The Status of Mutual Insurance in China and a Proposed Mixed Mutual/Commercial Insurance Model

Prepared by:
Yunhui Wang
### Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACFSMC</td>
<td>All China Federation of Supply and Marketing Cooperatives</td>
</tr>
<tr>
<td>ACFTU</td>
<td>All-China Federation of Trade Unions</td>
</tr>
<tr>
<td>ACWF</td>
<td>All-China Women’s Federation</td>
</tr>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>CAM</td>
<td>China Association of Microfinance</td>
</tr>
<tr>
<td>CFMIA</td>
<td>China Fishery Mutual Insurance Association (CFMIA)</td>
</tr>
<tr>
<td>CSMIA</td>
<td>China Ship-owners Mutual Insurance Association (CSMIA)</td>
</tr>
<tr>
<td>CWMIA</td>
<td>China Workers Mutual Insurance Association (CWMIA)</td>
</tr>
<tr>
<td>CFPA</td>
<td>China Foundation for Poverty Alleviation</td>
</tr>
<tr>
<td>CIRC</td>
<td>China Insurance Regulatory Commission</td>
</tr>
<tr>
<td>CNY</td>
<td>Chinese Yuan</td>
</tr>
<tr>
<td>GNI</td>
<td>gross national income</td>
</tr>
<tr>
<td>GTZ</td>
<td>German Technical Assistance (Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (Germany))</td>
</tr>
<tr>
<td>ICMIF</td>
<td>International Cooperative and Mutual Insurance Federation</td>
</tr>
<tr>
<td>IT</td>
<td>information technology</td>
</tr>
<tr>
<td>MFI</td>
<td>Micro Finance Institution</td>
</tr>
<tr>
<td>PPP</td>
<td>purchasing power parity</td>
</tr>
<tr>
<td>PSBC</td>
<td>Post Savings Bank of China</td>
</tr>
<tr>
<td>RCC</td>
<td>Rural Credit Cooperative</td>
</tr>
<tr>
<td>SAIC</td>
<td>the State Administration for Industry and Commerce</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>USD</td>
<td>US dollar</td>
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Executive Summary

Nowadays, China has arguably become one of the most challenging and promising emerging insurance markets in the world in tandem with robust economic development. However, as a young industry resumed from 1980, many problems remain unsolved in the process of market maturation and system improvement.

In China, there exists a considerable amount of low-income population who lacks sufficient protection against various risks (such as the death of a breadwinner or the illness of a family member). Hence, it is meaningful to actively search for all suitable models and solutions, besides the mainstream commercial insurance, to meet insurance demands from different income levels and living environments.

In this context, Zurich Financial Service funded and supported this research project to investigate the status of mutual insurance practices in China and the feasibility of a proposed mutual/commercial insurance model.

This research project studied the policyholder’s feedback on existent mutual insurance products, the general demand for further mutual insurance products as well as potential partners (i.e. the risk carriers) selection in the proposed mutual/commercial insurance model.

The information gained in this research should lead to an understanding and reference for undertaking future pilot initiatives. In the long term, the research and implementation of the findings should support the establishment and development of new mutual insurance entities. It should also help explore the use of mutual insurance as a safety net mechanism to reduce the economic vulnerability of low-income populations in China.

The research data are collected through key informant interviews and questionnaires among mutual insurance policyholders. Supply and potential demand were assessed through discussions with insurers, relevant government officials and scholars.

Questionnaires responders were asked to identify their most concerned risks and economic burdens. They identified the following as the top 3 risks: 1) medical treatment; 2) education of children and 3) housing. In this term, these are the risks that people are least prepared for and have insufficient means to manage. This information enabled insurers to identify the gaps that would lead to opportunities for potential products.

The research result shows strong demand for further mutual insurance products among current mutual insurance policyholders. Meanwhile, the data also revealed policyholders’ comparative trust in mutual insurance over commercial insurance, which is an accordant embodiment of the mutual insurance advantages.

The research brought forward a mixed mutual/commercial insurance model with following fundamental features:

- An external management company provides centralized service for all the mutual insurance members, i.e. the actual risk carriers (named “partners” in this
The partners are independent in self-governance and internal administration in agreed functions and to certain degrees. The mutual organization members have:
1) Obligation of risk pooling;
2) High involvement in product designing;
3) Flexibility in premium collecting and claim processing;
4) Right to manage the premium (precluding the administration fee and the re-insurance proportion) and any surplus.

Potential partners in this proposed mixed/mutual insurance model might include:
- The central government and local authorities
- Banks
- Cooperatives
- Unions/Associations
- Schools, Universities...
- Micro Finance Institutions (MFIs)
- Qualified and Capable Enterprises
- Individual Clients

Among them, the most recommendable potential partner is the Post Savings Bank of China (PSBC). Post Savings Bank of China, resumed in 2007, inherited the original finance businesses conducted by China Post and China Post (Group) companies. It owns the most wide-spread personal financial service network in China and ranked the 5th biggest domestic bank in terms of total deposit amount. 25 million households have bought insurance products from Post Savings Bank of China, which accounts for 20% of the total bancassurance sold in China.

Initiation for mutual insurance entities under the proposed model is likely to be difficult considering legal/regulatory reality, capital issues and fierce market competition. However, the development is expected to increase rapidly as mutual insurers gradually gain the trust of people, which has been validated in the case of Beijing Fruit Industry Mutual Association. In the meantime, market education, word of mouth effect and the demonstration effect will further enhance the demand.

As a start, a mutual insurer should consider commencing with simple and imperative products in a specific business niche, for instance, the education endowment policy. Such an education endowment policy can accommodate the major educational expenses along the way based on some savings plan. As the system, procedures and demands become stable, more advanced products could be launched and rolled out.

All in all, opportunities for the proposed mixed mutual/commercial insurance model do exist in China. But the environment is not yet fully mature. The prerequisites for actualizing this model locate in: 1) cooperating with a suitable partner (i.e. the risk carrier), 2) winning government support and 3) finding a proper business niches.

In current stage, recommendable moves could be actively promoting mutual concept among regulatory authorities and potential partners as well as patiently seeking an appropriate chance.
1. Background

1.1 Macroeconomic snapshot of China

Over the past 20 years, China has achieved remarkable economic growth (averaging roughly 9.4% annually) although levels of development vary sharply among all 33 provinces and different regions.\(^1\) Equally impressive is that this growth has effectively improved the living standard of domestic population and lifted more than 300 million people out of poverty.

The following factsheet to some degree demonstrates the development and status of current China.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2005</th>
<th>2006</th>
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<td><strong>World view</strong></td>
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<td>Population, total (millions)</td>
<td>1,262.65</td>
<td>1,303.72</td>
<td>1,311.02</td>
<td>1,318.31</td>
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<td>Population growth (annual %)</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
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<tr>
<td>Surface area (sq. km) (thousands)</td>
<td>9,598.1</td>
<td>9,598.1</td>
<td>9,598.1</td>
<td>9,598.1</td>
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<td>GNI, Atlas method (current US$) (billions)</td>
<td>1,168.88</td>
<td>2,272.99</td>
<td>2,639.69</td>
<td>3,126.01</td>
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<td>GNI per capita, Atlas method (current US$)</td>
<td>930</td>
<td>1,740</td>
<td>2,010</td>
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<td>GNI, PPP (current international $) (billions)</td>
<td>2,940.06</td>
<td>5,339.64</td>
<td>6,152.62</td>
<td>7,150.54</td>
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<td>GNI per capita, PPP (current international $)</td>
<td>2,330</td>
<td>4,100</td>
<td>4,690</td>
<td>5,420</td>
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<tr>
<td><strong>People</strong></td>
<td></td>
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<tr>
<td>Income share held by lowest 20%</td>
<td>..</td>
<td>5.7</td>
<td>..</td>
<td>..</td>
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<td>Life expectancy at birth, total (years)</td>
<td>71</td>
<td>73</td>
<td>..</td>
<td>73</td>
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<tr>
<td>Fertility rate, total (births per woman)</td>
<td>1.7</td>
<td>1.7</td>
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<td>Adolescent fertility rate (births per 1,000 women ages 15-19)</td>
<td>4</td>
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<td>Mortality rate, under-5 (per 1,000)</td>
<td>37</td>
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<td>Prevalence of HIV, total (% of population ages 15-49)</td>
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<td>0.1</td>
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<td><strong>Environment</strong></td>
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<td>Forest area (sq. km) (thousands)</td>
<td>1,770.0</td>
<td>1,972.9</td>
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<td>Agricultural land (% of land area)</td>
<td>58.8</td>
<td>59.6</td>
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<td>Energy use (kg of oil equivalent per capita)</td>
<td>876</td>
<td>1,319</td>
<td>1,433</td>
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<td>CO2 emissions (metric tons per capita)</td>
<td>2.6</td>
<td>4.3</td>
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<td>Electric power consumption (kWh per capita)</td>
<td>993</td>
<td>1,783</td>
<td>2,041</td>
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<td><strong>Economy</strong></td>
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<td>GDP (current US$) (billions)</td>
<td>1,198.48</td>
<td>2,235.91</td>
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<td>8.4</td>
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<td>Inflation, GDP deflator (annual %)</td>
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<td>Agriculture, value added (% of GDP)</td>
<td>15</td>
<td>13</td>
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<td>Industry, value added (% of GDP)</td>
<td>46</td>
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<td>Services, etc., value added (% of GDP)</td>
<td>39</td>
<td>40</td>
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<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>23</td>
<td>37</td>
<td>40</td>
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<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>21</td>
<td>32</td>
<td>32</td>
<td>32</td>
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<tr>
<td>Gross capital formation (% of GDP)</td>
<td>35</td>
<td>44</td>
<td>45</td>
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\(^{1}\) Balancing Development to Achieve An All-Round Xiaokang and Harmonious Society in China, UN Common Country Assessment 2004
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<th>States and markets</th>
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<td>Revenue, excluding grants (% of GDP)</td>
<td>7.1</td>
<td>9.6</td>
<td>10.3</td>
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</tr>
<tr>
<td>Cash surplus/deficit (% of GDP)</td>
<td>..</td>
<td>-1.6</td>
<td>-1.4</td>
<td>..</td>
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<tr>
<td>Time required to start a business (days)</td>
<td>..</td>
<td>48</td>
<td>35</td>
<td>35</td>
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<tr>
<td>Market capitalization of listed companies (% of GDP)</td>
<td>48.5</td>
<td>34.9</td>
<td>91.3</td>
<td>194.2</td>
</tr>
<tr>
<td>Military expenditure (% of GDP)</td>
<td>1.8</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
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<tr>
<td>Mobile cellular subscriptions (per 100 people)</td>
<td>7</td>
<td>30</td>
<td>35</td>
<td>42</td>
</tr>
<tr>
<td>Internet users (per 100 people)</td>
<td>1.8</td>
<td>8.6</td>
<td>10.6</td>
<td>16.1</td>
</tr>
<tr>
<td>Roads, paved (% of total roads)</td>
<td>87</td>
<td>..</td>
<td>66</td>
<td>71</td>
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<tr>
<td>High-technology exports (% of manufactured exports)</td>
<td>19</td>
<td>31</td>
<td>30</td>
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<tbody>
<tr>
<td>Merchandise trade (% of GDP)</td>
<td>39.6</td>
<td>63.6</td>
<td>66.2</td>
<td>67.8</td>
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<td>Net barter terms of trade (2000 = 100)</td>
<td>100</td>
<td>85</td>
<td>81</td>
<td>79</td>
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<td>External debt stocks, total (DOD, current US$) (millions)</td>
<td>145,711</td>
<td>283,803</td>
<td>325,077</td>
<td>373,635</td>
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<td>Total debt service (% of exports of goods, services and income)</td>
<td>9.3</td>
<td>3.1</td>
<td>2.4</td>
<td>2.2</td>
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<tr>
<td>Net migration (thousands)</td>
<td>-1,339</td>
<td>-1,900</td>
<td>..</td>
<td>..</td>
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<tr>
<td>Workers' remittances and compensation of employees, received (current US$) (millions)</td>
<td>6,244</td>
<td>20,337</td>
<td>23,319</td>
<td>32,833</td>
</tr>
<tr>
<td>Foreign direct investment, net inflows (BoP, current US$) (millions)</td>
<td>38,399</td>
<td>79,127</td>
<td>78,095</td>
<td>138,413</td>
</tr>
<tr>
<td>Official development assistance and official aid (current US$) (millions)</td>
<td>1,728</td>
<td>1,803</td>
<td>1,238</td>
<td>1,439</td>
</tr>
</tbody>
</table>

Source: World Development Indicators database, April 2009

However, fundamental problems remain in the country. And moreover, this rapid progress has brought with it new challenges and concerns to the society.

First, there are growing inequalities between urban and rural areas, between rich and poor, and between men and women. The Income GINI Index has been estimated to exceed 46.9 by 2004, which is over the threshold considered by many to indicate potential social unrest. Disparities between eastern and western regions are also huge. Some eastern rich areas concentrate substantive resources and capital while most of the country’s rural poor living in remote western areas even have proven problems in achieving agricultural productivity gain.

Second, despite impressive progress in poverty alleviation, a large number of people still remain poor. Reducing poverty further will require measures beyond an exclusive reliance on economic growth alone. Actually, transformation in the productive and industrial structure is causing new forms of poverty to emerge, which are particularly visible in rural areas, among low-income urban households and among migrant workers.

Third, new challenges are created along with China’s transition to a market economy system. As the economy becomes more market driven, less people remain in the social safety nets. This trend highlights the urgency of finding new forms of social protection such as social insurances since traditional distribution mechanism

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2 Content is based on 2007/2008 Human Development Report, UNDP
disappears or becomes ineffective. Particularly, the public health system, pension system, unemployment protection system have all been placed under severe stress.

Equally important, China has undergone rapid and sometimes dramatic demographic transitions over the last half century. Its population of 1.3 billion grows by 7 million each year. Given the large number of women of child-bearing age, growth is projected to continue until around 2035\(^3\). With market liberalization and looser controls on movement, migration has sharply increased: 140 million Chinese are now migrants\(^4\). Urbanization stands at about 41.8\(^5\). The proportion of rural population is higher than the average for countries with China’s level of development, and arable land per capita is very low. These demographic transitions have led to a significant impact on current development, especially in areas such as employment, housing, education and public health.

In addition, predicament is also resulted from the high population density and the alarming environment deterioration stemming from rapid economic growth over the past 30 years. More than 90 percent of China’s grasslands are degraded, an estimated 75 percent of urban river water is classified as unfit for human contact, and several of China’s cities are cited as being among the most polluted in the world\(^6\). Although China has started attempting to balance economic growth with imperative environmental protection, the problems are not expected to be solved, or even mitigated, in a short time frame.

1.2 Snapshot of China insurance industry

1.2.1 Overview of the insurance market in China

Since re-practice from 1980, China’s insurance market, along with the overall economy of the country, has experienced unprecedented rates of growth over the last quarter century.

Up to 2007, there have been total 8 insurance groups, 102 insurance companies and 10 insurance asset management companies in China. In terms of the capital source, 59 domestic insurances companies versus 43 foreign insurance companies are practicing in the market. There are more than 940 provincial branches as well as 57191 district branches all over the country. Insurance practitioners have been estimated to exceed 2.57 million, out of which 2.07 million are sales force.

1.2.2 Market volume, development and growth

China has been considered to have one of the most challenging and promising emerging insurance markets with unpredictable potential in it. It contains a huge number of potential clients with comprehensive backgrounds from various social classes.

\(^3\) 2007/2008 Human Development Report, UNDP
\(^4\) National Population and Family Planning Committee of China, 2004
\(^5\) National Development and Reform Commission, 2004
\(^6\) 2007/2008 Human Development Report, UNDP
The market produces higher increase rate in premiums than that of claim payments. Total annual premium in 2007 is 703 billion RMB (4.4 times of the amount in 2000) and has reached 978 billion RMB in 2008, which is a 39% increase. In contrast, claim Payment amounted to 230 billion in 2007 and 297 billion in 2008, 29% increase.

**Figure 1: Total annual premium and the increase percentage from 2000 to 2007**

[Graph showing total annual premium and the increase percentage from 2000 to 2007]

**Figure 2: Total annual claim payment and the increase percentage from 2000 to 2007**

[Graph showing total annual claim payment and the increase percentage from 2000 to 2007]

Source of Figure 1 & Figure 2: Yearbook of China Insurance 2008

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7 Source: Yearbook of China Insurance 2008  
8 Source: Data and Statistics from China Insurance Regulatory Commission  
9 Source: Yearbook of China Insurance 2008 and Data and Statistics from China Insurance Regulatory Commission
1.2.3 Comparison of domestic and foreign insurance companies

Domestic insurance companies remain leading players in the insurance market. Take the year of 2007 as an example, domestic insurance company took up 94% of the market share in terms of annual premium, which is around 661 billion RMB. Foreign insurance companies all together shared the rest 6%. In Beijing, Shanghai, Shenzhen and Guangzhou, where foreign insurance practitioners centralize, the foreign insurers took up respective market share of 18.03%, 25.23%, 17.41% and 14.49%10.

Despite the limited current business distribution, there are still inspiring potential opportunities for foreign insurers in this market. With a more open social-economic environment and a more mature regulatory system, foreign insurance companies will have broader chances to enlarge their market share and promote their business growth. China clients will, as has been proved in other industries, welcome and accept external insurers as long as they bring along newer products, superior services and better credibility.

1.3 Status of insurance legislation and regulation in China

According to China Constitution structure (see Appendix 3), China Insurance Regulatory Commission (CIRC) is the regulatory authority in China which takes charge of almost all the issues related to insurance operation, regulation and supervision. However, a minor portion of insurance practitioners in particular fields such as agriculture and non-profit sector are also authorized by respective central government authorities (such as the Ministry of Agriculture and the Bureau of Forestry).

Focusing mainly on capital stock insurance companies, the current insurance statute applied in China is the 2009 revision of the Insurance Law of China which was initially legislated in 1995. Special forms of insurers/insurances, such as mutuals, cooperatives and agriculture insurances could meanwhile be regulated by other provisions and regulations such as the Agriculture Law, the Farmers Specialized Cooperative Law and the Trade Union Law.

2. The Supply Side: Mutuality and Mutual Insurance in China

2.1 Mutuality and mutual insurance

2.1.1 Kinds of Insurers: capital stock versus mutual

The most common form of insurers in China is the capital stock company operated and supervised pursuant to the Insurance Laws of China. Besides that, there also exist mutual insurers, which are organized and operated without capital stock. Generally, a mutual insurance entity is collectively owned by its policyholders who have the right to attend and vote at the annual meetings of insurers, which is a right that relatively

10 Source: Yearbook of China Insurance 2008
few policyholders take advantage of in practice.

Actually, many insurers with the word “mutual” in their names have already practically converted their way of doing business to the capital stock form. They retain the term “mutual” in the name not only because of the company’s history, but also because the term “mutual” helps promote a harmonious and secure image for an insurer.

2.1.2 The conception, function and organization of mutual insurance

The very nature of insurance is based on the concept of mutuality: risk is shared by the many to protect the unfortunate few that suffer losses. A capital stock company has to balance the interests of its customers against those of its shareholders who – quite rightly– expect and demand a good return on their invested capital. On the other hand, a mutual company does not have to focus on increasing returns to shareholders: instead, it would have more interest in setting fair rates for all policyholders and bringing down costs to a minimum whilst maintaining quality service and products.

In effect, the existence of mutual insurers creates additional pressure for capital stock companies to maintain competitive, low prices and reinforces the importance of the customers as stakeholders in the business. As can be seen, this is a positive outcome for all policyholders.

A mutual insurance company is owned by its policyholder members, and thus requires a decision-making structure that enables them to influence the company’s operations and development. Policyholders or their representatives make up the general assembly, elect the board and appoint the management. Decisions are made on the basis of one member, one vote; or according to premium contribution.

2.1.3 Basic features of a mutual insurance company

- Policyholder focus
  The policyholder focus is the guiding principle for mutual insurers. Business operations and management should serve the interests of policyholders alone since policyholders are the company owners.

- Policyholder influence
  Policyholder influence is a distinctive feature of a mutual company and can be organized in different ways, normally described in the mutual’s bylaws.

- Surplus belongs to the policyholders
  In a mutual company, any surplus is reserved for the benefit of, or paid back to, the policyholders. In contrast, a capital stock insurance company pays profits out to its shareholders.

2.1.4 Advantages of mutual insurance

Advantages of mutual ownership are often cited in the manifestations of the ability of controlling customer-owner conflict\(^ {11} \).

\(^ {11} \) Content is based on “Are mutual insurers an endangered species?”, Swiss Re, Sigma No. 4 / 1999
Absence of shareholders
To satisfy shareholders, a capital stock insurer must channel some of its profits to stockholder dividends. Without such pressures, mutual insurers have greater flexibility to price their policies attractively or offer better terms to the policyholders. If this is indeed the case, not having shareholders provides mutual insurers a pricing advantage that, while not decisive, is nonetheless helpful.

Ability to manage to the future
The management of a mutual insurer has the flexibility to undertake initiatives in the long-term interest of policyholders that may not bear fruit immediately. Capital stock companies often lack this flexibility because they are under constant pressure to report financial results that meet or surpass investor expectations. Such a highly pressured environment creates incentives to focus on the short-term and speculative investment which might turn out with financial losses.

Community-spiritedness
Because they are cooperative ventures, mutual insurers can engender a community spirit that offers a potential competitive advantage. A policyholder who is aware of the distinction between stocks and mutuals often feels more comfortable doing business with a mutual of which he or she is a part. Similarly, some managers and employees might prefer working for a mutual if it offers stability and a clear community-minded mission. This factor is less relevant, however, for large, anonymous mutuals that function in more or less the same fashion as their publicly traded counterparts.

2.1.5 Major disadvantages of mutual ownership
Because it merges the owner and customer functions, the mutual form of ownership may suffer from certain basic weaknesses.12

Limited access to capital markets
Mutuals, unlike stocks, rely principally on retained earnings to expand their capital base. In most countries they can issue participation certificates or subordinated debt, but only to a limited extent. Although mutuals can leverage their balance sheets through reinsurance, they lack the ability to raise capital by issuing equity.

This difficulty in raising large sums of capital restricts the flexibility of mutuals. In particular, mutuals cannot enter new lines of business or new geographic areas as easily as can stock companies. Stock insurers also find it easier to acquire other companies because their shares provide a convenient and cost-effective acquisition currency. Mutuals, by contrast, must usually spend cash to make acquisitions, which in some countries has the disadvantage of triggering immediate capital gains taxes for shareholders of the acquired firm.

Accountability and management incentives
As previously noted, publicly traded stock offers a transparent and economically relevant standard for judging performance that is not available to mutuals. Stock ownership provides a convenient way of motivating management and key

12 Content is based on “Are mutual insurers an endangered species?”, Swiss Re, Sigma No. 4 / 1999
employees to make decisions that increase shareholder value.

2.1.6 Demutualization in insurance industry

Mutual insurance companies are forced to meet economic and competitive changes. In many cases, means within existing mutual structure are inadequate to cope. Therefore, conversion to a stock company is favored by some companies to satisfy this need\textsuperscript{13}.

In the light of historical cases of demutualization, the standard reasons for demutualising, usually given by managements, are\textsuperscript{14}:

- Ability to raise capital
- Unlocking the value of ownership rights
- Increasing efficiency
- Growth through acquisition
- Helping an ailing mutual

Demutualization actually affects the average consumer very little, especially in countries where insurance industry has evolved to a comparatively mature stage. After several decades of development in the competitive market, mutual insurers have to adapt their nature to embrace a more comprehensive composition of clients, which is more and more like the role of capital stock companies. As a consequence of such a declining salience of the concept of mutuality, many advantages such as price, reliability and avoidance of adverse selection have been perceived as historical advantages that mutual insurers hold over stock insurers. Also, demutualization is often out of the will of the management instead of individual policyholders.

2.2 Overview of the development of mutual organizations and mutual insurance entities in China

2.2.1 Definition of mutual insurance in China

Due to the lack of legitimacy and specific regulation, there is no specific definition for mutual insurance in China.

In principle, existent mutual insurers declare themselves as:

- Established by all the policyholders
- Uphold the spirit of mutual assistance and cooperation
- Policyholders pay premiums and thereafter get access to the insurance services provided by the insurer
- The general assembly of members or the congress of members is the highest authority, responsible for the election of the board of directors as a decision-making body and the board of supervisors as the oversight body of the

\textsuperscript{13} Demutualization of Mutual Property and Liability Insurers John F. Fitzgerald, Jr., The Journal of Risk and Insurance, 1973

\textsuperscript{14} Content is based on “Valuing our Mutuality”, Association of European Cooperative and Mutual Insurers, 2001
company's operations

2.2.2 Overview of mutual insurance development in China

Capital stock insurance companies are the mainstream in current China insurance market. Mutual insurance, although not a totally new idea in China, has not got a chance to fully develop in the past years. Mutual insurers are mostly present in small-size practices, local trials or within specific markets/groups.

2.2.3 The dead mutual insurers

During nineteen nineties, a couple of mutual insurance associations emerged in rural and urban China focusing on mutual benefits for farmer and workers, such as:
- Henan Farmers mutual insurance association, established in 1991
- Yitong Autonomy County mutual insurance association, established in 1993
- Still others ever existed in Tianjin Jinghai County, Shanxi Taigu County, Zhejiang Yiwu County and Heilongjiang Zhigu County.

However, majorities of such associations died within 7 years after respective establishment due to multiple reasons, such as:
- no professional management
- improper involvement of government
- power abuse
- insufficient risk pooling

2.2.4 The existent mutual insurance associations

- China Ship-owners Mutual Assurance Association (CSMAA)
  Established in 1984, governed by Ministry of Agriculture of the People’s Republic of China, authorized by the Ministry of Civil Affairs of China, the association is formed by fishermen and fishery companies.

- China Fishery Mutual Insurance Association (CFMIA)
  Established in 1994, governed by Ministry of Agriculture of the People’s Republic of China, authorized by the Ministry of Civil Affairs of China, the association is formed by individual ship-owners and shipping companies.

- Chinese Workers Mutual Insurance Association (CWMIA)
  Established in 1993 by All-China Federation of Trade Unions (ACFTU), the association focuses on mutual benefit for the workers in the union. It is estimated that there are around 23,000 sub-associations existing in local communities, involving more than 4,800,000 workers. Insured value exceeds 10 billion RMB while 60 million RMB claim has been paid.

- Some associations in Beijing, supported by local agriculture governmental authorities and pertinent companies, have set up respective mutual insurance practices in trial.

The associations in trial are: Beijing Fowl Breeders' Association, Beijing Grain Association, Beijing Fruit tree industry association and Beijing Red bean production and supply association.

The governmental authorities involved are: Agriculture Committee of Fangshan
District and Beijing Agro-Technical Extension Center.

The companies involved are: Huadu Group (expert in fowl breeding) and Kaidahengye Group (expert in legume production)

2.2.5 The only mutual insurance company in China
   - Sunlight Mutual Insurance

Officially established in 2005, Sunlight is the only mutual insurance company in China approved by CIRC and registered at the State Administration for Industry and Commerce of China.

According to Supplementary Provisions of Insurance Law of the People’s Republic of China:

“To facilitate services for agriculture production, the government encourages the development of agriculture insurance in manifold types. Agriculture insurance is thus regulated by special statutes.”

So to speak, the establishment of the Sunlight Mutual Insurance Company attributes to the government support in agriculture insurance, the special semi-military background of Heilongjiang Agriculture Farming Area and its 14 years’ accumulation of mutual experience in agricultural risk prediction and management.

The company has penetration in agriculture insurance, property insurance, liability and credit insurance, casualty insurance, vehicle insurance, short-term health insurance, etc. During the 4 years’ practice, Sunlight has paid claim exceeding 170 million RMB to around 600,000 farmers.

In 2009, Sunlight established its first subsidiary in Guangdong province, which is also the first mutual insurance company in Guangdong.

2.3 Legal/Regulatory status of mutual insurance in China

2.3.1 Overview of the registration and supervision issues

No relevant mutual insurance law is on the books in China. Although CIRC is the governing body of the China’s commercial insurance, it is not specifically delegated with the power to supervise mutual insurance. There was a discussion of adding mutual insurance regulation into the current insurance law, but has not been actualized up to now.

With respect to registration issues, the general rule and practice is:

- mutual insurance companies and cooperatives are considered to be business organizations and registered with State Administration for Industry and Commerce (SAIC) or its local counterparts

- mutual insurance associations are considered as social organizations and
therefore registered with the Ministry of Civil Affairs or its local counterparts.

### 2.3.2 Guidelines for mutual insurance companies

Sunlight Agriculture Mutual Insurance Company is the only mutual insurance company/organization supervised by CIRC under the Insurance Law of China but applies to the exceptional provisions for agricultural insurance.

Sunlight Agricultural Mutual Insurance Company is registered with the State Administration for Industry and Commerce (SAIC).

### 2.3.3 Guidelines for mutual insurance organizations

Other forms of mutual insurance entities, including mutual insurance associations and cooperatives, fall out of the jurisdiction of CIRC. They are regulated by provisions in the Agriculture Law, the Farmers Specialized Cooperative Law and the Trade Union Law and etc., according to respective practicing sectors (See chart 2).

- China Ship-owners Mutual Insurance Association (CSMIA) is registered with the Ministry of Civil Affairs as a “social organization”. It “accepts” the guidance and supervision of the Ministry of Transportation and Ministry of Civil Affairs.

- China Fishery Mutual Insurance Association (CFMAA) and its local branches are registered with the Ministry of Civil Affairs and its local counterparts as “social organizations” and “accept” the guidance and supervision of the Ministry of Agriculture and Ministry of Civil Affairs and their local counterparts. This governing structure applies to other forms of mutual insurance associations in the rural areas.

- China Workers Mutual Insurance Association (CWMIA) is registered with the Ministry of Civil Affairs as a “social organization”. CWMIA “accepts” the guidance and supervision of the Ministry of Labor and the Ministry of Civil Affairs. CWMIA’s local branches are registered with the local branches of Civil Affairs and “accept” the guidance and supervision of the local counterparts of the All China Trade Union, Ministry of Labor and Social Protections, and Ministry of Civil Affairs.

- Mutual insurance cooperatives in the rural areas are also supervised by local bureaus of agriculture while they are registered with local SAIC.
Chart 1: Legal/regulatory authorities over mutual insurance entities in China

Source: Commerce and Finance Law Offices
3. The Demand Side: Policyholders and Major Risks

3.1 Overview of the Research Project

The demand study aims to find out policyholders’ feedback on the mutual insurance products they’ve purchased, people’s perceptions for mutual insurance, people’s purchasing will towards further mutual insurance products, and the feasibility of adopting a mixed mutual/commercial insurance model in China.

3.2 Methodology

3.2.1 Methodology, application and sites selection

To improve the quality and reliability of this research, the author uses a combination of secondary study, key informant interviews and questionnaires. Outreach and communications with relevant experts also add value to the depth of the research and the applicability of methodology.

Questionnaires were sent out to participant farm households in 7 villages of Beijing suburb. All of them are agricultural mutual insurance policyholders, i.e. the member of Beijing Fruit Industry Mutual Association. In this term, we consider that all of the participants understand the meaning and benefit of mutual insurance besides basic concept of commercial insurance. These first hand data validly reflect the reality of mutual insurance practices in China as well as the opportunities and demands for mutual insurers to seize and to meet.

Key informants interviews focused on the discussion upon the proposed mixed mutual/commercial insurance model under current circumstances in China. The key informants include scholars from universities and institutes focusing on the insurance research in China market, responsible person in Micro Finance institutions or Micro Finance Projects, government officials managing mutual insurance projects, insurance brokers, commercial insurance practitioners and lawyers. All of them have good understanding of China insurance market as well as the concept of mutual insurance. After further in-depth introduction of global mutual practices together with the model we proposed, the author collected responses, opinions and recommendations from the informants.

Research sites were selected based on the principle of availability and representativeness. Key informants were selected based on the principle of availability, relevance and influence. The questionnaire part adopted the method of convenience sampling.

3.3 Research results of the individual key informants interview

3.3.1 Overview of the results from individual interviews with key informants

Here listed (Table 1) is the summary of the results from key information interviews. More details are attached in the appendix part of this report.
### Table 1: summary results of key informants interviews

<table>
<thead>
<tr>
<th>The key informant</th>
<th>The title</th>
<th>Key Viewpoints</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof. Bingzheng Chen</td>
<td>Tsinghua University, China</td>
<td>Suggest to cooperate with MFIs/Banks (which are strongly needed and developing fast in China)</td>
</tr>
<tr>
<td>Mr. Yongli Guo</td>
<td>senior manager in Jiangtai Insurance Broker</td>
<td>Mr. Guo provided us the precious detailed information about Sunlight, Stated-owned, authorized and supported by the Ministry of Finance, A semi-military organization, top-down managed, Key experiences in establishing and operating mutuals in China: Within existent mature organizations, Support from the government is important, Simple and affordable products</td>
</tr>
<tr>
<td>Mr. Dongwen Liu and his group</td>
<td>China Foundation for Poverty Alleviation (CFPA)</td>
<td>Their interests and concerns over mutual, They are interested in micro insurance products, But they’d better be an insurance agent</td>
</tr>
<tr>
<td>Mr. Jun Chen</td>
<td>Chief Representative of Zurich Insurance Beijing Office</td>
<td>Mutual structure is expensive and time-consuming in terms of client education, It is premature to promote the mutual model by a foreign insurance company with its own forces</td>
</tr>
<tr>
<td>Prof. Xiaoshan Du</td>
<td>Professor in Rural Development Institute, Chinese Academy of Social Sciences</td>
<td>General NGO managed micro finance program are mostly too small to be an individual insurance practitioner, Rural credit cooperatives in different locations are managed in various ways, Suggestion: to cooperate with one of provincial RCC headquarters for a pilot project, The Agriculture Bank and Post Savings Bank are better partners than small MFIs for mutual insurance</td>
</tr>
<tr>
<td>Mr. Chongyu Bai</td>
<td>Secretary General of China Association of Microfinance</td>
<td>In China, MFIs are not legally recognized to become an insurance practitioner, CIRC Research Center, who takes charge of insurance pilot projects, might be a good partner to pilot a mutual insurance project, Influential associations and unions, who cherish a spirit of cooperation, might be good partners for mutual insurance</td>
</tr>
<tr>
<td>Ms. Fang Lin</td>
<td>Postal Savings Bank of China</td>
<td>Micro finance business in rural China takes up around 60% of the holistic credit volume of the bank, Currently, the micro credit business shows a good momentum, Agriculture Bank of China is also launching their micro finance business soon, PSBC pays much attention to risk control, PSBC is VERY interested in introducing insurance products to assure the safety of their capital</td>
</tr>
<tr>
<td>Mr. Ning An</td>
<td>Lawyer, Commerce &amp; Finance Law</td>
<td>Mutual is doable, TPA has been accepted in other fields such as hotel administration but no precedents in</td>
</tr>
</tbody>
</table>
3.4 Research results from the questionnaires

3.4.1 An overview of the categorized questionnaire responders

The research questionnaire got 165 responders from 7 village-level locations in Beijing Suburb (See Table 2). All of the sampled households are engaged in the agricultural sector, more specifically, the fruit industry. They are member of the Beijing Fruit Industry Association and policyholders of Fruit Industry Mutual Insurance Project.

Table 2: sites and number of responders

<table>
<thead>
<tr>
<th>location (village)</th>
<th>Long wan tun</th>
<th>Zhang zhen</th>
<th>Xi ji</th>
<th>Lu cheng</th>
<th>Zhang jia wan</th>
<th>Song zhuang</th>
<th>Su jia tuo</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of responders</td>
<td>17</td>
<td>18</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>71</td>
<td>30</td>
<td>165</td>
</tr>
</tbody>
</table>
The income of the responding households mainly comes from cultivation and selling of fruit, such as peach, plum, melon and cherry. Household annual income distributes mainly around 20,000 to 40,000 RMB (See Table 3). According to the household income level, the responding households are sorted into 4 categories (See Table 3).

**Category A:** Annual household income < 20,000 RMB  
**Category B:** Annual household income 20,000~30,000 RMB  
**Category C:** Annual household income 30,000~40,000 RMB  
**Category D:** Annual household income >40,000 RMB

**Table 3: range of annual household income of the responding policyholders**

<table>
<thead>
<tr>
<th>Annual Household Income (RMB)</th>
<th>&lt;20’000</th>
<th>20’000~30’000</th>
<th>30’000~40’000</th>
<th>&gt;40’000</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Responders</td>
<td>48</td>
<td>74</td>
<td>29</td>
<td>14</td>
<td>165</td>
</tr>
<tr>
<td>Category</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
<td></td>
</tr>
</tbody>
</table>

The majority responders (74%) in this study earn an annual income below 30,000 RMB. The economic level decides, to some extent, the responders’ perception, attitude and demand toward insurance products (see Figure 3).

**Figure 3: Categorized participants according to annual household income**
3.4.2 Major risks and economic burdens in responding households

In this research, responding households’ economic balances are generically influenced by the following sorted risks:

- **Life cycle risks**: events that happen in the lifetimes and require considerable sums of money, such as provision for the aged, buying house, education of children and healthcare of the family members.

- **Business risks**: in our study mostly related to agricultural production activities, such as buying seeds and fertilizers, maintaining tools and vehicles.

- **Environmental risks**: in our study mainly related to whether and climate, such as rain, hail, wind and drought.

Risks can also be categorized as covariant and idiosyncratic. Covariant risks affect a large number of people at the same time such as hail storm or strong wind. Idiosyncratic risks affect only one individual or family at a time such as an accident or serious illness. Generally, environmental risks are covariant, while business and life cycle risks are idiosyncratic. In our study, participants identified both covariant and idiosyncratic risks. In this study, it shows that idiosyncratic risks rank higher and seem to put forth more influences on the households.

Among others, the most concerned risks and economic burdens for the responding households are concentrated in provision for old age, medical treatment for family members, accidental injuries, unemployment, housing, education, agriculture and production. Top 3 are identified as: 1) medical treatment; 2) education of children and 3) housing (see Figure 4).

**Figure 4: risks and burdens of the responding households**
3.4.3 Current annual premium paid for purchasing mutual insurance

As clarified previously, all of the participants in this study are policyholders of agriculture mutual insurance and members of Beijing Fruit Mutual Association. Among the responding households, annual premium varies according to the land area and the unit premium selected by each policyholder (unit area premium are set and adjusted yearly according to multi-factorial considerations including inflation, government subsidy and etc.)

According to the responses from all the 4 categories, the trend is quite clear that higher annual household income accompanies higher premium paid for agriculture mutual insurance products (See Table 4 and Figure 4). A reasonable understanding for the result is that households with higher income indicate the possession of larger land area to gain from, and as the same time, to insure. Meanwhile, correct perception and attitude toward insurance are also reasons why these households obtain higher income. The insurance protection assures a steadier income level over risks and losses.

Table 4: annual premium paid for agriculture mutual insurance product

<table>
<thead>
<tr>
<th>Annual premium paid for agriculture mutual insurance product (RMB)</th>
<th>&lt;100</th>
<th>100~500</th>
<th>500~2000</th>
<th>&gt;2000</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>15</td>
<td>13</td>
<td>11</td>
<td>2</td>
<td>48</td>
</tr>
<tr>
<td>Category B</td>
<td>8</td>
<td>36</td>
<td>21</td>
<td>7</td>
<td>74</td>
</tr>
<tr>
<td>Category C</td>
<td>1</td>
<td>7</td>
<td>11</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>Category D</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24</strong></td>
<td><strong>59</strong></td>
<td><strong>45</strong></td>
<td><strong>28</strong></td>
<td><strong>165</strong></td>
</tr>
</tbody>
</table>

Figure 5: annual premium paid for the agriculture mutual insurance product

![Annual premium for the purchased mutual insurance product (RMB)](image)
3.4.4 Perceived benefit from Mutual Insurance

Just as many other new concepts and new products, mutual insurance product is initially difficult to be accepted. In the starting year (2006), Fruit Tree Industry Mutual Association only collected total annual premium of around 114,000 RMB from 90 households, while after 3 years practice, increased to 2,230,000 RMB from 2,884 households.

Meanwhile, mutual insurance has gradually gained acceptance and trust among farmers. The ratio of positive feedback (count evaluations of “very helpful” and “helpful” as positive feedback) is very high in each income level. The overall positive rate reached 81% (See Table 5 & Figure 6).

Market feedback is a good embodiment of mutual success in practice, especially in low income populations and rural regions. It shows that mutual insurance is doable, or even expected, nowadays in China, given proper-designed products, efficient management and suitable business sectors.

Table 5: Perceived benefit from Mutual Insurance

<table>
<thead>
<tr>
<th>Perceived benefit from Mutual Insurance</th>
<th>Very Helpful</th>
<th>Helpful</th>
<th>Depends</th>
<th>Not very helpful</th>
<th>Not at all helpful</th>
<th>Ratio of positive feedback</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>12</td>
<td>24</td>
<td>9</td>
<td>2</td>
<td>0</td>
<td>77%</td>
</tr>
<tr>
<td>Category B</td>
<td>17</td>
<td>44</td>
<td>9</td>
<td>4</td>
<td>0</td>
<td>82%</td>
</tr>
<tr>
<td>Category C</td>
<td>10</td>
<td>13</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>79%</td>
</tr>
<tr>
<td>Category D</td>
<td>6</td>
<td>7</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>93%</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>88</td>
<td>20</td>
<td>10</td>
<td>1</td>
<td>81%</td>
</tr>
</tbody>
</table>

Figure 6: perception of the benefit from mutual insurance
3.4.5 Perceived comparative advantages of mutual insurance

To clarify the demands and requirements of customers, we weighed various factors that influence farmers’ perception on mutual insurance and its competitive advantages. Price, service, product design, unique insurable field and credibility are listed as concerned issues. Service, price and credibility ranked top 3 among others (see Figure 7).

Despite discrepancies in different income levels, “credibility of the mutual association” is the one factor that stably remains in “Top 3” in accordance to the feedback from all the 4 categories (See Table 6). The result is consonant with the intrinsic merit of mutuality, which should be the basic guideline for mutual insurers. Therefore, any mutual insurers should keep aware that maintaining credibility is an indispensable principle for the success of insurance practice in China.

Table 6: perceived comparative advantages of mutual insurance

<table>
<thead>
<tr>
<th>Perceived mutual advantages in contrast with commercial insurance</th>
<th>Price (P)</th>
<th>Service (S)</th>
<th>Design of products and policies (D)</th>
<th>providing unique insurance service in the field which commercial insurances can’t (U)</th>
<th>Credibility of the mutual association (C)</th>
<th>Rank Top 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>9</td>
<td>10</td>
<td>8</td>
<td>10</td>
<td>21</td>
<td>S,U,C</td>
</tr>
<tr>
<td>Category B</td>
<td>26</td>
<td>25</td>
<td>10</td>
<td>5</td>
<td>13</td>
<td>P,S,C</td>
</tr>
<tr>
<td>Category C</td>
<td>5</td>
<td>13</td>
<td>6</td>
<td>1</td>
<td>6</td>
<td>S,D,C</td>
</tr>
<tr>
<td>Category D</td>
<td>4</td>
<td>9</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>P,S,C</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>57</td>
<td>24</td>
<td>17</td>
<td>44</td>
<td>P,S,C</td>
</tr>
</tbody>
</table>

Figure 7: recognized advantages of mutual insurance
3.4.6 Demand for other commercial insurance

Nearly half of the responding households have purchased other commercial insurance products as a risk management strategy (See Table 7 and Figure 8). The data clearly reflects people’s demands for protection against various other risks besides those in agricultural sector. Since most mutual insurance products are merely focusing on agricultural field, it is natural that people turn for protection from other commercial insurance products. The data reflect competition as well as opportunity considering that this part of insurance demands could switch to mutual insurers in the future.

Competition between insurance companies is expected to be fiercer in cities, especially in the areas or markets that commercial insurance companies are fighting for. The data from rural areas help deduct the situation there while further research is needed to validate the reality.

Table 7: demand for other commercial insurance (besides the purchased agriculture insurance)

<table>
<thead>
<tr>
<th>Purchase of other commercial insurance</th>
<th>Yes</th>
<th>No</th>
<th>Demand Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>15</td>
<td>33</td>
<td>31%</td>
</tr>
<tr>
<td>Category B</td>
<td>44</td>
<td>30</td>
<td>59%</td>
</tr>
<tr>
<td>Category C</td>
<td>18</td>
<td>11</td>
<td>62%</td>
</tr>
<tr>
<td>Category D</td>
<td>4</td>
<td>10</td>
<td>29%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>84</td>
<td>49%</td>
</tr>
</tbody>
</table>

Figure 8: demand for other commercial insurance (besides the purchased agriculture insurance)
3.4.7 Purchase willingness toward other mutual insurance products

Based on the analysis above (in 3.4.6), it is obvious that opportunities for mutual insurance exist besides agricultural sectors. Mutual insurers could as well develop other products as commercial insurers currently do. If mutual insurers deliver satisfactory products and services to meet the farmers’ demands, and at the same time make a good use of mutual advantages, the prospect and competitiveness to develop further market are promising.

In our research, quite a high proportion of questionnaire responders expressed positive attitude toward other suitable mutual insurance products. Overall positive rate is 86% and the purchase will is positively related with the income level of the households (see Table 8 and Figure 9).

Table 8: Willingness to buy other mutual insurance products

<table>
<thead>
<tr>
<th>Willingness to buy other mutual insurance products</th>
<th>Yes</th>
<th>Depends on the products</th>
<th>No</th>
<th>Positive Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>15</td>
<td>21</td>
<td>11</td>
<td>77%</td>
</tr>
<tr>
<td>Category B</td>
<td>35</td>
<td>29</td>
<td>10</td>
<td>86%</td>
</tr>
<tr>
<td>Category C</td>
<td>13</td>
<td>14</td>
<td>2</td>
<td>93%</td>
</tr>
<tr>
<td>Category D</td>
<td>5</td>
<td>9</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>73</td>
<td>23</td>
<td>86%</td>
</tr>
</tbody>
</table>

Figure 9: Purchase will toward other mutual insurance products based on the experience of current agriculture mutual insurance product.
3.4.8 Acceptable annual premium for other suitable mutual insurance products

The range of acceptable annual premium for other suitable mutual insurance products increases with the responders’ annual income level.

Households with lowest income level (Category A) can afford further annual premium of less than 100 RMB, middle categories prefer 500~2000 RMB while households with highest income can accept annual premium over 2000 RMB. Altogether, an annual premium between 500~2000 RMB is most acceptable and affordable in current stage. (See Table 9 and Figure 10)

Table 9: range of acceptable annual premium for other suitable mutual insurance products

<table>
<thead>
<tr>
<th>Range of acceptable annual premium for other suitable mutual insurance products</th>
<th>&lt;100</th>
<th>100~500</th>
<th>500~2000</th>
<th>&gt;2000</th>
<th>Depends on the products</th>
<th>Rank 1st</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>18</td>
<td>15</td>
<td>8</td>
<td>3</td>
<td>4</td>
<td>&lt;100</td>
</tr>
<tr>
<td>Category B</td>
<td>11</td>
<td>27</td>
<td>28</td>
<td>3</td>
<td>4</td>
<td>500~2000</td>
</tr>
<tr>
<td>Category C</td>
<td>1</td>
<td>4</td>
<td>16</td>
<td>7</td>
<td>1</td>
<td>500~2000</td>
</tr>
<tr>
<td>Category D</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>9</td>
<td>1</td>
<td>&gt;2000</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>47</td>
<td>55</td>
<td>22</td>
<td>10</td>
<td>500~2000</td>
</tr>
</tbody>
</table>

Figure 10: range of acceptable annual premium for other suitable mutual insurance products
3.4.9 Trust comparison between mutual and commercial insurance

Gaining trust is one of the most important means to retain existing policyholders and develop new customers. According to our study, the current mutual insurance policyholders expressed quite a high level of trust in mutual insurance comparing to commercial ones. The overall trust rate reaches 91% (See Table 10 and Figure 11), which should be deemed as very high considering that insurance normally carries an inferior name in rural China.

This also roots in the intrinsic merit of mutuality. Farmers have trust in certain mutual organizations and herewith the mutual insurance products offered by them. Mutual insurers should carefully keep such a good reputation all along with their practice. Any form of abuse or misuse of customers’ trust may lead to loss of the market in a long term.

Table 10: trust comparison between mutual and commercial insurance

<table>
<thead>
<tr>
<th>More trust in mutual insurance comparing to commercial insurance?</th>
<th>Yes</th>
<th>Depends</th>
<th>No</th>
<th>Positive Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>27</td>
<td>19</td>
<td>2</td>
<td>96%</td>
</tr>
<tr>
<td>Category B</td>
<td>22</td>
<td>41</td>
<td>11</td>
<td>85%</td>
</tr>
<tr>
<td>Category C</td>
<td>13</td>
<td>15</td>
<td>1</td>
<td>97%</td>
</tr>
<tr>
<td>Category D</td>
<td>9</td>
<td>4</td>
<td>1</td>
<td>93%</td>
</tr>
<tr>
<td>Total</td>
<td>71</td>
<td>79</td>
<td>15</td>
<td>91%</td>
</tr>
</tbody>
</table>

Figure 11: trust comparison between mutual and commercial insurance
3.4.10 Most concerned issues in selecting insurance products

Due to some insurers’ misdeeds in the past, it is time that insurers make effort to regain their reputation in China. Look into the feedback in our study, most responders, due to the unpleasant previous experience with insurance, remain suspicious and cautious on insurance products.

Among various concerned issues in selecting insurance products, the consensus amazingly concentrates in the “credibility of the insurance company” (See table 11 and Figure 12). It is not surprising to get such a result if we look back to some commercial insurers’ previous abuse of the “name of insurance”. Therefore, if a mutual insurer means to establish its own reputation, credibility could be the prior and fundamental factor to start with. For instance, keeping integrity, encouraging claim, actualizing timely payment, and creating an effect of word of mouth are all recommendable strategies to upgrade the reputation of an insurer.

Table 11: most concerned issues in selecting insurance products

<table>
<thead>
<tr>
<th>Most concerned issues when buying insurance</th>
<th>Reputation of the insurance company</th>
<th>Credibility of the insurance company</th>
<th>Strength of the insurance company</th>
<th>The insurance products and the policy</th>
<th>Price</th>
<th>Service</th>
<th>Rank 1st</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>2</td>
<td>34</td>
<td>11</td>
<td>4</td>
<td>10</td>
<td>8</td>
<td>Credibility</td>
</tr>
<tr>
<td>Category B</td>
<td>5</td>
<td>46</td>
<td>11</td>
<td>5</td>
<td>19</td>
<td>6</td>
<td>Credibility</td>
</tr>
<tr>
<td>Category C</td>
<td>0</td>
<td>13</td>
<td>6</td>
<td>0</td>
<td>8</td>
<td>6</td>
<td>Credibility</td>
</tr>
<tr>
<td>Category D</td>
<td>0</td>
<td>12</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>Credibility</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>105</td>
<td>29</td>
<td>10</td>
<td>39</td>
<td>25</td>
<td>Credibility</td>
</tr>
</tbody>
</table>

Figure 12: most concerned issues in buying insurance products
4. A Proposed Mixed Mutual/Commercial Insurance Model

After the theoretical research over mutual practices in China and a demand study with data analysis, here we propose a mixed mutual/commercial insurance model. This model is believed to fit for currently China insurance market by filling the gap between market demand and mature management.

4.1 Overview of the proposed Model

4.1.1 The structure and the feature

The features of this mixed mutual/commercial insurance model are described as follows: (The structure is demonstrated in Chart 1)

- An external management company provides centralized service for all the mutual insurance members, i.e. the actual risk carriers (named “partners” in this research)
- The partners are independent in self-governance and internal administration in agreed functions and to certain degrees
- The mutual organization members have:
  1) Obligation of risk pooling;
  2) High involvement in product designing;
  3) Flexibility in premium collecting and claim processing;
  4) Right to manage the premium (precluding the administration fee and the re-insurance proportion) and any surplus.

4.1.2 The advantages of this model:

- Providing essential incentives to cooperative organizations in setting up their own mutual insurance practice
- Superior mechanism to avoid moral hazard
- Effective elimination of geographical, industrial and capital restricts
- Centralized technical service cuts down overhead costs (economy of scale)

4.1.3 The disadvantages or uncertainties:

- Restricted by China’s policy/regulation, registration as a mutual company could be complex and controversial
- Whether it is technically feasible (e.g. in IT or accounting system) for the central management company to provide direct and unique service to each individual mutual member
- Whether centralized administration will bring uncontrollable messes considering the heterogeneity among the mutual members
- Whether and to what extent, the steadiness of this structure will be influenced by the strength of a single party in this model
Chart 2: A mixed Mutual/Commercial Insurance model named “China Mutual Insurance”
4.2 Potential risk carrier as “a mutual member” in this model

It is practical to realize this mixed mutual/commercial insurance model by first identifying the proper local partners as the actual risk carriers. In our study, we sorted potential partners according to specific criteria and analysis advantages of each category.

4.2.1 The selection criteria and a comparison system for potential partners

The partners in this model play a pivotal role in establishing and operating a mutual insurance company. On one hand, an appropriate partner is supposed to be influential and powerful enough to leverage the social resources and to negotiate with the government. On the other hand, the power of a single party should not exceed control to ruin the cooperation with the external management company.

With a “1~5” grading system (See Table 12), here followed is a potential partner comparison based on criteria of:

- Membership Homogeneity
- Membership Loyalty
- Distribution Channel
- Premium Collection Facility
- Capital Capacity
- Membership Base

Table 12: Comparison of Potential Partners with Grading System

<table>
<thead>
<tr>
<th>Name</th>
<th>Membership homogeneity</th>
<th>Membership loyalty</th>
<th>Distribution Channel</th>
<th>Premium Collection Facility</th>
<th>Capital Capability</th>
<th>Membership Base</th>
<th>Total Grade</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government/Authorities</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>24</td>
<td>1</td>
</tr>
<tr>
<td>Unions/Associations</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Banks</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>MFIs</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Capable Companies</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>Schools/Universities</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>Individual Clients</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>7</td>
<td>8</td>
</tr>
</tbody>
</table>
4.2.2 Further analysis for potential partners in each category:

- The central government and local authorities

Central government authorities might be able to provide policy or subsidy support to promote mutual insurance (such as: Ministry of Agriculture, Ministry of Education, Ministry of Human Resources and Social Security of China, The State Council Development-Oriented Poverty Alleviation Leading Group).

Local government authorities, in behalf of the people’s benefit and welfare within their jurisdiction, might be interested in setting up their own insurance practice with policy and subsidy support.

- Banks

Several big banks in China expressed intention to start their own insurance practice. However, up to now, only Bank of China has implemented the idea and launched “BOC Insurance” in 2005, focusing on property insurance.

Advantages of banks:
- Access to a large amount of clients
- Broad network
- Convenient premium collection channel
- Mature distribution channel through Bancassurance
- Strong capital capacity

**Example:** A promising potential partner in banking sector is Post Savings Bank of China (PSBC)

PSBC was legally established on Mar. 6, 2007. It inherited the business legacies from the Post Savings under China Post (Group) including all assets and liabilities. All licenses that were granted to the original companies remain valid for PSBC including patents, logos and telephone numbers. There is no need for customers to change anything.

PSBC inherited from Post Savings the most wide-spread personal financial service network s in China in terms of the amount of total transaction. It owns 36,000 savings sites, 45,000 internal money-transmitting sites and 20,000 international money-transmitting sites. Among these, 60% of the savings sites and 70% of the money-transmitting sites are in rural areas, providing services to rural residents and performing as the main finance channel.

Up to the end of 2006, China Post Savings has reached deposits amount of 1600 billion RMB. The size of total savings deposits puts Post Savings as the fifth largest savings bank in China. The number of Post Savings Green Card holders has reached 140 million and total annual transaction amounted to 2,100 billion RMB.

PSBC has been equipped with advanced IT and transaction system. **25 million households have purchased insurance products from Post Savings (or PSBC since**
which accounts for 20% of the total bancassurance sold in China.

- **Cooperatives**

In China, powerful cooperatives, such as All China Federation of Supply and Marketing Cooperatives (ACFSMC), have broad network throughout the country, especially, the most convenient access to huge number of low-income population in rural China.

Advantages of cooperatives as potential insurance practitioners:
- Broad network
- Certain degree of internal homogeneity inside
- Mature premium collection channel
- Ready distribution channel
- Capital provision capability
- Care about the benefit for the members

**Example:** A promising potential partner in this sector is the All China Federation of Supply and Marketing Cooperatives.

ACFSMC is a cooperative organization with farmers as principal members. It consists of one head office (All China Federation of Supply and Marketing Cooperatives, ACFSMC), 31 provincial branches, 342 prefecture sub-branches, 2374 county federations, and 21617 primary societies with 160 million rural households as its members. It has 986,600 employees, and more than 400,000 operating and servicing points with sales turnover of RMB 741 billion in 2006.

ACFSMC is the national union of all supply and marketing cooperatives. Its main functions are as follows:
- to study and establish strategic development plan of national co-ops and to guide the growth and reform of co-ops
- to organize, co-ordinate and manage the important agricultural production materials and farm produces under the government authorization
- to maintain the legal rights of co-ops in various level
- to maintain the good working relationship with all departments
- to activate material circulation between city and rural areas
- to implement the policy from state council on rural economic development
- to attend the activities held by International Co-op on behalf of China

ACFSMC has 10 subordinate cooperative enterprises, 8 research institutes, one information center and 7 subordinate organizations, 13 national industry associations.

- **Unions/Associations**

Countrywide or certain sized local unions/associations can reach a large number of member people such as All-China Federation of Trade Unions (ACFTU), All-China Women’s Federation (ACWF), All-China Federation of Trade Unions (ACFTU) and etc.

Among others, All-China Federation of Trade Unions (ACFTU) has established Chinese Workers Mutual Insurance Association in different local levels since 1993.

Advantages of Unions/Associations as potential insurance practitioners:
- Broad network and membership
- Certain degree of internal homogeneity
- Mature premium collection channel
- Ready distribution channel
- Certain capital provision capability
- Care about the benefit for the members

- Schools, Universities...
Students in China, especially in rural areas, are still insufficiently covered by insurance protection. Even though certain commercial insurance products have been provided, there is still large room to improve the supply in terms of price, service and coverage.

Schools are traditional distribution channel for student insurance. Plus, parents reachable through other channels should also be considered as a targeting group since China has abolished mandatory student insurance through schools.

Advantages of targeting students as clients:
- Huge number of potential customers
- High degree of internal homogeneity
- Ready distribution channel
- Ready premium collection channel
- Children are the apples of their parents' eyes so that no family will grudge money on them

- Micro Finance Institutions (MFIs)
By the end of Sept. 2007, there were 14 Rural Commercial Banks, 97 Rural Cooperative Banks, and 1616 Rural Credit Cooperative Unions organized in China. China government is decreeing favorable policies to promote micro finance development.

Advantages of MFIs as potential insurance practitioners:
- Existing network, especially in rural China
- Mature premium collection channel binding with credits/loans
- Ready distribution channel
- Certain capital provision capability

- Qualified and Capable Enterprises
Big companies have comprehensive local influences and govern thousands of employees. Such companies might be interested in setting up mutual insurance for the benefit of their employees, especially when the company involves high-risk working environment.

Advantages of big companies as potential insurance practitioners:
- Large number of employees
- Certain degree of internal homogeneity
- Mature premium collection channel
- Ready distribution channel
- Certain capital capability
- Care about the benefit for the employees
• Individual Clients
Potential individual clients, considering the huge number, could also be assumed as a special partner group. From a developing perspective, individual customers will become one of the most important focusing groups for any insurer in expanding stage, no matter mutual or commercial.

4.3 Capitalization issues

4.3.1 Initial capital
According to the Insurance Law of China, commercial insurance companies should register with an initial capital no less than 200 million RMB. This provision is mainly in the purpose of regulating capital stock companies in the market. What about a mutual insurance company which might be much smaller in size or even is a non-profit organization?

As the only mutual insurance company in China, Sunlight Agriculture Mutual Insurance Company is supposed to be the only precedent to refer to. However, it is in fact not a duplicable example and more of an exception. Sunlight was established with a registered capital of RMB 70 million, among which, 50 million is interest-free loan from Heilongjiang Agriculture Farming Area (Sunlight shall repay the loan in five years). The rest 20 million was subsidized by Heilongjiang Agriculture Farming Bureau for free.

Considering the particularity of Sunlight, we probably should not expect the same treatment from the government towards future mutual insurance companies (if there will be any). However, there is still room to take advantage of the current regulation “vacuum” for mutual insurance. Given a properly schemed pilot under the government support, could mutual insurers expect a much less initial registration capital or even an initial capital dispensation? It is still too early to tell right now. The answer might rely on further negotiation with the government and authorities in China.

4.3.2 Raising new capital at later stages
Admittedly, comparing with a capital stock insurance company, mutual insurers will face more problems in finding new capital after establishment. Still, there are options that mutual insurers can refer to in capital raising.

A few feasible solutions are:15

• Mutual holding company
The mutual holding company is popular in the US, Belgium and Austria, but is not without its critics. This process involves floating up to 49% of the insurer on the stock market with the 51% remaining in the hands of the mutual policyholders. This is not popular in the stock market because the shareholders have fewer rights than the policyholders. But it has been used very effectively.

15 Content is based on Valuing our Mutuality, ICMIF 2001
- **Downstream holding company**
  Similar to the mutual holding company concept, a subsidiary or portion of business (for instance life or non-life), is put into a stock company and shareholders own a portion of the subsidiary. But the majority holding in the subsidiary is controlled by the mutual.

- **Surplus notes**
  Surplus notes provide an immediate increase to both surplus and admitted assets through an unsecured debt obligation. Due to the unsecured nature, a high risk is associated with surplus notes so there are very few providers. NAMIC, the National Association of Mutual Insurance Companies, in the USA, provides a service to its members allowing them access to surplus notes in conjunction with the National Cooperative Bank.

- **Preference shares/ loan capital**
  Preference shares and other forms of loan capital have been successfully used to fund projects and, in some cases, acquisitions, but ultimately require repayment. While there are more providers of this type of funding than surplus notes, not too many providers specialize or understand mutual.

- **Financial reinsurance or securitization transactions**
  Most reinsurance and securitizations to date have been designed as a hedging device against catastrophe. However they are increasingly being used to cover risks in order to allow companies to reduce reserves for the effect of increasing capital available.

### 4.4 Premium collection and allocation

#### 4.4.1 Premium collection

Mutual insurers, if owning mature organizations themselves, usually pre-exist membership and network inside. Premium collection is thus easier to be executed through the existing system, for example, along with the membership fees. Moreover, if the membership involves some sort of financial relations in it (as Micro Finance Institutions, capital cooperatives or banks), insurers could “piggybacking” premium collection processes into the financial transactions.

#### 4.4.2 Premium allocation:

In this proposed model, premium is allocated into three parts. One is the administration fees to the external management company, another is for risking pooling and re-insurance, and the biggest portion remains in the mutual members for claim payment (See Chart 2).
4.5 Claim Processing

In this mixed mutual/commercial insurance model, making good use of the existing network in the mutual members is the most convenient and efficient channel for claim processing.

Function division between the mutual partner members and the external management company could be based on the principle of strength complementarities as long as making sure the best utilization of central service (e.g. IT system, call center and finance controllers) and local network.

4.6 Internal Auditing and Reserve/Surplus management

To minimize the conflict between policyholders and the management, financial and managerial transparency is irreplaceable.

Finance auditing should be executed professionally and regularly. Although not a capital stock insurance company, internal annual report is also recommended to assure the proper company management and operation, which should be approved by the board of directors, representing all of the mutual policyholders.
Ruled by the nature of a mutual insurer, any reserve or surplus belongs to the whole group of policyholders while the managerial and execution right can be assigned to the external management.

4.7 IT systems and operation

In order to facilitate the information transaction, the insurer will need applicable IT system to electronically capture the relevant data and process this without paper. When this is possible, labor is significantly reduced, as are errors. This IT system will be more cost efficient when more mutual members join in the model and share the central service from the management company.

Client data always belong to the mutual insurance members, i.e. the actual risk carriers, while the management company could have the right to process them according to agreement, assignment and business needs.

4.8 Marketing Strategy

Marketing is one of the most crucial links in the entire business chain which is equally important for mutual insurers and commercial insures. Recommendations for mutual insurers are summarized below:16

4.8.1 Understand the market’s needs

The key to successful entry and survival in any market is a thorough understanding of the demand and needs. In the proposed model, each mutual member could have an insightful understanding of their internal needs while the management company should be experienced in insurance underwriting. To assure the best combination of each other’s strength, both sides should be involved in product designing.

4.8.2 Client education

The individual policyholders are often unfamiliar with insurance. Mutual insurers and the management team in this model must work together to educate the market on key issues, such as: How does mutual insurance work? How to use mutual insurance as an appropriate risk management tool? How are benefits and losses claimed? How and why to retain membership in the mutual? What are the advantages of mutual insurance comparing to commercial ones? Sometimes, unconventional ways are required to communicate with clients that may be illiterate or poor-educated, such as picture illustration brochures.

4.8.3 Earn the trust

How to earn the trust of the target market?

- Encourage valid claim and pay claims quickly
- Make sure that there is no confusion about what is the courage or how to claim
- Partner with trusted organizations

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16 Content is based on Protecting the Poor: A Micro Insurance Compendium, 2006, The International Labor Organization (ILO)
• Demonstrate that mutual insurance is different than other conventional insurances (which may have a bad reputation)
• Ensure that service gets as much attention as sales
• Show that the mutual insurer cares about helping its members manage risk

In general, to earn the trust of the policyholders, mutual insurers need to be transparent in pricing, operations and customer service.

4.8.4 Leverage existing member base, enlarge it and keep it
Mutual insurers usually have pre-existing membership base within the organization. Thus, the primary and efficient strategy is to take advantage of this inherent network, expand the member base and keep the customer loyalty. In this proposed mixed mutual/commercial model, external management team should meanwhile facilitate the process of training and motivating the front line staff with their mature experience in the insurance industry. They should also monitor the results, ensure that policyholders get the correct information, receive proper services and the benefits are timely actualized.

Particular attention should be paid to partner selection. An organization with a broad network merely does not necessary to be a good mutual insurance “partner” in this model. Some influential associations possess powerful government background and fiscal support but too strong to be cooperative with an external management team.

4.8.5 Adopt a long-term perspective
As mutual insurers link up with mutual organizations, they are supposed to adopt a long-term perspective in insurance practices, in accordance with the intrinsic nature of mutuality. Never make improper use of the market’s ignorance nor abuse the members’ trust, which will certainly be detrimental in the long run.

The focus should be on maximizing customer loyalty and not on generating quick returns. The latter will inevitably backfire and reinforce the market’s negative perception of mutual insurance, or even worse, of the whole insurance industry.

4.9 Risk Management

4.9.1 Underwriting Risk
Underwriting is the process of identifying the characteristics of individuals or groups that reflect differences in expected claims, using that information to establish insurance pools with common risk, and matching new applicants to the appropriate risk. Underwriting focuses on objective risk and depends on the expected loss, the dispersion of possible losses, and the number of covered lives.

In our case study of Fruit Tree Industry Mutual Insurance Association, the committee employs experts who have sufficient theoretical knowledge and practical experience in agricultural sectors to evaluate, calculate and forecast the risks and losses. Adjusted with domestic economic fluctuation in China and internal factors, the underwriting process is thus carefully managed and controlled.
4.9.2 Adverse Selection

Adverse selection arises when there is asymmetric information. Adverse selection in insurance exists when the insured know more about the likely use of insurance services than does the insurer.

Insurers could deal with the problem by trying to design risk classes that group similar risks together and then charge premiums accordant with this differential risk. A more comprehensive participatory rate in the mutual insurance entity also offsets the influence of adverse selection. Familiarity with the members also helps alleviate the engendering of adverse selection within policyholders.

4.9.3 Moral Hazard

Moral hazard is defined as the possibility that people will act differently with insurance than without. As insurance lowers the price of care at the point of use and removes barriers to access, demand for the utilization of facilities will increase. Peer monitoring probably is the most effective means to combat moral hazard in mutual insurance entities. The fact that each policyholder participates in the profits or losses of the insurance each year reduces incentives for moral hazard.

4.9.4 Reinsurance

Reinsurance, simply defined, is the transfer of liability from the primary insurer, the company that issued the insurance contract, to another insurer, the reinsurance company. No single insurance company has the financial capacity to extend an unlimited amount of insurance coverage in any line of business. If a risk is too large for a single insurance company, it can be spread over several companies with the assistant of reinsurance. Reinsurance offers advantages in financing, capacity, stabilization of loss experience, protection against catastrophe, and underwriting assistance. When premiums are collected in advance, the company must establish an unearned premium reserve. Reinsurance enables a company to increase its surplus by reducing its unearned premium reserve. This mechanism is particularly useful to a new or growing insurance company or to an established insurance company entering a new field of underwriting.

With regard to our mutual insurance model, the central management company performs the re-insurance function to some degree. However, the central management team should still well scheme and organize the cession proportion with reinsurers to assure the solvency of the primary mutual insurers.

5. Conclusion and Recommendation

From the research data and statistics, we can tell that mutual insurance entities in

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17 Community-Based Health Insurance and Social Protection Policy, Steven R. Tabor, 2005
China, especially in agriculture sector, have been well developing in their track. Combining the external support from government and internal network strength, mutual insurance entities show advantages in competing with commercial insurance companies in certain market sectors.

Moreover, the research result reflects quite a strong demand for further well-designed mutual insurance products. From a developing perspective, the potential opportunities for mutual insurance broadly exist.

Making good use of policyholders’ trust in mutual organizations, winning government support, establishing reputation, maintaining credibility and always delivering good service are crucial approaches for mutual insurance to survive and thrive in current China insurance market.

However, Rome was not built in a day. There remain quite a lot of uncertainties in actualizing a new mutual insurance model in China. Among all the difficulties, partner selection, government support and business niche are considered as the most pivotal factors which decide success and failure of a mutual. At current stage, any interested party had better hold patience and keenness in looking for such an opportunity that meets all the prerequisites mentioned above.

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7. Appendices

7.1 Appendix 1: Questionnaire for mutual insurance performance & demand study in Beijing Suburb (English/Chinese)

7.1.1 Questionnaire for Mutual insurance development and demand study

1. How many members are there in your family?  
   Please specify ______

2. How much is the annual household income?  
   A. below 10000  
   B. 10000~20000  
   C. 20000~30000  
   D. 30000~40000  
   E. above 40000

3. Which is the heaviest burden on the family?  
   A. provision for the aged  
   B. medical treatment  
   C. accidental injury  
   D. unemployment  
   E. housing  
   F. education  
   G. agricultural production  
   H. others (please specify) ______

4. Except the mutual insurance product from the association, have you ever purchased other commercial insurance products?  
   A. yes  
   B. no

5. Do you think the mutual insurance product you’ve purchased helpful?  
   A. quite  
   B. somewhat  
   C. it depends  
   D. not quite  
   E. not at all

6. How much is the annual premium amount for the mutual insurance product you’ve purchased?  
   A. below 100  
   B. 100—500  
   C. 500—2000  
   D. above 2000

7. If there are other suitable mutual insurance products (for instance, life insurance, credit insurance), are you willing to buy it?  
   A. yes  
   B. no  
   C. it depends

8. How much are you willing to spend on the overall premium for your family if there are other suitable mutual insurance products?  
   A. below 100  
   B. 100—500  
   C. 500—2000  
   D. above 2000  
   E. it depends, considering the protection offered by the products

9. What do you think is the most appealing part for the mutual insurance products?  
   A. rice  
   B. service  
   C. tailored products and protection  
   D. providing services in the field that no other commercial insurance  
   E. credibility of the mutual association
10. What is the most important consideration when you are to select an insurance product?
A. renown   B. credibility   C. corporate strength   D. products   E. prices   F. services   G. others (please specify)________

11. Do you trust mutual associations better than other commercial insurance companies?
A. yes   B. no   C. it depends
7.1.2 相互保险发展与需求状况调查问卷

调查地点：______县（市）______乡（镇）______村

凡符合您的实际情况和真实想法的选项，请您在相应的序号上划“X”，或在____中填写。衷心希望您对每一个问题都能如实回答，不要遗漏。

1. 您家有几口人？（请说明）______

2. 您的家庭年收入？
   A. 20000以下  B. 20000~30000  C. 30000~40000  D. 40000以上

3. 您认为哪些支出对家庭的经济负担最重？
   A. 养老  B. 大病医疗  C. 意外伤害  D. 失业  E. 住房
   F. 子女教育  G. 农业生产资料  H. 其他（请说明）______

4. 除了已购买的农业相互保险，您是否还购买了其他商业保险产品？
   A. 是  B. 否

5. 您觉得您所购买的相互保险产品是否对有
   A. 非常有用  B. 比较有用  C. 不一定  D. 比较没用  E. 完全没有用

6. 您现在所购买的相互保险产品，每年的保费支出是多少？
   A. 100元以下  B. 100~500元  C. 500~2000元  D. 2000元以上

7. 如果有合适的产品，您是否考虑购买其他种类的相互保险，如人寿险、财产险、信用险等？
   A. 是  B. 不  C. 不一定

8. 如果有其他合适的相互保险产品，您每年愿意支付的最高家庭保费总额度是多少
   A. 100元以下  B. 100~500元  C. 500~2000元  D. 2000元以上
   E. 不一定，根据具体产品和提供的保障

9. 您觉得相比其他商业性保险，相互保险产品的最大吸引力和优势是什么？
A. 价格   B. 服务   C. 产品和保险条款   D. 相互保险提供服务的领域是其他商业保险公司无法或不愿意涉足的   E. 相互协会本身的可信度

10. 如果选择保险产品，您最看重什么？
A. 知名度   B. 信誉   C. 保险公司实力   D. 险种   E. 价格   F. 服务   G. 其他（请说明）

11. 您觉得相互保险协会比一般商业保险公司更可信吗？
A. 是   B. 不是   C. 不一定
7.2 Appendix 2: Records of individual interview with key informants

7.2.1 Key informant: Professor Chen Bingzheng

Professor, Tsinghua Research Center
Prof. Chen expressed uncertainty and concern over the development of mutual insurance models in China. Prof. Chen suggested that we start from the MFI/Bank sector which is strongly needed and developing fast in China. The solution probably relied on the cooperation with MFI/Bank partners. The difficulty in getting contact with potential partners and reaching end clients is also mentioned.

7.2.2 Key informant: Mr. Yongli Guo

Senior Manager, Jiangtai Insurance Broker
Mr. Guo is the external consultant for Sunlight who’s just been back from Heilongjiang Province. He worked for governmental sector which authorizes rural area development including policy making and program launching. Currently, Mr. Guo is a senior manager in Jiangtai Insurance Broker and is an external consultant for Asian Development Bank’s projects. He is very experienced and familiar with the mutuals in China, especially in insurance field.

He not only counsels Sunlight but also involved in setting up the mutual insurance associations such as Beijing Fowl Breeders’ Association, Beijing Grain Association and Beijing Fruit tree industry association.

About Sunlight
It is...
- A stated-owned farm which is authorized uniquely and directly by Ministry of Finance of P.R.C
In the past, the farm was totally dependent on governmental subsidy in case of disasters and losses. To get rid of the burden, the farm applied for a special dispensation to set up this mutual insurance company to the Ministry of Finance. With the approval of Premier Wen Jiabao, CIRC can’t actually reject its establishment as a pilot.

- Strongly supported by the Ministry of Finance
Each year, 80% of the premium is subsidized by the government! A large portion of the initial funding came from the government and the farm instead of individual policy holders.

- A semi-military organization which is extremely top-down managed.
Considering its military background, the premium collection channel and management style is unique.

About other mutuals in China
- Small cooperatives and associations are less likely to be approved to set up a mutual insurance organization
The ones that already get approved all cherish a deep governmental background (for instance, the chairman of the board is the ex-mayor of the city or the head of the State Forestry Administration…)

- To register as a insurance mutual, the association should get approval from local civil affairs bureaus

About Mr. Guo’s experience in establishing and operating mutuals in China:

- Currently, most mutual insurance companies and associations are self-managed without external administration involving
- To establish a mutual insurance association, a mature organization of certain scale should exist in advance
- Subsidy or at least policy support from the government is indispensable
- The product and the operation should be simple and affordable

7.2.3 Key informant: Mr. Dongwen Liu
Dean, China Foundation for Poverty Alleviation

About CFPA
- Funded mainly by donors, 100~200 million RMB/year
- No financial support from the government
- Trying to be financially self-sustainable
- Focusing on real micro credit to low income population (differentiated from some credit companies and money banks…)

About their interest and concern on mutual
- They felt the mutual concept is still too complicated for villagers to understand considering some of them are still illiterate.
- They felt it bears much more risk and costs much attention from them if they are responsible to establish such a mutual and operate it
- They felt more comfortable to be an insurance agent, merely
- Rural credit cooperative is still the biggest MFI organization in China. However, considering their governmental background, they may be less interested in bother to set up a mutual to secure their loans

About possibility to get help and support from them
- They would rather not bother their local staff too much to help us in the field work since mutual will be a difficult thing for them to understand
• The villager mostly speak dialect that we can’t understand without local translator

• The villagers probably will not understand our questions if new and unfamiliar concepts are involved considering

• The villagers are busy with harvesting at the time so it’s not easy to gather them and bother them

7.2.4 Key informant: Mr. Jun Chen
Chief Representative, Zurich Insurance Company Beijing Office
• Governmental sectors, generally, should not be considered as potential partners since they are not supposed to be insurance practitioner

• Currently, mutual is a concept that seldom people are familiar with. The cost on client education is way too expensive and time-consuming to afford

• What’s more, if the organizations don’t have internal incentive to try mutual by themselves, it’s not pragmatic to sell the idea to them

• Zurich, by its own forces, doesn’t have the resource or capability to push forward the resolution of current regulatory system

7.2.5 Key informant: Prof. Xiaoshan Du
Rural Development Institute, Chinese Academy of Social Sciences
Prof. Du focuses mainly on poverty alleviation, especially micro finance.

His viewpoints on mutual
• In China, NGO managed micro finance program are mostly too small to be an individual practitioner (mostly several hundred/thousand clients and each clients with less than 3000RMB of loan)

• Rural credit cooperatives in different locations are managed in various ways (For instance, some are managed by local contractors), there is no uniform management among the RCCs. However, in each province, there is a provincial RCC headquarters performing the function of superintending and directing. If cooperating with one of these provincial headquarters, a pilot project in subordinate RCC is possible.

• The Agriculture Bank of China and Post Savings Bank of China might be better approaches than small MFIs in terms of establishing an insurance sector. These two banks are big and powerful with much more capital and clients.

• There’s little chance for a student to meet and interview the people with decisive influence and power, especially those in big banks and government sectors.

7.2.6 Key informant: Mr. Chongyu Bai
Secretary General, China Association of Microfinance
About CAM
China Association of Microfinance (CAM) is made of domestic MFIs (Microfinance Institutions), national and international institutions and individuals who are interested in and supporting microfinance industry. It is a cooperative and self-disciplinary organization working under national laws, policies and guidelines to facilitate microfinance industry’s developing.

CAM’s visions include promoting governmental supports towards microfinance, strengthening international cooperation on microfinance, strengthening industry self-discipline, enhancing management capacity of MFIs, raising funds for microfinance development, providing financial service to population living with poverty and low income, and contributing to the social objective to build a well-off society in an all-round way.

Mr. Bai is the Secretary General of CAM who’s in charge of overall management of Micro Finance projects. He’s also working in China International Center for Economic and Technical Exchanges.

His viewpoints on mutual
- In China, micro finance institutes management by NGOs do not have a legal recognition they themselves, not to mention setting up an insurance sector along with them
- Rural credit cooperatives in China are gradually deviating from “cooperative” structure. There’s a tendency toward commercial bank among the RCCs. Away from the nature of cooperative, RCCs are not a good option to cooperation with for a mutual insurance model.
- Micro Finance Institutes also have a tendency of corporatization. Being a corporate, MFIs are no longer allowed to accept donation and membership which is away from the spirit of mutual structure.
- CIRC has a research center which is supposed to take charge of insurance pilot projects in China. It’s beneficial to contact with this research center for more information.
- He strongly recommended that we seek influential associations and unions to find out their interest and attitude. According to his experience, some influential associations/unions have comprehensive resources, large membership, abundant capital and good relationship with local government. Moreover, as a membership based organization, they themselves cherish a spirit of cooperation which is in accordance with a mutual.

7.2.7 Key informant: Ms. Xiaofang, Lin
Postal Savings Bank of China
- It is mainly strategic and political consideration that PSBC developed their micro finance business in rural China, which takes up around 60% of the holistic credit volume of the bank.
- PSBC adopts a higher interested rate (11~15%) than RCCs (7~8%) and NGO managed Micro Finance programs but lower than for-profit micro finance
companies (17~18%).

- Currently, the business shows a good momentum which brings profit for the company. Agriculture Bank of China is also following this trend and considering launching their micro finance business in half a year in rural China.

- PSBC pays much attention to risk control. However, the dominant tool they are hiring is still internal methods such as background checking, the third person credit guarantee, group credit guarantee, etc.

- PSBC is VERY interested in introducing insurance means to assure the safety of their capital. They seem to have been discussing this topic internally.

- PSBS has a subsidiary insurance company inside the system. However, they have not cooperated on any program yet up to now.

7.2.8 Key informant: Ning An

Lawyer, Commerce & Finance Law Offices

- Mutual is doable but selecting a suitable partner is the most important consideration.

- TPA can be accepted in other fields such as hotel administration but no precedents in insurance market (he said no but Swiss Re seems to have tried one?). Approval from Ministry of Commerce, CIRC and local government might be needed.

- Big associations seem to be good partners to cooperate with. However, due to the strong governmental background, these associations are inclined to be independent of external forces.

- Mutual is legitimate in agricultural, fishing, shipping, workers’ union and some special fields. There is no specific regulation for mutual to apply in generic fields.

- The pivotal point is to find a willing partner.

7.2.9 Key informant: Mr. Songtao Li

Dean, Beijing Fruit Industry Association

Dean Li is responsible for the management and operation of Mutual Insurance Program of Beijing Fruit Industry Association.

Summary speculation from Mr. Li upon agriculture mutual insurance in China

- Agriculture should be considered as public goods to some degree. Therefore, agricultural mutual insurance should be non-profit

- Mutual insurance programs, especially agricultural mutual insurance, should NOT be regulated by CIRC. The central government should assign a special department to regulate respective mutuals.
Central government should decree a special set of statute or policy for agriculture insurance.

**Key information**

- The Mutual Benefit Association Commission takes charge of the operation and management of the Mutual Insurance project in Beijing Fruit Industry Association. The commission members are government officers in the Bureau of Forestry.

- The Mutual Benefit Association Commission for Risks does NOT charge any extra management fees for the operation of the mutual insurance project.

- Agriculture Insurance has in-built difficulty in loss and claim verification. On one hand, agriculture is complex and experience depended so that real agriculture experts are needed. On the other hand, fraud in agriculture domain is more difficult to inspect so that a better form to avoid moral hazard is needed (which indicates mutual).

- Mutual insurance is trusted and welcomed among farmers. Since the advent of the project, the number of the insured has increased from 90 households in 2006 to 2884 households in 2008. In the short 3 years, premium has also increased from 114,000 in 2006 to 2,230,000 in 2008 (which is around 20 times of the first year).

- The mutual insurance project has to some extend autonomy in product design and claim processing comparing to commercial insurance companies. For instance, commercial insurance companies will only pay for the losses if the wind is stronger than 8 degree, as prescribed in the policy. However, in many cases, a weaker wind would also destroy the fruit harvest. Under such circumstances, the mutual insurance association will verify the claim according to the real losses instead of stereotype policies.

- Government support is strongly expected and needed. But support and supervision should be effective and efficient. Improper support will aggravate fraud activities, lead to the waste of government resources and increase the difficulty of insurance supervision. Agriculture insurance should always rely on a combination of the farmers, local government and central government instead of a single force.

- A steady agriculture insurance policy is prerequisite to the development of agriculture mutual insurance in China. The government has trialed various insurance projects in rural areas and in agriculture sectors in recent years. Not all of them played a positive influence because a capricious policy destroyed the trust and loyalty between the insurers and the insured.
7.3 Appendix 3: China Government Structure

Sources: US-China Business Council files, PRC government websites
Note: The PRC government structure chart reflects appointments as of July 16, 2008.