

# Microinsurance in Asia: Supply-side perspectives

## China Country Analysis

April 2020

Based on findings from the Milliman research report:  
Asia Microinsurance Supply-side Study



With growing interest in microinsurance in the region, we are pleased to present our first Microinsurance Supply-side Study of Asia in 2019 to gather the perspectives of the insurance industry regarding the importance of microinsurance, current practices and the enabling environment. We carried out this study primarily through a questionnaire survey, with responses from regulated insurers providing microinsurance in five countries, namely China, Bangladesh, India, Indonesia, and the Philippines. This country analysis highlights some key takeaways based on observations from China.

Nineteen insurers participated in the survey, of which approximately 70% (thirteen insurers) currently sold microinsurance in the Chinese insurance market.

The following is a summary of the criteria used to define “microinsurance” in this study:

1. Intentionally developed for low-income people
2. Government is not the sole risk carrier
3. The program is based on insurance principles implemented by regulated insurers
4. Goal of profitability or sustainability
5. Modest premium levels/affordability

# Current practices: Taking a closer look at insurers' microinsurance programs and how they implement them

## How surveyed insurers and providers reported the proportion of in-force premium from microinsurance against their total insurance business portfolio

Estimate % of in-force premiums from microinsurance vs total insurance business



Microinsurance has been viewed in China as a tool to support its efforts in poverty alleviation. Until today, “public insurance” or state-driven microinsurance is currently dominating the pro-poor segment. As a result, the majority of the insurers surveyed indicated a low level of 0-2% of microinsurance premiums as a proportion of total premiums. It is likely that most who do provide microinsurance do so to

support government policy. Due to data constraints and reporting structures in China, it is difficult to estimate a current coverage rate (% of the population covered) for microinsurance. However, with the available information provided from the survey participants, a significant increase to this coverage rate since 2013 (last available data) is not anticipated.

## State-led poverty alleviation products are prominent and online mutual aid platforms are on the rise in China

Due to limitations in data collection, microinsurance products split by risk category are not available for China. However, based on desk research and discussions with practitioners in China, products provided by microinsurers typically include agricultural insurance, bundled term life and personal accident/credit life, medical expense reimbursement, property and term life insurance. These are typically state-led poverty alleviation products.

Credit-associated products are an important model for microinsurance in China. The “**Credit and insurance 1+1**”<sup>1</sup> model is a case in point of how micro-life and accidental products are sold through microcredit institutions. These are typically insurance coverages associated with loans that are sold through agricultural banks and rural credit cooperatives (RCCs). The inclusion of insurance products into loans is believed to increase the willingness of microcredit institutions to finance higher-risk profiled clients, such as low-income people in rural areas.

A more recent type of mass market product has also emerged in China. These are online mutual aid platforms, which are programmes where participants pool their wealth through a series of small payments. The collective pool makes payments to members who file claims. An example of such programmes is Xiang Hu Bao (“mutual protection”) introduced by Alipay, which has attracted over 100 million

participants since it was launched in 2018. **Whilst it is not specifically a microinsurance product, it has helped make health protection in China more inclusive and accessible for lower-income people and those living in rural areas**<sup>2</sup>. The rise of the mutual aid platform in China (and similarly P2P insurance platforms in developed countries) implies that inclusion in insurance is demanded by customers. This highlights the need for insurance providers to be at the forefront of creating accessibility in order to capture the new market segment.

**12.9%**  
2013 microinsurance coverage level of the low/middle income population\*

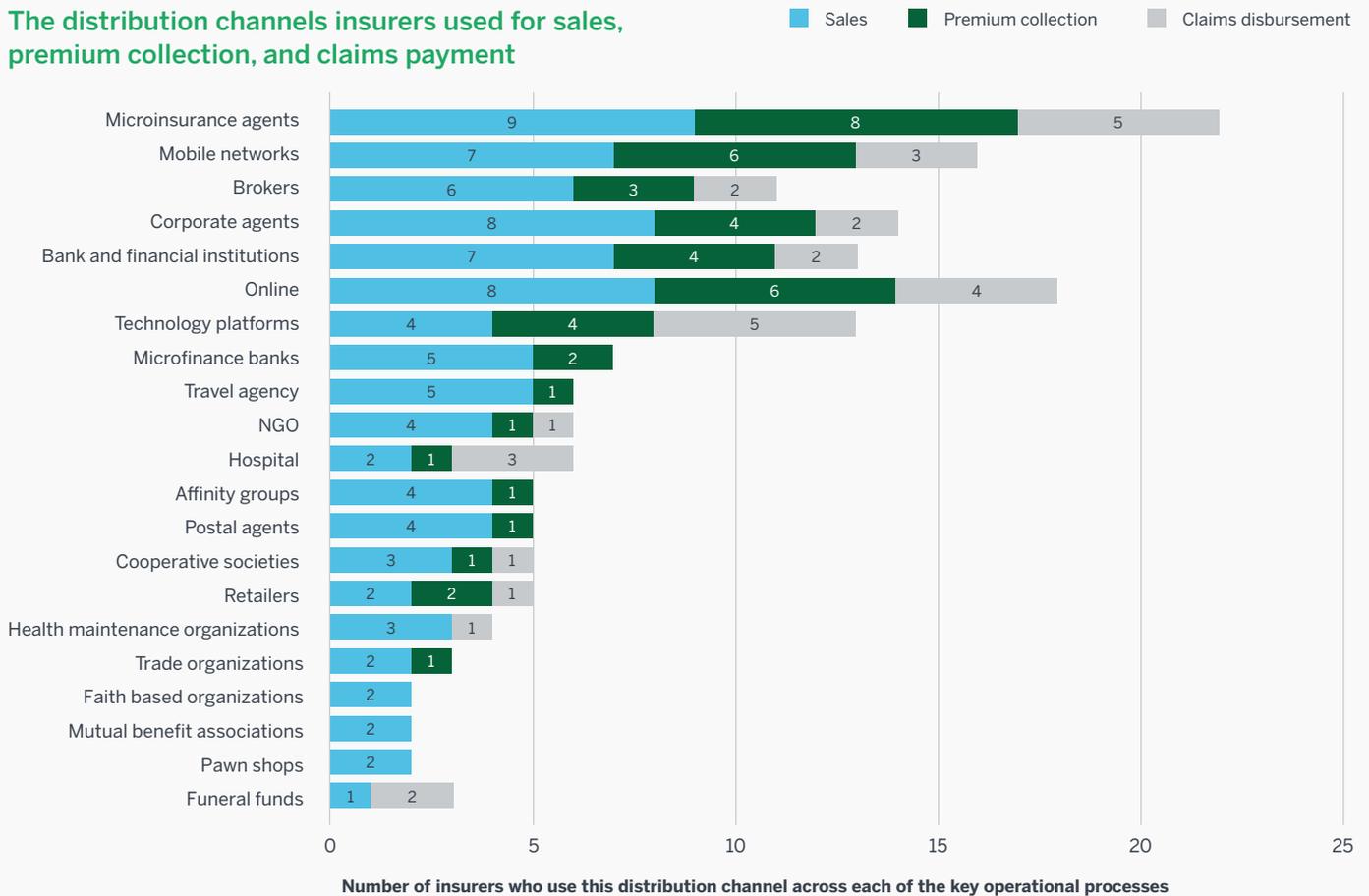
**3/13**  
Proportion of insurers who develop products specifically to address climate risks of low-income people

\* Due to data constraints in the country, an updated coverage level could not be estimated, and this estimate is taken from available 2013 data.

1 “Microinsurance: Progress in theory and lessons from practice”, Yi Yao

2 <https://www.businesswire.com/news/home/20191126005952/en/Alipay%E2%80%99s-Xiang-Hu-Bao-Online-Mutual-Aid>

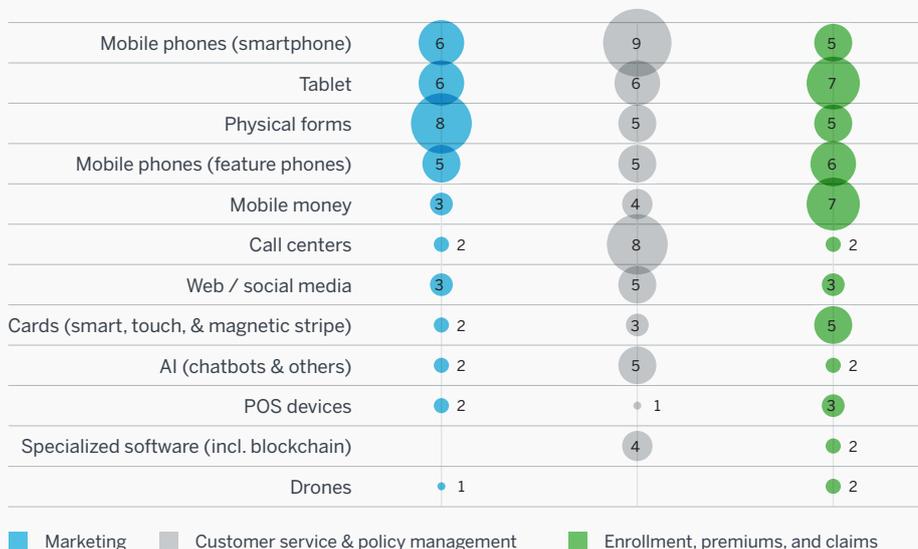
## The distribution channels insurers used for sales, premium collection, and claims payment



The use of agents is the most prevalent distribution network in China. However, its success is limited by reach and scale. Whilst face-to-face interaction fosters greater trust with clients, agent-driven models are typically expensive. Being a relatively new market, microinsurance products generally have longer sales cycles making them less attractive to agents with a choice of selling different products. Some successful case studies indicate that non-financial incentives for microinsurance agents can potentially be more effective than those of financial incentives, particularly at the early stages of building an agency business model.

A less widespread distribution channel is witnessed in China with credit life microinsurance sold through the postal system. **This was piloted by China Post Life and is still in the very early stages**<sup>3</sup>. Credit life microinsurance is also sold via rural microcredit institutions and rural credit cooperatives (RCCs). These are existing financial service providers which have extensive distribution networks and administrative capabilities to distribute these products. Other personal lines of microinsurance are also sold through village committees. These are typically group policies with no individual underwriting, sold through a consultation process between the village committees and an insurance salesperson. This distribution channel was pioneered by China Life's Jinzhong Branch in Shanxi. In such distribution models, there may be a higher risk of fraud as it is difficult for insurance companies to exert control over the sales and administration of insurance policies.

## How insurers are applying technology in their microinsurance process



More than 80% of respondents use mobile and tablet technology in their microinsurance processes, with advanced technology being more prevalent in China than in other countries studied.

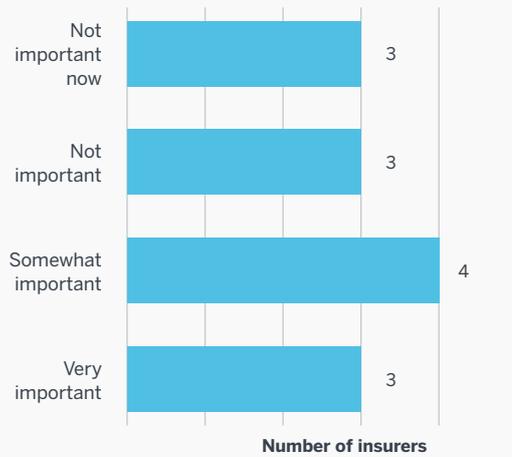
Differing from other countries surveyed, mobile (smartphones) and tablets are the top technology applied in microinsurance processes with a much lower degree of reliance on physical forms. With a high (83%\*) smartphone adoption rate in China, it is of no surprise that the use of smartphones in microinsurance operations is higher than other countries studied. There is a relatively high usage of more advanced forms of technology (inclusive of chatbots, artificial intelligence and blockchain) in China. Such observations are in line with artificial intelligence (AI) and blockchain technology adoption within the conventional insurance arena. The adoption of chatbots and AI technology is typically used to provide customer service and for policy management. Xiang Hu Bao Online Mutual Aid platform is also an early adaptor of blockchain technology. The transparency associated with the adoption of blockchain technology is also one of the key reasons for the high up-take on this product. This is also a case in point that customers value technology which provides greater transparency and ultimately translates to trust in the product operations.

3 A2ii (2018): China Access to Insurance Diagnostic: A Market and Regulatory Analysis  
<https://cenfri.org/wp-content/uploads/2018/03/China-Access-to-Insurance-Diagnostic-.pdf>

4 <https://datareportal.com/reports/digital-2020-china?rq=china>

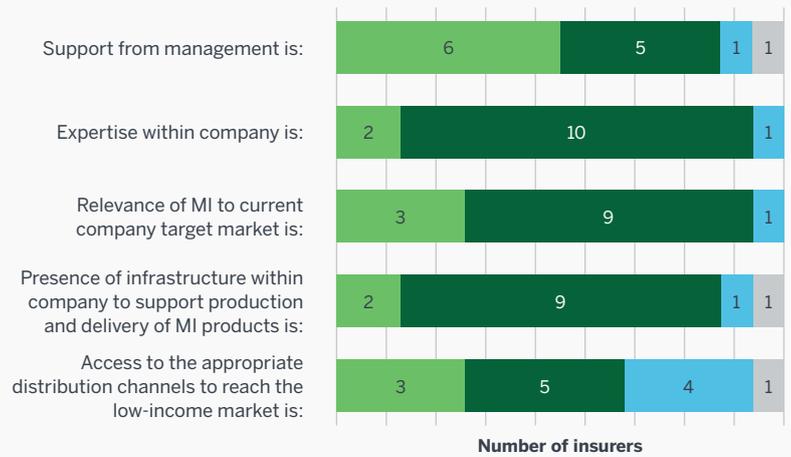
# Perspectives: On their institutions and the microinsurance market

## How insurers rank the importance of selling microinsurance within their companies



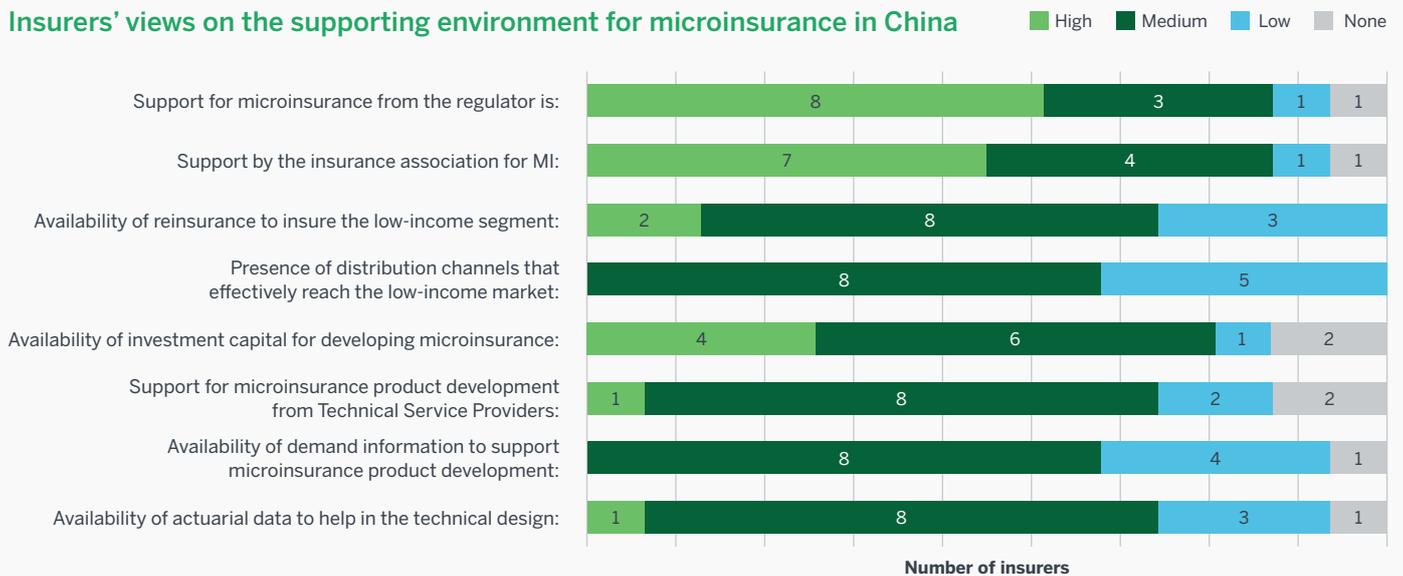
In rating the importance within their companies of selling microinsurance, insurers in China have a mixed response. This is in line with the understanding that in China, microinsurance remains a state-led initiative driven by poverty alleviation rather than being perceived as a profitable business case.

## The opportunities and challenges insurers faced regarding microinsurance within their companies



For those who do offer microinsurance in China, most stated that support from management for microinsurance is medium to high. This is likely to ensure compliance with state policy. Expertise within the company, as well as the presence of infrastructure to support production and delivery of microinsurance products is stated to be medium by most respondents. The top reason given by survey respondents not currently offering microinsurance was that it is "not their target market". Some insurers also commented that there is insufficient market information available, unsurprising as microinsurance is not perceived as a market-driven initiative.

## Insurers' views on the supporting environment for microinsurance in China



China scored an overall medium level of support, with support from the China Banking and Insurance Regulatory Commission (CBIRC) perceived to be medium to high. Given that microinsurance is heavily state driven and used as a tool for poverty alleviation, these responses are in line with expectations. The key factors that may spur companies into selling microinsurance is the readiness of actuarial data and the availability of demand information in supporting product development. Without a business-driven interest, the promotion of microinsurance in overcoming poverty can only create an apathetic operating environment for insurers.

## Key contacts



**Guanjun Jiang**  
 FCAS, Principal, Consulting Actuary  
 Shanghai  
 +86 21 0258252  
[guanjun.jiang@milliman.com](mailto:guanjun.jiang@milliman.com)



**Indira Gopalakrishna**  
 Microinsurance Specialist Asia Pacific  
 Singapore  
 +65 9035 4271  
[indira.gopalakrishna@milliman.com](mailto:indira.gopalakrishna@milliman.com)