance Section 3.2.
164 The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 8.1.
165 The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Clause 4(2)(1).

the date of payment, the coverage and exclusions, the address of the insurer and the details of customer service hotline, etc."[166] In addition, "in order to facilitate the clients to make enquiries at any time, the insurance contract should be placed publicly for reference at the place of business of the insurance company, the place where the residence of the clients is located, or the location of the organization to which the clients belong"[167].

5.4.2. Rural insurance agents

The CIRC has created a special dispensation for rural insurance distribution provided with the primary objective of bringing insurance to farmers and rural residents. This objective is outlined in the 2008 Rule and *Notice of Related Matters on the Implementation of Systematic Management on the Qualification of Rural Insurance Agents* (Bao Jian Fa [2008] No. 17) issued in March 2008 (referred to as the Rural Agents Notice, 2008)**.**

Microinsurance agents. The 2008 Rule allows for insurance companies to use as agents people engaged in established rural organisations. These include the Women's Federation; village committees; cooperatives; supply- and marketing cooperatives; health centres in the village; the Family Planning Associations; and the staff of the new rural cooperative medical scheme and agencies. The insurance company must provide the potential microinsurance agents with no less than 30 hours of training and the insurance bureaus should issue microinsurance agents with a microinsurance agent certificate. These agents would then be certified to sell microinsurance products[168]. The 2012 Rule does not provide for a microinsurance agent category.

Rural Insurance Agent. Insurance Salesperson Regulation allows for differential treatment of insurance salespersons in rural areas[169]. To improve the sales and service system of specifically the agricultural insurance market and "promote the development of agriculture, countryside and farmers", the CIRC issued the Rural Agents Notice, 2008. The Notice allows for lower examination requirements for rural agents for companies that specialize in insurance business for agriculture. Insurance bureaus are given discretion to design qualification tests appropriate to the educational level and experience of agents, especially farmers, who are domiciled in rural villages and towns. If the examination is successfully completed, the agent is issued with a Qualification Certificate for Rural Insurance Agents[170], by the CIRC local office or bureau[171], allowing for insurance sales of selected products of one insurer or insurance agency in districts below the villages and towns where they live[172]. The total number of Qualification Certificates issued is subject to a quota and "should not exceed 2‰ of the total

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[166] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 2.

[167] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 2.

[168] The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance, Bao Jian Fa [2008] No. 47, Section 5.

[169] Regulation on Administration of Insurance Salesperson (CIRC Ordinance No.3 (2006)). Chapter 8 Article 59.

[170] Notice of Related Matters on the Implementation of Systematic Management on the Qualification of Rural Insurance Agents. BJF 2008 Section 2.

[171] Regulation on Supervision and Administration Responsibilities of Local Offices of the CIRC (The CIRC Ordinance No. 2004-7), Article 11 & 13.

[172] Notice of Related Matters on the Implementation of Systematic Management on the Qualification of Rural Insurance Agents. BJF 2008 Section 4.

insurance agents in the area each year."[173] The Rural Agents Notice specifically prohibits rural agents from selling any investment-linked or universal insurance products.

5.5. Other provisions that impact rural microinsurance

5.5.1. Bancassurance regulation

The CBRC Notice on Further Strengthening the Sales and Risk Management of Bancassurance Business of Commercial Banks (Yin JIan Fa [2010] No. 90, referred to as the Bancassurance Notice 2010) was issued in November 2010. The Notice was issued to "protect the legitimate rights and interest of clients and promote the sound and orderly development of the Bancassurance business"[174].

The Bancassurance Notice 2010 restricts each bank branch to sell the products of at most three insurance companies[175]. Furthermore, he 2010 Notice expressly states that insurance companies are not permitted to station their personnel in-store and that bank staff engaging in the sale of insurance should possess the qualification for insurance agents[176]. The sale of complex insurance products is further limited to the "wealth management services areas, wealth management office, wealth management area or other exclusive areas of commercial banks[177]".

Financial institutions under the notice. The Bancassurance Notice 2010 applies to state-owned banks, commercial banks, the Post Office Bank of China and other banking financial institutions – including rural financial institutions – that operate Bancassurance business[178].

5.5.2. Standards for Operating the Personal Accident Insurance Business

The Circular on Promulgating the Standards for Operating the Personal Accident Insurance Business (Bao Jian Fa [2009] No. 91), henceforth referred to as "the standards", was issued by the CIRC on 17 August 2009. The standards were issued in response to abuse in the sales of personal accident insurance product "to protect the legitimate rights and interests of the insurance policy holders and the insured"[179] and were to be implemented by July 2010. The key outcomes of the standards on policy origination, administration and sales are outlined below:

Policy origination. Personal accident policy documents will be subject to uniform coding management and must be issued by the head offices or the authorised provincial offices of

[173] Notice on Related Matters on the Implementation of Systematic Management on the Qualification of Rural Insurance Agents. BJF (2008) No. 17. Section 2.3.
[174] Notice of China Banking Regulatory Commission on Further Strengthen the Sales and Risk Management of Bancassurance Business of Commercial Banks (Yin JIan Fa [2010] No. 90).
[175] Notice of China Banking Regulatory Commission on Further Strengthen the Sales and Risk Management of Bancassurance Business of Commercial Banks (Yin JIan Fa [2010] No. 90). Article 13.
[176] Notice of China Banking Regulatory Commission on Further Strengthen the Sales and Risk Management of Bancassurance Business of Commercial Banks (Yin JIan Fa [2010] No. 90). Article 12.
[177] Notice of China Banking Regulatory Commission on Further Strengthen the Sales and Risk Management of Bancassurance Business of Commercial Banks (Yin JIan Fa [2010] No. 90). Article 13.
[178] Notice of China Banking Regulatory Commission on Further Strengthen the Sales and Risk Management of Bancassurance Business of Commercial Banks (Yin JIan Fa [2010] No. 90). Article 25.
[179] Circular on Promulgation the Standards for Operating the Personal Accident Insurance Business (Bao Jian Fa [2009]No. 91).

the insurer who is not allowed to authorise intermediaries or individuals to print vouchers and certificates with the equivalent function of the insurance policy[180].

Administration. Insurance intermediaries are to be issued the insurance policies using computers that are connected to the networking system, and are not allowed to issue any policy manually or through off-line printing[181].

Sales. The standards prohibit insurance companies from entrusting the sale of accident insurance to any insurance intermediary or individual without legal qualification[182]. It's also forbidden to sell a disguised form of personal accident insurance through bundling with non-insurance products or service to non-specific groups in the public[183].

Implications of the Standards. Online or real-time registration and policy origination of personal accident insurance will require additional investment in communications infrastructure between insurance company and insurance distributing channels. Insurance companies have raised concerns that this will negatively affect sales through credit institutions and rural medical service centres.

The Standard further restricts the sale of personal accident insurance bundled with non-insurance products. This will have a specific impact on the sales of microinsurance products bundled with agricultural products.

Although the Standard has come into effect, it has not been strictly enforced in relation to microinsurance products, resulting in a de-facto exemption for micro-life pilot products.

[180] Circular on Promulgation the Standards for Operating the Personal Accident Insurance Business (Bao Jian Fa [2009]No. 91) Section 1.1.
[181] Circular on Promulgation the Standards for Operating the Personal Accident Insurance Business (Bao Jian Fa [2009]No. 91) Section 2.1.
[182] Circular on Promulgation the Standards for Operating the Personal Accident Insurance Business (Bao Jian Fa [2009]No. 91) Section 3.2.
[183] Circular on Promulgation the Standards for Operating the Personal Accident Insurance Business (Bao Jian Fa [2009]No. 91) Section 3.4.

6. Conclusions and Recommendations

This chapter draws the main recommendations from the preceding analysis and concludes with some preliminary recommendations for the future development of the microinsurance market in China's rural areas.

6.1. Conclusions and drivers of change

6.1.1. Rapid growth in insurance industry in China concentrated in the cities

The commercial insurance sector in China has grown rapidly since 1979 to a situation where there are now 53 registered property and 61 personal insurers, with a combined annual premium income that is the sixth largest in the world. The main providers are large enough to achieve economies of scale and have the capacity to underwrite risks even in untested markets. Coupled with the population growth, large-scale urbanisation and remarkable GDP per capita growth in recent years, this bodes well for the extension of the reach of the insurance sector into the mass market, including the microinsurance target market.

The insurance sector has made rapid inroads in terms of uptake in recent years with premium incomes in 2010 being 5009 times higher than those in 1980 and 9 times higher than those of 2000. Yet this has largely been centred in urban areas. The rural market, where 50.3% or 674.15 million people still reside (2010), has remained largely un-served with the exception of state-support agricultural insurance that reached 140 million households in 2010 and state-supported housing insurance that reached approximately 35 million households in 2010. This has largely been attributed to distribution challenges and consumer awareness, understanding and trust of insurance.

6.1.2. Microinsurance a commercial tool to extend social security in rural areas

Since 2004 the Chinese government, through its various state entities, have deliberately catalysed the provision of microinsurance delivered by commercial insurers to rural communities. It is part of a clear policy drive to provide for an aging population and ensure a harmonious society characterised by rural stability and decreasing inequality. This government involvement, and government's philosophy on how to leverage the market to help achieve its goals, has been arguably the key driver of microinsurance development in China. The original motivation for microinsurance was part of a "top-up" approach whereby commercial provision is seen as a tool for complementing social security provision, including disaster relief. This has led to the roll-out of agricultural insurance pilots since 2004, property insurance pilots since 2006 and personal insurance pilots since 2008.

The take-up of rural social security over the past decade has been dramatic, especially to cover medical expenses. The NRCMS, China's basic medical security system for rural residents, was launched as a trial programme in 2003. By 2010, 836 million people, covering 93.8% of the rural counties, participated in the NRCMS. The other major social security program for rural residents, the new rural pension insurance, was launched in 2009. By 2010 the total number of insured had reached approximately 100 million people. Both of these schemes require top-up provision by individual households to cover actual expenses. However, limited progress has been made to provide this top-up through commercial insurance provision. By 2010, only about 1.3m policies to cover medical expenses have been sold with no pension products sold as part of the rural microinsurance pilots.

6.1.3. Different models of state-support offer different opportunities for market-making

All the microinsurance models being rolled out in rural China are supported by state agencies to a greater or lesser extent. The most comprehensive support goes to the property product lines and includes both premium subsidies and distribution support. The latter can take the form of premium collection through state service points, agricultural extension services to prevent losses and moral hazard, damage assessment and claims payment. In the case of personal microinsurance, the state support is less comprehensive and sometimes minimal. In the village committee distribution model publicly collected funds are used to pay premiums. In addition, companies enjoy exemption from supervision fees.

State subsidy for commercial product distribution can be a double-edged sword. On the one hand, it can lead to complacency and a distinct lack of innovation on the side of companies receiving the subsidy or support. This is particularly evident in the case of rural personal microinsurance pilots where the product offering is quite homogeneous and very little attempt has been made to utilize new lower cost distribution channels and design products suitable for the manifest demand. State-owned insurance companies have tended to focus their distribution efforts on rural financial institutions and state agencies. Some of the more innovative products come from New China Life, including the one product in the microinsurance product suite that seeks to capitalize on the strong savings culture in China – Xilaibao Insurance links cover to the size of the deposit balance held by the policyholder: the higher the deposit, the higher the cover.

On the positive side, state support has contributed greatly to overcome the lack of trust that many rural residents have in insurance companies. Subsidies have also served to share risk with commercial insurers in new uncertain markets, to improve the affordability of products for poor rural residents and to explore new markets. The presence of state study can however not be assumed indefinitely (although in some areas, such as agricultural insurance, state subsidy is a feature of virtually all major markets), and the subsidy period thus needs to be utilized to the fullest extent to “make a commercial market”.

Cross-country evidence shows that microinsurance markets have to be “made”[184]. In order for people that have traditionally not been part of the insurance to become lasting microinsurance clients, they need to go through a process of “discovery” of insurance. By this is meant that they have to be introduced to the concept of insurance and understand its terms and conditions, be able to buy it in a way that is convenient and affordable to them, through a channel that they trust, and have a positive experience (in terms of appropriate product features to their needs, perceived value for money and, ultimately, through the claims experience). Only then will they themselves become “true” insurance clients and even ambassadors of insurance for others in their community.

[184]Bester et al, 2008. Making insurance market work for the poor: microinsurance policy, regulation and supervision. This study drew on diagnostics conducted in Colombia, India, the Philippines, South Africa and Uganda. Available at: http://www.cenfri.org/k2/item/24-making-insurance-markets-work-for-the-poor-policy-regulation-and-supervision-2008

State subsidies provide a unique opportunity to develop the market in that people get the opportunity to reap the benefits of insurance at below market cost. In other instances, they receive it for free, or are enrolled on a compulsory basis (as is often the case with credit-linked insurance). If the experience with the insurance is such as to lead to positive market discovery, subsidies can therefore trigger voluntary, subsidy-free insurance usage in future – provided that the product suite, distribution channels and providers are in place to offer them this option.

The biggest risk is that clients are either not aware of the fact that they have insurance (such as with blanket insurance policies covering for example all the households in a city or village) and thus do not claim when a risk event does occur, or that they accept the benefit as granted or an entitlement from the state. The latter was one of the main reasons provided by the FGD participants why they would not consider buying asset insurance – “if disaster strikes the state will help us”. The question then is – how to maximise the opportunities for market-making in a subsidised environment? Two specific and instructive examples emerge from the analysis:

- Firstly, the policyholders or beneficiaries are required to pay part of the premium on a voluntary basis whilst the balance is paid by one or more state entities. The agricultural insurance model works on this basis as well as the policy-based housing insurance. Two elements are essential here – voluntary take-up and premium payment. Unfortunately, most of the credit-based personal microinsurance policies are compulsory in the sense that the take-up of insurance is a prerequisite for taking the credit and therefore not a voluntary choice. The village-based distribution model is a hybrid involving a collective decision in which most of the villagers may not be involved.
- Secondly, in the Zhejiang Province housing insurance model the extent of state support is linked both to individual and collective private insurance take-up: the more farmers take up the policy, the higher the state subsidy; those areas with highest take-up get first preference when public disaster relief is distributed.

The analysis in this report suggests that three distinctive models, distinguished on the basis of the level of state support to the underwriting and distribution of microinsurance by commercial insurers, have evolved in China since 2004:

- **The commercial model:** In this model, most developed in the credit-related distribution channels, the primary role of government is to provide a favourable regulatory environment through regulatory concessions and other policy-based support. Insurance companies market microinsurance products without direct or indirect subsidies. Products are designed and offered independently from current social security provision. This amounts to a purely commercial model of microinsurance. Currently the success of this model outside of credit-related distribution would seem to be limited.
- **The semi-public model:** In this model, national, provincial and/or local governments promote the extension of microinsurance through partial premium subsidies and/or support to commercial insurance companies to intermediate microinsurance, for example through the performance of various intermediary functions such as marketing, premium collection, loss assessment being performed by state structures. The model is perhaps most developed in the various agricultural and rural housing insurance products. This model currently provides the largest microinsurance coverage in rural China.
- **Public model:** In this model, the full cost of insurance distribution as well as the risk premium is subsidised by the state, with no premium or portion thereof being paid by the

insured. Commercial insurance companies are enlisted to distribute the product due to their higher efficiency levels and existing capacity as well as their ability to access and manage reinsurance. This model of microinsurance provision reduces distribution cost and has high-levels of uptake as it's often packaged as a "blanket cover". This model has proven successful in the provision of agriculture insurance but has shown less favourable results for personal insurance lines where government support is often inconsistent. For example, the Shanxi model has witnessed declining revenues and coverage.

In terms of coverage, the semi-public and public models have achieved far greater coverage than the commercial model, and this primarily in the property insurance space. However, if we consider that the NRCMS also follows a semi-public format, even though not distributed by commercial insurance companies, the dominance of the semi-public model in both personal and property insurance becomes clear. We conclude therefore that, for the foreseeable future, the primary growth of microinsurance and risk mitigation for rural workers and their families in China will be through the semi-public model. The growth of the commercial model will substantially depend on the experience of insurance that the rural population will gain through the semi-public model.

6.1.4. Disjuncture between supply and demand

One of the most interesting findings of the study is the disjuncture between the demand for risk mitigation expressed by rural residents, and the actual supply of insurance products under current pilot programs. To some extent this is a consequence of the policy-driven (as opposed to commercial market-driven – such as in Brazil and South Africa) nature of microinsurance development in China. The following illustrates this disconnect between supply and demand:

- The biggest supply of microinsurance products in China are property products – agricultural and housing insurance provided through subsidised programs. The FGD research reveals that property and agricultural production is indeed the lowest risk mitigation priorities for all categories of rural respondents. Left to themselves, they would not purchase agricultural insurance. For urban respondents, property risks enjoy higher priority.
- The risk to which all respondents attached the highest significance was the education of their children. At the same time the savings culture amongst rural residents is very strong. None of the pilot microinsurance products, with the exception of New China Life's Xilaibao Insurance mentioned above, provide savings elements or utilises savings as an incentive to take up insurance. Moreover, whereas micro pension products were permitted under the CIRC Rule for personal microinsurance pilots, this possibility seems to be removed under the new 2012 Rule.
- There is a strong demand for medical insurance to top up the cover provided by the NRCMS. However, insurers still seem to struggle to find a model able to deliver these products on a commercially sustainable basis and only 1.3 million policies were sold in this category in 2010 – dramatically below the actual demand.

The one area where the personal microinsurance pilots did tap into latent demand is for personal accident insurance. This is one of the two risk areas – the other being medical expenses - in which there is some evidence of rural residents using insurance as a risk mitigation tool

6.1.5. China has not escaped the migration to credit life microinsurance

Globally credit life insurance – personal insurance products bundled with credit and distributed through financial institutions extending credit – is probably the largest single microinsurance product line. Although the CIRC personal insurance pilots started off experimenting with new and distinctly Chinese distribution channels, such as the village committee model piloted by China Life in Shanxi province, the bulk of the premium income from pilot products has since migrated to credit-based distribution, notably through RCCs. The reason for this is the lower cost of credit-distribution.

Although credit-linked insurance is a form of microinsurance and can count towards scale, its primary contribution is to act as a substitute for collateral for poor households seeking credit. As such, it facilitates the extension of credit to low-income households in many countries. On the other hand, it tends to offer limited value to the household since the credit provider is normally the first claimant. Since the microinsurance market in China is still in its initial market-making phase, the migration to credit life in the full commercial model should concern the authorities since its ability to catalyse a voluntary demand for other insurance products is restricted. In China, Credit Life has a further drawback: the very limited use of credit by rural residents. Only about a third of rural residents have any credit, and most of this is informal. Just more than 40% took loans from formal financial institutions. This means that, given current consumer behaviour in rural China, credit-linked insurance can reach at most 15-20% of the rural population.

6.1.6. Migrant labourers represent a particularly vulnerable segment

China has approximately 158 million migrant workers representing 63% of the rural worker group. The majority of migrant workers and rural workers find employment in high risk industries such as manufacturing (36%) and construction (17.7%). They are particularly vulnerable, as they travel great distances, are not always provided with accommodation by their employers, live accommodation of varying quality from shacks on construction sites to rented accommodation, perform manual work in high risk occupations (e.g. manufacturing and construction), work long hours, are not always covered by a working contract and have less access to social security benefits than their urban originating co-workers. Migrant workers have inadequate insurance protection from the perils involved in their daily activities. The highest social protection coverage for migrant workers is 27% for work-related injuries with no more than 19% of migrants having membership of a medical scheme.

6.2. Recommendations

The following recommendations are made with the objective of contributing to the growth of microinsurance in China, in particular to strengthen the strong policy thrust of the CIRC in the area of rural microinsurance. The recommendations are presented in terms of the 'actuarial control cycle[185]'.

[185] The actuarial control cycle is a framework used by actuaries for problem solving, in many instances with regards to insurance issues. The key steps involve specifying a problem, developing the solution, monitoring the consequences thereof and repeating the process. Care must be taken to consider how the external environment impacts each step. This feedback mechanism allows for more appropriate solutions, based on actuarial statistical data. A simplified example would be pricing an insurance product: a pricing model would be developed with pricing assumptions about future expected claims experience. As

6.2.1. An integrated view of rural microinsurance in China

To maximise the available risk mitigation for rural households in China through commercial insurance, and thus to reduce the current levels of government spending on these risk areas, it is recommended that the regulatory authorities take an integrated view of the rural microinsurance market.

The level of public spending on the mitigation of household risks in rural China is significant in both the personal and property insurance spheres. While this report does not quantify this expenditure, total government subsidy for the NRCMS in 2010 amounted to at least RMB 100.32 billion (USD 16.32 billion) and subsidies for agricultural insurance totalled more than RMB 5 billion (USD 0.81 billion). The government has an interest to reduce this commitment over time. The success of commercial insurance in China's urban areas would suggest that insurance products provided through the commercial model can over time, and as rural incomes continue to increase, absorb a significant proportion of this public burden. To achieve this, insurance regulators must ensure that current models maximise the beneficial experience of insurance for rural workers. This will require an integrated view in which information from both personal and property lines are gathered into the same database, where the successful practices of models developed in the personal space are replicated in the property space, and where insurers are able to utilise successful distribution channels across personal and property lines.

An integrated view will also require that the regulatory incentives available to personal rural microinsurance providers are also available to providers of rural property microinsurance and that they report into an integrated database. This is especially necessary to optimise the demand for personal accident microinsurance which can be provided by both personal and property insurers (the latter subject to the approval of the CIRC).

6.2.2. Ensure consistent public policy support for microinsurance

The evaluation of the CIRC pilots revealed that inconsistent support from different levels of government was one of the challenges experienced by participating companies. Financial support in the form subsidies was not consistent from year to year, neither was general policy support. This is particularly disruptive in the public provision model. The result is that insurance coverage is intermittent leading to negative perceptions amongst policy holders of insurance.

To deal with this, the first recommendation is that, until sufficient insurance awareness is created at the level of rural households to sustain the commercial model, the semi-public model becomes the preferred model for both personal and property rural microinsurance. Secondly, this policy position should be clearly communicated to all levels of government engaged in the support of microinsurance as part of firm policy guidance on the role of commercially distributed microinsurance in the provision of social protection in rural areas. The policy position should also provide guidance on co-ordination between public agencies in their support of microinsurance, both in terms of regulation (between different regulators),

real claims data becomes available over time, it would be monitored and the pricing assumptions would be continuously checked and updated to provide refined premium rates.

fiscal support, promotional support and the use of public agencies to assist with the distribution and intermediation of microinsurance.

6.2.3. Microinsurance Product Design and Pricing

The range of CIRC approved microinsurance products is currently too limited. The range of CIRC approved microinsurance products is currently too limited and must be extended to include property lines as well as savings and investment-based products amongst the personal lines

Mandatory community rating or other approaches should be considered in order to ensure that older age/gender groups are not excluded on the grounds of unaffordability. Some of the premium rates provided for certain microinsurance products seemed high at older ages. Without access to the statistical data on which the premiums were calculated, it is not possible to say whether these rates reflect the true underlying risks of these groups. However, from a value for money and affordability point of view, they were significantly high and possibly prohibitively so. In an example of such a product the premium range is RMB 4 to 22,930 (USD 0.65 to 3,731) depending on benefit amount, age, gender, occupation risk and term while the benefit range is only RMB 10,000 to 50,000 (USD 1,627 and 8,135). A potential client having to pay premiums at the higher end of the premium range may be better off saving the premiums rather than buying insurance as after 3 years, they would be able to self-insure for the slightly greater amount. The incidence of claiming for these older age groups may well be high, and therefore, community rating, as is practiced in other countries such as South Africa and Ireland, could be considered. However, the demographic structure of communities might then entail a significant solidarity effect, with younger members of the pool de facto subsidizing the older ones. These arrangements are complex and are based on social capital. Community rating means that everyone is charged the same premium (regardless of whether the product is sold on a group or individual basis) and there are therefore cross-subsidies between the young and the old. With community rating, older members are less likely to be excluded on the grounds of unaffordability – this could result in greater equity between age groups.

Upper limits on premiums and benefits could be increased. Given the size of China, differences in regional economies and the range of incomes low-income families earn, there is scope to increase the upper limit on the benefits (based on the 2008 Rule). Some of the people interviewed for the demand study in Section 3 said they wanted better benefits and could afford a marginal increase in premiums. Products marketed to the rural microinsurance market, but not under CIRC approved pilots, tended to have benefit levels at the upper limit permitted by the CIRC Rule and beyond. The regulation should provide scope to design microinsurance products aimed at different subsections of the rural population. (The new Concept for Comprehensive Roll out of Micro Personal Insurance issued by the CIRC in June 2012 in fact increases the upper benefit limit to RMB 100,000/ USD 16,270.)

Pricing guidelines or common principles of pricing for microinsurance products. There are different risk and other factors that need to be taken into account when designing and pricing products for the low-income market. Design and pricing guidelines could be developed to assist insurers, and act as a checklist to ensure that all the key issues are given consideration. Such guidelines for insurance pricing are made available in other countries by actuaries, for example in the USA and UK.

6.2.4. Data Recording and Monitoring of Experience

Data recording needs to be improved. Some of the data required for the supply-side study, especially on claims and expenses, was not available because of deficient IT systems and the manual way in which data is being recorded. This increases the potential for human error and losing data. In order for insurers to live up to their fiduciary responsibilities, it is important to improve the way in which data is gathered, stored and analysed in the provision of microinsurance products. It is recommended that insurers invest more in their microinsurance-related IT systems and the way in which data is monitored. The CIRC could also assist by specifying clear rules for the way in which microinsurance data is reported to them and could develop clear guidelines for data collection for the insurers. This could assist with the measurement of performance and the improved design and pricing of products. It could also assist with the assessment of the impact of subsidies towards poverty alleviation and risk mitigation.

Monitoring data. It usually takes many years to collect data to build up a credible basis on which to do an experience analysis for experience-based pricing[186]. As many companies are recording information manually, it is difficult to assess whether data is reliable or missing. It is not possible to accurately price or manage insurance portfolios without adequate data.

Regularly pooling and monitoring data from all insurers participating in the microinsurance program would lead to more accurate pricing. As can be seen in Appendix C, some premium rates are inconsistent for similar benefits. It is not clear how the premium rates were derived, and it is possible that different products have different premiums for similar benefits if the assumptions that they were based on differ and they are developed for different populations with differing underlying risk profiles and purchasing power. However, the differences in premium rates are more than one would expect.

In order to create a sound basis for pricing microinsurance products in China and for other analyses, it is suggested that the CIRC develop a data depository, including the development of templates which insurers can use to send microinsurance data to the CIRC. The templates could set out how to summarise items including membership, premium and claims information. This pooled data from the different insurers would then need to be harmonised and actuarially adjusted for differences in the exposure to risk age/gender profile, regional differences and differences in the product designs. General linear modelling and/or other mathematical techniques could then be used to assess the factors that drive claims costs and claiming behaviour. Such a collective body of data would provide a credible basis upon which to derive incidence rates for microinsurance risk events and would assist insurers in calculating their risk premium rates, as well as benchmark their experience. Reasons (i.e. statistical justification) for insurers deviating from the standard premium rates derived from this collective data would need to be given and be acceptable to the CIRC.

[186] Experience-based pricing is when insurance premiums are based on a credible body of actual claims and membership data from the scheme or underlying population in question. Incidence rates and claim amount rates that are the most appropriate for a particular population are the rates that the population has experienced in the recent past. When statistics from other similar populations are used as a proxy to price insurance, adjustments need to be made and margins included due to uncertainty. For the most appropriate pricing, experience-based pricing is best. Actual future experience is always likely to differ from that expected, although the variance of actual versus expected claims experience should be less when the most relevant data is used.

6.2.5. Market development and consumer protection

Standard wording developed specifically for the microinsurance market will support its development. So that there are no unfair exclusions and the reasonable expectations of microinsurance clients are met, the CIRC could introduce standard definitions specifically for microinsurance to be used in the policy wording. Standard definitions will help manage the expectations of clients and save time and costs in designing products, developing policy terms and conditions, and marketing material. This approach is used in the critical illness insurance market in the UK where the Association of British Insurers has developed standard wording for critical illness policies so, for example, the definition of what constitutes a 'heart attack' is consistent from one product to the next. The CIRC would need to check that standard wording is being used in the terms and conditions before approving material for dissemination.

Joint collaboration to educate the low-income population on insurance would be beneficial to all. Currently only 4 to 5% of the low-income rural population are covered by personal microinsurance and the majority of those living in rural areas still have no real concept of how insurance works. It is suggested that, for the good of the whole industry insurers, the CIRC and government collaborate on various aspects of financial education e.g. developing educational materials to be distributed by all.

Protection of the insurance industry reputation and sales regulation. Upholding the reputation of the insurance industry and preventing miss-selling of products is of utmost importance if the government wishes to make microinsurance popular amongst the low income population. Attention should therefore be given to the competence of microinsurance sales staff. Advertising and marketing materials should also be monitored to ensure that the information contained complies with the standards set by the CIRC.

6.2.6. Distribution

The most successful distribution models, with the exception of credit-based distribution, for personal and property microinsurance currently involve public agencies and state networks. Commercial insurers still have very limited distribution networks into rural areas and the personal sales model still finds limited application. It is thus recommended, in line with the preferred semi-public model, that public channels be leveraged as much as possible for microinsurance distribution. This will be facilitated by the general levels of trust in these channels. In particular, the distribution network of the NRCMS could be utilised for the distribution of especially health top-up insurance and other personal insurance lines. It will require regulatory changes to facilitate this, including the re-introduction of the microinsurance agent which was prematurely abolished in the 2012 CIRC Rule. One of the risks flowing from the utilisation of public channels is the quality of the sales process due to inadequate skills and experience of the sales persons. It must be a requirement for commercial insurers utilising this channel to provide minimum levels of training to persons engaged in the sale of microinsurance.

In the commercial model, which will for the time being continue to focus on credit-distributed insurance, as well as personal accident and savings-based products (as recommended above), distribution through especially retail chains and mobile networks can start to be utilised. The 2012 Rule on personal microinsurance already encourages this practice.

6.2.7. Specific regulatory issues

In addition to the regulatory recommendations contained in the sections above, the following specific regulatory recommendation are made:

- The range of the permissible personal microinsurance products should be extended to included savings-based products similar to the very successful investment-based products being marketed in China's urban areas. This will enable personal insurers to capitalise on the strong savings culture of rural workers.

- The microinsurance agent category which permitted persons engaged in established rural organisations to distribute microinsurance subject to certain conditions, should be restored after being removed in the 2012 personal microinsurance Rule. Experience in other countries shows that agent-based distribution starts to evolve in the microinsurance space a few years after initial experimentation. Terminating the microinsurance category is thus likely to have been premature.

The potential impact of the policy origination requirements of the 2009 Circular on Promulgating the Standards for Operating the Personal Accident Insurance Business should be managed so as not to limit the sales of these policies within the microinsurance market. This could be done by creating certain concessions for microinsurance issued under the CIRC Rule.

6.2.8. Migrant workers

Increasing the access to insurance and/or social benefits for this group and their families has the potential to reach a large proportion of the microinsurance target market. The following can be considered:

- To make certain types of liability insurance taken out by employers on behalf of their migrant employees compulsory. This would be a more effective mechanism to extend coverage to migrant workers in the short term than encouraging employees to buy their own microinsurance. Alternatively, a mechanism can be introduced to make certain kinds of microinsurance policies a compulsory part of a migrant employee's remuneration package.
- Implementing changes initially in the regions where more migrant workers are working outside of their home province i.e. in Central and Western regions where the proportions are 67.2% and 57% respectively. Likewise, focusing on the manufacturing sector and construction sector first will reach the greatest number of individuals more quickly.

Appendix A: CPI Inflation used in Section 2

The following consumer price index (CPI) was used in adjusting the figures in the tables used in Section 2 for inflation.

Table A: CPI inflation, 1980-2010

Year	Year on year inflation (previous year = 1)	1 RMB in each year (2010 = 1)
1980	1.075	4.8975
1981	1.025	4.7781
1982	1.02	4.6844
1983	1.02	4.5925
1984	1.027	4.4718
1985	1.093	4.0913
1986	1.065	3.8416
1987	1.073	3.5802
1988	1.188	3.0137
1989	1.18	2.5540
1990	1.031	2.4772
1991	1.034	2.3957
1992	1.064	2.2516
1993	1.147	1.9630
1994	1.241	1.5818
1995	1.171	1.3508
1996	1.083	1.2473
1997	1.028	1.2133
1998	0.992	1.2231
1999	0.986	1.2405
2000	1.004	1.2355
2001	1.007	1.2270
2002	0.992	1.2368
2003	1.012	1.2222
2004	1.039	1.1763
2005	1.018	1.1555
2006	1.015	1.1384
2007	1.048	1.0863
2008	1.059	1.0258
2009	0.993	1.0330
2010	1.033	1.0000

Source: NBS, 2011

Appendix B: Focus group discussion selection information

Table B: Annual personal income brackets by province for farmers (RMB) (USD)

Farmers			
Province	Poor-level	Lower-level	Mid-level
Shanxi	0 to 2,782 (0 to 453)	2,782 to 3,436 (453 to 559)	3,436 to 4,244 (559 to 691)
Sichuan	0 to 2,925 (0 to 476)	2,925 to 3,613 (476 to 588)	3,613 to 4,462 (476 to 588)
Fujian	0 to 4,379 (0 to 712)	4,379 to 5,408 (712 to 880)	5,408 to 6,680 (880 to 1,087)

Source: CP Research, 2011

Table C: Annual personal income brackets by province for rural workers (RMB)

Rural workers			
Province	Poor-level	Lower-level	Mid-level
Shanxi	0 to 4,614 (0 to 751)	4,614 to 5,971 (751 to 971)	5,971 to 7,727 (751 to 1,257)
Sichuan	0 to 4,719 (0 to 768)	4,719 to 6,107 (768 to 994)	6,107 to 7,903 (994 to 1,286)
Fujian	0 to 6,679 (0 to 1,087)	6,679 to 8,644 (1,087 to 1,406)	8,644 to 11,188 (1,406 to 1,820)

Source: CP Research, 2011

Table D: Annual personal income brackets by province for urban and migrant workers (RMB)

Urban workers		
Province	Lower-level	Mid-level
Shanxi	8,945 to 11,577 (1,455 to 1,884)	11,577 to 14,983 (1,884 to 2,438)
Sichuan	9,149 to 11,841 (1,489 to 1,927)	11,841 to 15,324 (1,927 to 2,493)
Fujian	12,951 to 16,761 (2,107 to 2,727)	16,761 to 21,692 (2,727 to 3,529)

Source: CP Research, 2011

Table E: Market segmentation for rural FGDs (all these respondents lived and worked in or near the rural areas listed)

Rural area near		Gender	Age	Income	Has insurance?
Shanxi Province, Jinzhong City, Pingyao County	1	Male	25-40	poor	yes
	2	Male	40-60	lower	no
	3	female	25-40	middle	yes
	4	female	40-60	poor	no
Sichuan Province, Guangyuan City, Wangcang County	1	Male	25-40	lower	no
	2	Male	40-60	middle	yes
	3	female	25-40	poor	no
	4	female	40-60	lower	yes
Fujian Province, Longyan City	1	Male	25-40	middle	yes
	2	Male	40-60	poor	no
	3	female	25-40	lower	no
	4	female	40-60	middle	yes
Total Rural Groups	**12**				

Source: CP Research, 2011

Further market segmentation in urban areas. In the rural areas, the participants sample originated from the chosen rural areas. The respondents in urban areas did not all originate from the selected urban areas. The urban groups were therefore further segmented into whether they were a) rural *migrant workers* (these individuals are equivalent to ***rural workers***, i.e., either *local rural workers* or *migrant workers* as defined by the NBS in Section 2.2.3) or b) **urban workers** originating from the urban areas. With regards to individuals sampled for Xiamen City, these rural migrant workers were from provinces outside Xiamen Province. They are sometimes referred to as 'rural migrant worker far from rural home' or *far migrant workers* in this section of the report and are equivalent to the ***migrant workers*** defined by the NBS in Section 2.2.3. This segmentation was to ensure that we obtained information to assess whether there were differences between the different groups. Table 0.5 shows the market segmentation for the urban FGDs. Where possible and for consistency, the NBS definitions of ***rural workers*** and ***Migrant Workers*** will be used. These are denoted by the capitalisation of the terms.

Table F: Market segmentation for urban FGDs

Urban area near		Gender	Age	Income	Has insurance?	Type of worker(s)
Shanxi Province, Jinzhong City	1	male	25-40	middle	yes	urban worker + rural worker*
	2	male	40-60	lower	no	urban worker
	3	female	25-40	lower	yes	urban worker
	4	female	40-60	lower	no	urban worker + rural worker*
Sichuan Province, Guangyuan City, Wangcang County	1	male	25-40	lower	no	urban worker
	2	male	40-60	middle	yes	urban worker + rural worker*
	3	female	25-40	lower	no	urban worker + rural worker*
	4	female	40-60	lower	yes	urban worker
Fujian Province, Longyan City	1	male	25-40	lower	yes	urban worker + rural worker*
	2	male	40-60	lower	no	urban worker
	3	female	25-40	middle	no	urban worker
	4	female	40-60	lower	yes	urban worker + rural worker*

Urban area near		Gender	Age	Income	Has insurance?	Type of worker(s)
Xiamen City	1	male	25-40	lower	yes	migrant worker
	2	male	40-60	middle	no	migrant worker
	3	female	25-40	lower	no	migrant worker
	4	female	40-60	lower	yes	migrant worker
Total Urban Groups	**16**					

* Group types designated *“urban worker + rural worker” indicate groups composed of 4 urban workers and 4 rural workers.*

Source: CP Research, 2011

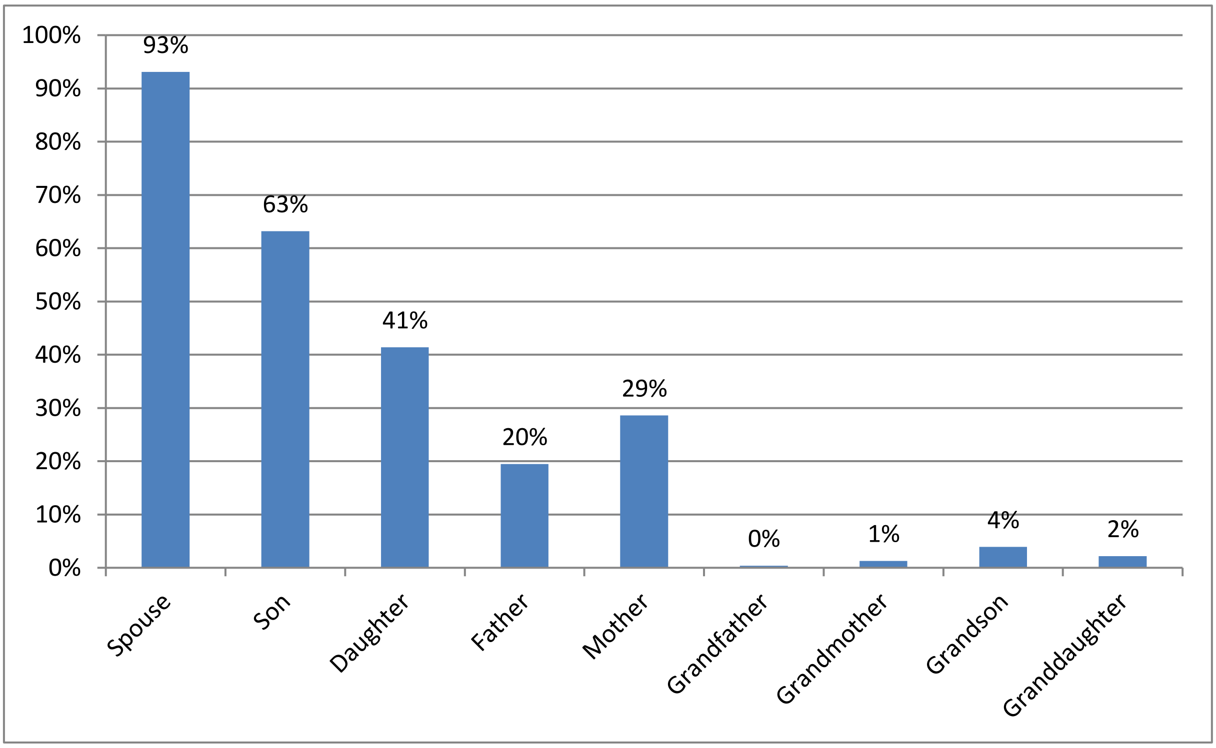
Benchmarking of results against a similar study. It is useful to compare the results of our market research to other research. This serves to widen the knowledge base, enable the stronger drawing of conclusions, and note any changes over time. Where additional insights are useful and as a comparison, reference is made in this report to similar market research that was conducted by Zurich et al. in 2008.

Demographic characteristics of different respondents/workers

Size of household: For our sampled groups the average household size is 4.3 members for rural families (farmers and rural workers), 3.5 for urban workers in the middle cities, and 3.6 for migrant workers in Xiamen City. For the poorest families, it was noted that 28.1% had 6 family members. Analysis of family size shows that the largest families tend to be poor and rural.

Family composition: When asked who lived in the respondents’ households, the majority said they lived with a spouse and one child, although some had two. Around 20% of the respondents lived with their mothers and fathers in a 'three generation' family. The figure below shows the family demographics of our randomly sampled respondents.

Figure 0.1: Family Composition: who respondents live with (multiple answers permitted)



Source: CP Research, 2011

Insurance Policies Bought by FGD Respondents

The 119 FGD respondents bought 178 insurance policies among them (some respondents had bought more than one insurance policy). Insurance bought included children's education insurance, health insurance, life insurance, and accident insurance. The table provided in Appendix C lists these policies, reasons for purchase, which company provided the insurance, premiums, coverage period, and benefit pay-outs.

Type of insurance policy bought by FGD respondents	Reason for buying insurance	Insurance company providing insurance	Premium RMB (USD)	Period of coverage (if not annual)	Benefit pay-out RMB (USD)
Participating	Think high interest rates than bank deposits	Xinhua Insurance	5,000 / year (814/ year)		150,000 (24,405)
Life	Own secure	CPIC	1,400 / year (228/year)		30,000 (4,881)
Accident	Accident out of the compensation	China Life	50 / year (8/year)		30,000 (4,881)
Accident	Hospital reimbursement injury hospitalization	CPIC	50 / year (8/year)		30,000 (4,881)

Type of insurance policy bought by FGD respondents	Reason for buying insurance	Insurance company providing insurance	Premium RMB (USD)	Period of coverage (if not annual)	Benefit pay-out RMB (USD)
Participating		China Life	2,541 / year (413/year)		30,000 (4,881)
Participating	To her daughter to buy	China Life	1,800 / year (293/year)		30,000 (4,881)
Pension participating	Mother bought	Xinhua Insurance	9,000 / year (1464/year)		100,000 (16,270)
Accident	To buy their own	CPIC	50 / year (8/year)		30,000 (4,881)
Casualty		Xinhua Insurance	50 / year (8/year)		30,000 (4,881)
Casualty		China Life	50 / year (8/year)		30,000 (4,881)
Life	Accident prevention	CPIC	3,000 multi / year (488/year)		Do not know
Accident	Accident with compensation	China Life	100 / year (16/year)		20,000 (3,254)
Life	Do plan for the future	CPIC	1,000 multi / year (162.7/year)		Do not know
Casualty		CPIC	50 / year (8/year)		30,000 (4,881)
Life	Accident prevention		50 / year (8/year)		20,000 (3,254)
Casualty		Ping An Insurance	50 / year (8/year)		20,000 (3,254)
Times of peace, light Taian Kang		CPIC	560 / year (91/year)		20,000 (3,254)
China Life 99 Hongfu Endowment		China Life	590 / year (96/year)		10,000 (1,627)
Well-off family feast		CPIC	2,000 / year (325/year)		5,000 (814)
Well-off family feast		CPIC	1,500 / year (244/year)		5,098 (829)
Heart protection	To prevent accidents	CPIC	50 / year (8/year)		20,000 (3,254)
Xpress Paul	Buy their own	CPIC	50 / year (8/year)		20,000 (3,254)
Xpress Paul	Buy peace for themselves	CPIC	50 / year (8/year)		20,000 (3,254)
Heart protection	For their own peace	CPIC	100 / year (16/year)		30,000 (4,881)
Long Tai Ankang	Safety for children	CPIC	723 / year (118/year)		30,000 (4,881)
Long Tai Ankang	For the children to buy	CPIC	456 / year (74/year)		20,000 (3,254)
Hongxin Life Endowment	Kids buy	CPIC	3,282 / year (534/year)		50,000 (8,135)
Long An Taikang	For kids to buy	CPIC	578 / year (94/year)		20,000 (3,254)
Long Tai Ankang	Kids buy	CPIC	1,666 / year (271/year)		70,000 (11,389)

Type of insurance policy bought by FGD respondents	Reason for buying insurance	Insurance company providing insurance	Premium RMB (USD)	Period of coverage (if not annual)	Benefit pay-out RMB (USD)
Renan Ka C section	Fear of accidents	PICC Life Insurance	100 / year (16/year)		60,000 (9,762)
Renan Ka C section	Fear of accidents	PICC Life Insurance	101 / year (16/year)		60,000 (9,762)
Renan Ka C section	Fear of accidents	PICC Life Insurance	102 / year (17/year)		60,000 (9,762)
China Life Millennium financial endowment (dividend risk)		China Life Insurance	800 / year (130/year)		do not know
Jinfeng Li endowment	Plant masonry, and buy and sell insurance to persuade people to sell	CPIC	15, 000 / a one-time (2,440/a one-time)		75000 (12,203)
Jinfeng Li endowment	Insurance companies to sell	CPIC	12,000 / a one-time (1,952/a one-time)		60,000 (9,762)
Children's education	Education convenient to the children	China Life Insurance	872 / year (142/year)		100,000 (16,270)
Simple life	Had been bought	China Life Insurance	36 / year (6/year)		Do not know
Health			195 / year (32/year)		Do not know
Women's large health	Committees recommended	Sichuan employee insurance committee	100 / time (16/time)		100,000 (16,270)
Illness		CPIC	1,200 / year (195/year)		100,000 (16,270)
Changtai B critical illness	Security	CPIC	2,960 / year (482/year)		60,000 (9,762)
Children Yingcai insurance	Buy children	China Life Insurance	723 / year (118/year)		10,000 (1,627)
But each climb		CPIC	2,960 / year for 14 years (482/ year for 14 years)		60,000 (9,762)
Participating	Security attrition	NCI	10,000 / year for five years (1,627/year for five years)		Do not know
Participating	Security attrition	CPIC	2,580 / year (420/year)		Do not know
Simple life		China Life Insurance	12 / year (2/year)		690 (112)
Simple life		PICC	24 / year (4/year)		1,580 (257)

Type of insurance policy bought by FGD respondents	Reason for buying insurance	Insurance company providing insurance	Premium RMB (USD)	Period of coverage (if not annual)	Benefit pay-out RMB (USD)
Simple life	Organisers buy	CPIC	12 / year (2/year)		1200 (195)
Medical		rural health cooperative insurance	50 / year (8/year)		Do not know
Traffic accident	Self-interest	Taikang Insurance	100 / year (163/year)		10,000 (1,627)
Traffic accident	Accident prevention	Taikang Insurance	100 / year (16/year)		10,000 (1,627)
Education	For the children's education	CPIC	2,000 / year (325/year)		50,000 (8,135)
Universal type (recreational)	Reduce the burden on their family insurance	Taikang Insurance	3,700 / year (602/year)		30,000 (4,881)
Well-off family in mid Endowment Hongfu	To the next generation	CPIC	3,240 / in (528/year)		not clear
Traffic accident	Accident prevention	Taikang Insurance	100 / year (16/year)		10,000 (1,627)
Traffic accident	Family	Taikang Insurance	100 / year (16/year)		10,000 (1,627)
Health life	Investment for their own	Taikang Insurance	3,000 / year (488/year)		33,000 (5,369)
Universal type	Friend advised to buy, safe and secure	Taikang Insurance	3,000 / year (488/year)		120,000 (19,524)
Traffic accident	Insurance safety	Taikang Insurance	100 / year (16/year)		10,000 (1,627)
Traffic accident	Insurance safety	Taikang Insurance	100 / year (16/year)		10,000 (1,627)
Commercial	Guaranteed	Taikang Insurance	5,000 / year (814/year)		Do not know
Pension	Guaranteed	China Life Insurance	2,700 / year (439/year)		30,000 (4,881)
Education	For kids	CPIC	2,000 / year (325/year)		40,000 (6,508)
Traffic accident	Security and peace	Taikang Insurance Company	100 / year (16/year)		10,000 (1,627)
Traffic accident	Security and peace	Taikang Insurance	100 / year (16/year)		10,000 (1,627)
Participating	Guaranteed	Taikang Insurance	10,000 / year (1,627/year)		100,000 (16,270)
Participating	Accident prevention	PICC	215 / year (35/year)		200,000 (32,540)
Accident	Guaranteed	PICC	100 / year (16/year)		80,000 (13,016)

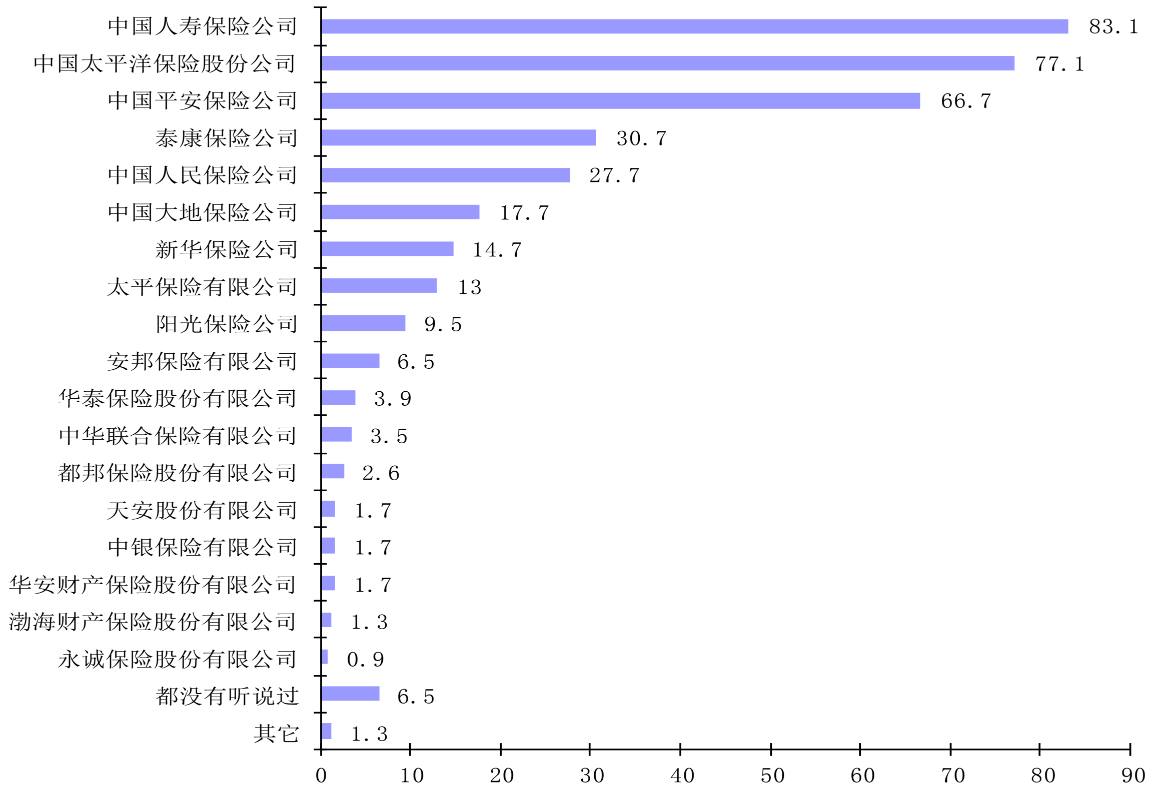
Type of insurance policy bought by FGD respondents	Reason for buying insurance	Insurance company providing insurance	Premium RMB (USD)	Period of coverage (if not annual)	Benefit pay-out RMB (USD)
Accident	Buy peace	China Life Insurance	100 / year (16/year)		100,000 (16,270)
Accident	Accident prevention	China Life Insurance	984 / year (160/year)		20,000 (3,254)
Accident	Accident prevention	China Life Insurance	100 / year (16/year)		80,000 (13,016)
Personal accident	Accident prevention	China Ping An Insurance	100 / year (16/year)		100,000 (16,270)
Participating	God of money		1,000 / year (163/year)		20,000 (3,254)
Participating	Cheap to pay for 15 years	CPIC	1,000 / year (163/year)	15 years	100,000 (16,270)
Participating	Ease the burden on the family	Ping An Insurance	2,000 / year (325/year)		50,000 (8,135)
Large dangerous		Sunshine Insurance	2,500 / year (407/year)		50,000 (8,135)
Participating		Ping An Insurance	2,500 / year (407/year)		Do not remember
Participating	Ease the burden on the family	Ping An Insurance	2,000 / year (325/year)		50,000 (8,135)
Pension	To buy their own	Ping An Insurance			
Participating	Requested by children	Ping An Insurance	2,144 / year (349/year)		60,000 (9,762)
Pension	To buy their own	Ping Insurance	20 / year (3/year)		60,000 (9,762)
Rural medical		Government-led	50 / year (8/year)		
Universal	Ease the burden	Ping An Insurance	20 / year (3/year)		1,000 (1,627)
Casualty			100 / year (16/year)		60,000 (9,762)
Accident	Ease the burden on the family	PICC	100 / year (16/year)		60,000 (9,762)
Casualty		PICC	100 / year (16/year)		60,000 (9,762)
Corning Life Insurance	Their own, pay for 20 years	China Life Insurance	850 / year (138/year)	20 years	30,000 (4,881)
Accident	To love to buy	China Life Insurance	200 / year (33/year)		100,000 (16,270)
Corning Life Insurance	Dividend-based, investment, pay for 10 years	China Life Insurance	1,840 /per time (299/year)	10 years	16,000 (2,603)
Casualty		China Life Insurance	100 / year (16/year)		60,000 (9,762)
Accident	Introduction often sell	China Life Insurance	120 / year (20/year)		80,000 (13, 016)

Type of insurance policy bought by FGD respondents	Reason for buying insurance	Insurance company providing insurance	Premium RMB (USD)	Period of coverage (if not annual)	Benefit pay-out RMB (USD)
Corning insurance	To buy their own, pay for 10 years	China Life Insurance	600 / year (98/year)	10 years	60,000 (9,762)
Personal accident	To her daughter to buy	China Life Insurance	100 / year (16/year)		60,000 (9,762)
Corning Life insurance	Buy a security	China Life Insurance			20,000 (3,254)
Accident			100 / year (16/year)		66,000 (10,738)
Personal accident	Himself	China Life Insurance	100 / year (16/year)		60,000 (10,738)
Whole life	Himself	NCI	1800 元 (293)	20 years	50,000 (8,135)
Accident	To their	NCI	200 元 (33)		100,000 (16,270)
Accident	To their	PICC	100 元 (16)		60,000 (9,762)
Home property	The family	PICC	100 元(16)		6,000 (976)
Personal protection	Buy protection	China Life Insurance	6,000 / year (976 year)	10 years	200,000 (32.540)
Accident	To buy their own	China Life Insurance	60 / year (10/year)		60,000 (9,762)
Personal accident	To buy their own	PICC	100 / year (16/year)		66,000 (10,738)
Life & personal accident	Afraid of an accident, to buy their own protection	China United Property Insurance	100 / year (16/year)		60,000 (9,762)
Hongxin children's	To a child protection	China Life Insurance	6,000 / year (976/year)		don't know
Corning Life participating	To own	China Life Insurance	600 / year (98/year)	10 years	30,000 (4,881)
	To his	China Life Insurance	6,000 / year (976/year)	10 years	200,000 (32,540)
Corning Life	To his	China Life Insurance	5,000 / year (814/year)	20 years	more than 200,000 (32,540)
Accident	Own	China Life Insurance	100 / year (16/year)		66,000 (10,738)
Corning Life	Himself	China Life Insuarnce	2,800 / year (456/ year)	10 years	more than 200,000 (32, 540)
Corning Life	Own	China Life Insurance	2,800 / year (456/year)	11 years	200,000 (32, 540)
Corning Life	Own	China Life Insurance	710 / year (116/year)	12 years	30,000 (4,881)
Corning Regular	Prevent accidents	China Life Insurance	1,070 / year (174/year)	20 years	100,000 (16, 270)
Pension	Accident prevention	China Life Insurance	390 / year (63/year)	20 years	Not clear

Type of insurance policy bought by FGD respondents	Reason for buying insurance	Insurance company providing insurance	Premium RMB (USD)	Period of coverage (if not annual)	Benefit pay-out RMB (USD)
Accident	Accident prevention	China Life Insurance	100 / year (16/year)		60,000 (9,762)
Accident	To buy their own	China Life Insurance	100 / year (16/year)		60,000 (9.762)
Corning Life	Ease the burden on children	China Life Insurance	500 multi / year (81 multi/year)	10 years	30,000 (4,881)
Accident		China Life Insurance	100 / year (16/year)		60,000 (9,762)
Corning Life	To buy their own	China Life Insurance	710 / year (116/year)	10 years	60,000 (9,762)

Source: CP Research, 2011

Figure 0.2: Awareness of Different Insurance Companies by the FGD participants



Source: CP Research, 2011

Appendix C: Microinsurance products – available information on key products

Source: Data received from companies.

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
China Life	Bundled Term Life and Personal Accident Insurance	China Life micro-loan borrower accident insurance;	Yes	1.5‰ to 8‰ of benefit amount depending on the occupational risk classification. Adjusted according to the length of the insured period.	10,000 to 50,000 (1,627 to 8,135)	Any healthy person aged from eighteen (18) to sixty-five (65) years and has applied for and obtained loan from a financial institution
China Life	Bundled Term Life and Personal Accident Insurance	China Life micro-loan borrower term insurance	Yes	RMB 13 to RMB 4,510 (USD 2 to USD 734) depending on age and the occupational risk classification and benefit amount. Adjusted for insured period if < 1 year.	10,000 to 50,000 (1,627 to 8,135)	Any healthy person aged from eighteen (18) to sixty-five (65) years and has applied for and obtained loan from a financial institution
China Life	Bundled Term Life and Personal Accident Insurance	China Life accident insurance for borrowers of rural poverty alleviation micro loan	Yes	1.05‰ to 2.8‰ of benefit amount depending on occupational risk classification.	10,000 to 50,000 (1,627 to 8,135)	Any healthy individual who applies for and obtains the mutual fund loan from the State Council Leading Group Office of Poverty

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
						Alleviation and Development (“the State Council Poverty Alleviation Office”)
China Life	Bundled Term Life and Personal Accident Insurance	China Life rural poverty alleviation micro-loan borrower group accident insurance	Yes	1.05‰ to 2.8‰ of benefit amount depending on occupational risk classification.	10,000 to 50,000 (1,627 to 8,135)	Any group that is constituted by the members from the Poverty Village Development Mutual Fund Cooperative established by the State Council Leading Group Office of Poverty Alleviation and Development and the Ministry of Finance, can apply. Such group shall have five or more members, and the percentage of the insured to the total qualified insured shall

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
						be above seventy-five percent (75%).
China Life	Bundled Term Life and Personal Accident Insurance	China Life term life insurance for lenders of rural poverty alleviation micro loan	Yes	1.3‰ to 63.2‰ of benefit amount depending on age and insurance period - could be up to 2.2 times of this amount depending on occupational risk classification	10,000 to 50,000 (1,627 to 8,135)	Any healthy individual who applies for and obtains the mutual fund loan from the State Council Leading Group Office of Poverty Alleviation and Development ("the State Council Poverty Alleviation Office").
China Life	Bundled Term Life and Personal Accident Insurance	China Life rural small-amount accident insurance;	yes	RMB 20 to RMB 400 (USD 3 to USD 65) depending on occupational risk classification and benefit amount	10,000 to 50,000 (1,627 to 8,135)	Every healthy rural resident, aging from 28 days to 65 years
China Life	Bundled Term Life and Personal Accident Insurance	China Life rural small-amount family accident insurance	Yes	Accident insurance premium is 1.6‰ to 2.4‰ for over 18, under 18 and premium rate for accident hospitalization	Not lower than RMB 5,000 (USD 814). RMB 100 (USD 16) of deductible amount and 80% of payment ratio if	Unless otherwise provided in, any healthy family member from rural area in the

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
				medical insurance is 1.3‰.	participating in social security, otherwise the two figures are 0 RMB and 90% respectively.	mainland of China, aging from twenty-eight (28) days to sixty-five (65) years, can be the insured. The insured family shall be no more than four persons.
China Life	Bundled Term Life and Personal Accident Insurance	China Life rural small-amount group accident insurance	Yes	RMB 20 to RMB 400 (USD 3 to USD 65) depending on occupational risk classification and benefit amount	10,000 to 50,000 (1,627 to 8,135)	Any qualified rural group of five or more members can apply. In any such group, the insured shall be above seventy-five percent (75%) of the total members who are qualified for the application condition of the policy.
China Life	Bundled Term Life and Personal Accident Insurance	China Life rural small-amount traffic accident insurance	Yes	0.8‰ to 2.4‰ of benefit depending on driver/passenger (RMB 8 to RMB 120 / USD 1 to USD 20	10,000 to 50,000 (1,627 to 8,135)	Every healthy rural resident, aging from 28 days to 65 years.

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
China Life	Personal Accident Medical Expense Insurance	China Life additional rural small-amount group medical insurance for compensation on accident expenses	Yes	RMB 70 to RMB 800 (USD 11 to USD 130) depending on occupational risk classification and whether insured participated in social security	10,000 to 50,000 (1,627 to 8,135) but variable deductible amount and payment ratio	
China Life	Personal Accident Medical Expense Insurance	China Life additional rural small-amount medical insurance for compensation on accident expenses	Yes	RMB 100 to RMB 1,500 (USD 16 to USD 244) depending on occupational risk classification and whether the insured participates in social security	Includes RMB 100 (USD 16) of deductible amount and pays out 90% of cost of treatment up to selected insured amount between RMB 10,000 to RMB 50,000 (USD 1,627 to 8,135)	
China Life	Personal Accident Medical Expense Insurance	China Life additional rural small-amount medical insurance for compensation on traffic accident expenses	Yes	4‰ to 20‰ of benefit depending on driver/passenger and whether insured participated in social security (RMB 40 to RMB 1,000 (USD 7 to USD 163)	Includes RMB 100 (USD 16) of deductible amount and pays out 90% of cost of treatment up to selected insured amount between RMB 10,000 to RMB 50,000 (USD 1,627 to USD 8,135)	

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
China Life	Term Life Insurance	China Life rural small-amount group term insurance (category A)	Yes	RMB 4 to RMB 22,930 (USD 0.65 to USD 3,730) depending on benefit amount, age, gender and occupational risk classification	10,000 to 50,000 (1,627 to 8,135)	Any specific rural group of five or more members can apply. In any such group, the Insured shall be above seventy-five percent (75%) of the total members who are qualified for the application conditions of the policy.
China Life	Term Life Insurance	China Life rural small-amount group term insurance (category B)	yes	RMB 33 to RMB 8,070 (USD 5 to USD 1,313) depending on benefit amount, age and duration of insurance	10,000 to 50,000 (1,627 to 8,135)	Any specific rural group of five or more members can apply. In any such group, the Insured shall be above seventy-five percent (75%) of the total members who are qualified for the application conditions of the policy.

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
China Life	Term Life Insurance	China Life rural small-amount term insurance (category A)	Yes	RMB 4 to RMB 6,050 (USD 0.65 to USD 984) depending on benefit amount, age, gender and occupational risk classification	10,000 to 50,000 (1,627 to 8,135)	Every healthy rural resident, aging from 28 days to 65 years (rates go up to 70).
China Life	Term Life Insurance	China Life rural small-amount term insurance (category B)	Yes	RMB 11 to RMB 8,155 (USD 2 to USD 1,326) depending on benefit amount, age, gender and term	10,000 to 50,000 (1,627 to 8,135)	Every healthy rural resident, aging from 28 days to 65 years.
CPIC	Bundled Term Life and Personal Accident Insurance	Andaibao accident insurance	Yes	15 to 100 (2 to 16)	10,000 to 50,000 (1,627 to 8,135)	The individuals from 18 to 65 full years old, who are eligible for loans and have applied for and obtained loans from the financial organ; II. The senior management from 18 to 65 full years old, who work in the unit that has been granted with loans.
CPIC	Bundled Term Life and Personal	Anquanbao Small-amount Accident Insurance	Yes	25 to 125 (4 to 20)	10,000 to 50,000 (1,627 to 8,135)	

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
	Accident Insurance					
CPIC	Bundled Term Life and Personal Accident Insurance	Anxinbao Small-amount Group Term Insurance	yes	1.9 to 1,260 (0.3 to 205)	1,000 to 50,000 (163 to 8,135)	
China Post Life	Bundled Term Life and Personal Accident Insurance	Annual premium rate of Daidaixi No.1 micro loan accident insurance	Yes	RMB 2.2 per RMB 1,000 (USD 0.36 per USD 163) of benefit amount	1,000 to 50,000 (163 to 8,135)	
China Post Life	Bundled Term Life and Personal Accident Insurance	Annual premium rate of Daidaixi No.2 micro loan accident insurance	Yes	RMB 3 per RMB 1,000 (USD 0.5 per USD 163)of benefit amount	1,000 to 50,000 (163 to 8,135)	
China Post Life	Bundled Term Life and Personal Accident Insurance	Lulutong No.2 migrant worker small-amount accident insurance	Yes	RMB 5 per RMB 1,000 (USD 0.8 per USD 163) of benefit amount	10,000 to 50,000 (1,627 to 8,135)	
China Post Life	Term Life Insurance	Lulutong No.1 small-amount term insurance	Yes	Depends on with sex, age and occupation e.g. the annual premium rate for 30-year-old males of jobs 1-3 is RMB 1.9 per RMB 1,000 (USD 0.3 per USD 163) of benefit amount	1000 to 50,000 (1,627 to 8,135)	

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
New China Life	Bundled Term Life and Personal Accident Insurance	Jiedai Anxin Accident Insurance and Additional Term Life Insurance	no	2 or 8 per 1,000 (0.3 or 1 per 163) benefit amount depending on age. Average 100 for younger group and 400 for older group.	50,000 (8,135)	Individuals that are 18 to 65 years of age (see definition), are not engaged in high-risk industries (see definition), high-risk types of work (see definition) or high-risk professional sports (see definition), have the loan conditions and have applied to financial institutions for and obtained loans, can be the insured to participate in this insurance.
New China Life	Bundled Term Life and Personal Accident Insurance	Jiedaibao Accident Insurance	Yes	3% of benefit amount	10,000 (1,627)	Individuals that are not engaged in high-risk industries (see definition) or high-risk types of work (see

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
						definition), have the loan conditions and have applied to financial institutions for and obtained loans, can be the insured to participate in this insurance.
New China Life	Bundled Term Life and Personal Accident Insurance	Mother and Infant Term Life Insurance	Yes	16 to 20 (2.6 to 3.3)	Type I: 12,000 RMB (USD 1952) for pregnant woman and 500 RMB (USD 81) per infant; Type II: 12,000 RMB (USD 1,952) for pregnant women	Scope of the insured and joint insured: Pregnant woman, that has a pregnancy permit and has been determined as suitable for giving birth after pre-pregnant examination, can be the insured, her infant (see definition) can, as the joint insured, participate in this insurance.

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
New China Life	Bundled Term Life and Personal Accident Insurance	Xilaibao Accident Insurance	Yes	30 (5)	10,000 to 50,000 (1,627 to 8,135)	Individuals that are 18 to 65 years of age (see definition), are not engaged in high-risk industries (see definition) or high-risk types of work (see definition), have the loan conditions and have applied to financial institutions for and obtained loans
PICC Life	Bundled Term Life and Personal Accident Insurance	Rural group petty accident insurance	yes	1.5 to 6.4 per RMB RMB 1,000 (0.2 to 1 per USD) of benefit amount. Depends on occupation.	1,000 to 50,000 (163 to 8,135)	The specially designated healthy group member in the rural area could be deemed as the insured to participate in this insurance. The specially designated group in the rural area could be

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
						deemed as the applicant to effect insurance for the eligible members herein. When the specially designated group in the rural area effects insurance, the number insured shall be not less than 5 people. Also, over 75% of eligible members in the specially designated group shall be insured.
PICC Life	Bundled Term Life and Personal Accident Insurance	Rural petty accident insurance	yes	1.5 to 6.4 per RMB 1,000 (0.2 to 1 per USD 163) of benefit amount. Depends on occupation.	1,000 to 50,000 (163 to 8,135)	The healthy dwellers in the rural area from 28 days old (see 7.1) to 65 full years old, who have applied for and obtained loans from the financial organ can be the insured; the insured can be the applicant for

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
						the insurance.
PICC Life	Bundled Term Life and Personal Accident Insurance	Rural petty loan borrower accident insurance	yes	1.2 to 4.7 per RMB 1,000 (0.2 to 0.8 per USD) of benefit amount. Depends on occupation.	1,000 to 50,000 (163 to 8,135)	The healthy individuals from 18 (see 7.1) to 65 full years old, who have applied for and obtained loans from the financial organ can be the insured; the insured can be the applicant for the insurance.
PICC Life	Personal Accident Medical Expense Insurance	Additional rural group petty accident medical insurance	yes	Rate＝Benchmark rate (Table 1)×Adjustment coefficient for deductible (Table 2)×Adjustment coefficient for indemnity ratio (Table 3)×Adjustment coefficient for social insurance participation ratio (Table 4). Depends on occupation, deductible, indemnity ratio and Participation status of the insured in social insurance.	1,000 to 50,000 (163 to 8,135)	Same as main contract

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
PICC Life	Personal Accident Medical Expense Insurance	Additional rural petty accident medical insurance	yes	Rate＝Benchmark rate (Table 1)×Adjustment coefficient for deductible (Table 2)×Adjustment coefficient for indemnity ratio (Table 3). Depends on occupation, deductible, indemnity ratio and Participation status of the insured in social insurance.	1,000 to 50,000 (163 to 8,135)	Same as main contract
PICC Life	Term Life Insurance	Additional regular rural petty loan borrower insurance	yes	Death Benefits: Rate ＝Benchmark rate (Table 1) ×Adjustment coefficient in waiting period (Table 2); Disability benefits: Rate＝Benchmark rate (Table 1)×Adjustment coefficient in waiting period (Table 2). Depends on occupation, age and waiting period.	1,000 to 50,000 (163 to 8,135)	Same as main contract
PICC P&C	Agricultural Insurance	Cole	no	5 to 30 RMB/mu (0.8 to 5 USD/mu)	150 to 500 RMB/mu (24 to 814 USD/mu)	
PICC P&C	Agricultural Insurance	Corn	no	Main risks: 6-7%; additional risks: drought 2-5%; pest and disease 1-2%.	240 to 280 RMB/mu (39 to 46 USD/mu)	

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
PICC P&C	Agricultural Insurance	Cotton	no	Main risks: 5-8%; additional risks: drought 2-5%; pest and disease 1-2%.	300 to 400 RMB/mu (49 to 65 USD/mu)	
PICC P&C	Agricultural Insurance	Cow	no	Scattered breeding: 6-8%; Large-scale breeding: 5-7%	4,000 to 6,000 RMB/head (651 to 976 USD/head)	
PICC P&C	Agricultural Insurance	Forestry	no	6 to 25 RMB/mu (1 to 4 USD/mu)	300 to 800 RMB (USD 49 to 130)	
PICC P&C	Agricultural Insurance	Rape*	no	Main risks: 4-5%; additional risks: drought 1.5-4%; pest and disease 1-2%.	150 to 300 RMB /mu (24 to 49 USD/mu)	
PICC P&C	Agricultural Insurance	Reproductive sow	no	60 RMB/head (10 USD/head)	RMB 1,000 (USD 163)	
PICC P&C	Agricultural Insurance	Rice	no	Main risks: 5-7%; additional risks: drought 2-5%; pest and disease 1-2%.	240 to 300 RMB/mu (39 to 49 USD/mu)	
PICC P&C	Agricultural Insurance	Soy bean	no	Main risks: 6-7%; additional risks: drought 2-5%; pest and disease 1-2%.	150 to 300 RMB/mu (24 to 49 USD/mu)	
PICC P&C	Agricultural Insurance	Wheat	no	Main risks: 4-5%; additional risks: drought 1.5-4%; pest and disease 1-2%.	240 to 300 RMB /mu (39 to 49 USD/mu)	
PICC P&C	Bundled Term Life and Personal	Migrant workers' accident insurance	yes	5 to 100 (0.8 to 16)	6,000 to 50,000 (976 to 8,135)	

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
	Accident Insurance[187]					
PICC P&C	Bundled Term Life and Personal Accident Insurance	Rural micro-borrower accident insurance	yes	50 to 100 (8 to 16)	25,000 to 50,000 (4,067 to 8,135)	
PICC P&C	Bundled Term Life and Personal Accident Insurance	Rural motorist accident insurance	no	50 to 100 (8 to 16)	25,000 to 50,000 (4,067 to 8,135)	
PICC P&C	Bundled Term Life and Personal Accident Insurance	Rural small-amount accident (life) insurance	yes	10 to 100 (1.6 to 16)	1,000 to 50,000 (163 to 8,135)	
PICC P&C	Property Insurance	"Harmonious Countryside" portfolio insurance	no	10 to 100 (1.6 to 16)	5,000 to 50,000 (814 to 8,135)	
PICC P&C	Property Insurance	Policy Based Farmhouse insurance	no	10 to 15 (1.6 to 2.4)	1,000 to 18,000 (163 to 2,929)	
Taikang Life	Bundled Term Life and Personal Accident Insurance	Taikang Borrower (micro agro-loan) Accident Insurance	yes	1 per 1,000 (0.16 per 163) benefit amount	10,000 to 50,000 (1,627 to 8,135)	

[187] PICC P&C has indicated that they have 23 personal microinsurance products. However, information for only four are available here.

Insurance Provider	Product Type	Name of Small-Amount Insurance Product	CIRC Pilot	Premium (RMB)	Benefit/Insured Amount (RMB) (USD)	Eligibility
Taikang Life	Bundled Term Life and Personal Accident Insurance	Taikang Small-Amount Accident Insurance	yes	10 to 50 (1.6 to 8)	10,000 to 50,000 (1,627 to 8,135)	

Appendix D: SWOT analysis of the main sales channels of China's rural microinsurance

Sales channel	Strengths	Weaknesses	Opportunities	Threats
Rural grassroots organisation or institute	1. Being close to the lives of farmer and understanding more of farmers' insurance needs; 2. Have a strong organisational and mobilizing capacity, and convenient and effective communication; 3. Possibly providing financial support for insured farmers; 4. Helping to bring about unified group insurance to rapidly expand the coverage of microinsurance and improve the enrolment rate.	1. If the rural grassroots organisation lacks the internal governance, an abuse of power may be caused, thereby increasing transaction costs and enlarging moral hazard; 2. The sales are vulnerable to the impact of individual will of rural grassroots organisation leaders.	1. The country strengthens construction of rural grassroots organisations and the internal governance of grassroots organisation is maturing, and the political motivation to carry out microinsurance is enhanced.	1. The financing of rural grassroots organisations is not stable and may threaten the sustainable development of microinsurance; 3. The insurance company is weak in the control of the channel.
Rural micro credit institutions	1. Helping to reduce the risk of credit institutions (borrower's disability or death risk is one of the main risks	1. The outlet distribution of micro credit institutions can affect the sales and after-sales services of microinsurance and cause a	1. The national rural financial support policies will further promote the development of rural microfinance institutions,	1. The credit threshold requirements may result in obstruction of microinsurance buyers; 2. The micro credit organisation's strong position

Sales channel	Strengths	Weaknesses	Opportunities	Threats
	of micro credit institutions); 2. Supporting rural financial development. Credit institutions have become an important part of the rural financial system. Selling microinsurance products by using this channel can help expand microinsurance coverage and improve insurance penetration.	series of problems; 2. Micro credit institutions require a higher risk management and the business is affected by lending policies; 3. The salesmen are not very professional.	which helps improve rural micro credit insurance sales.	may increase microinsurance sales costs; 3. There is the presence of cross regulators.
Commercial banks	1. Being strongly targeted. People holding a bank account are all potential customers of microinsurance, so it is easy to identify customers; 2. In general, bank credit is high and farmers are receptive to the products recommended by banks	1. The commercial banks' layout of grassroots outlets affects the sales and services of microinsurance; 2. People without deposit have little hope to enjoy the microinsurance benefits; 3. The salesmen are not very professional.	1. With the coordinated rural and urban social and economic development, rural commercial banks will have more outlets that will become one of the main sales channels of microinsurance.	1. There is a certain degree of competition between bank savings and microinsurance; 2. Insurance companies competing for high-quality channels may increase the cost of sales of microinsurance, and result in the instability and discontinuity of the channel.

Sales channel	Strengths	Weaknesses	Opportunities	Threats
Rural credit cooperatives	1. Cooperatives are the most popular institution in rural areas with a long history, a mass base and many outlets, convenient for farmers to apply for microinsurance; 2. The co-operative has adequate and convenient internal information exchange.	1. The salesmen are not very professional; 2. The coverage is low due to the limit of distribution of cooperative members.	1. The cooperative's appeal can enhance microinsurance sales momentum and reduce operating costs; 2. The moral hazard and adverse selection can be minimized and claim disputes reduced under the constraints of common interests.	1. Due to impact of regulatory policy adjustment, some cooperative sales channels may be identified as "bundled" sales; 2. The management capacity in rural co-operatives is uneven, and technical support in the risk control on the microinsurance business is absent.
Individual agents and insurance brokers	1. Personal sales is strongly professional; 2. Helping foster the insurance awareness of farmers; 3. The insurance companies have strong control ability for the rural microinsurance marketing team.	1. Door-to-door sales is time-consuming and the success rate is not high; 2. Due to personalized service, it is difficult to expand the size of customers; 3. The personal agent team has strong liquidity which is not conducive to the security service.	1. Forming professional agent or broker teams in some areas will help sales, security service and settlement of claims service; 2. The future diversity of microinsurance products can meet the personalized service.	1. Integrity and moral issues of agents; 2. There is the need to raise the professionalism of individual agents and brokers.

Access to Insurance Initiative
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