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Investigation and Solutions of Rural Micro Insurance

—A Case of Hebei Province

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Abstract On the strength of investigation, the status quo of rural micro insurance of Hebei Province is introduced. The results show that it is characterized by the following features: rapid development; continuously increased experimental types and experimental areas; increasingly improved ability of serving the economic and social development; the combination of micro insurance and small loan has achieved success. Based on the efforts of analyzing the questionnaires, the following problems of the development of rural small loan are detected. For instance, the inadequate promotion on micro insurance; peasants' weak awareness of insurance; unclear understanding of the functions of micro insurance; unitary marketing channel of micro insurance; complex reasons of peasants' unwillingness to buy micro insurance and the poor service quality of insurance company. In view of these problems, countermeasures and suggestions are put forward, which include strengthening the promotion on micro insurance, improving peasants' awareness of insurance; expanding the marketing channel and innovating operation mode; innovating the products of micro insurance and encouraging technological innovation; improving the quality of service and establishing the excellent image of insurance company; strengthening the support from government and assisting peasants to insure.

Key words Rural micro insurance, Marketing channel, Management pattern, Insurance products, Hebei Province, China

Micro insurance in a kind of insurance product, providing life and property insurances for persons with low income. It is characterized by cheap policy, moderate protection, simple acceptance and claim and so on. The central Committee's Document No. 1 for 2010 emphasizes the development of rural micro insurance. In April, 2009, the China Insurance Regulatory Commission decided to enlarge the experimental areas of rural micro life insurance and Hebei Province becomes the second party of experimental provinces. In order to further understand the practice of rural micro insurance in Henan Province, I organized 280 students in January, 2010. By using the winter vacation, we went into part of the experimental counties of Hebei Province and we got to the bottom of peasants' understanding and purchasing situation of micro insurance through questionnaire and interview. The research is based on the analyses and statistics of the questionnaire.

1 The practice of rural micro insurance in Hebei Province

In July, 2009, Hebei started the experimental work of rural micro insurance and there were 50 determined experimental counties. Through investigating, the following features of rural micro insurance in Hebei are represented.

Firstly, rapid development. By the end of May, 2010, the coverage of rural micro life insurance throughout the whole province has come to 250 600 people and the premium income has achieved 10.263 million yuan. Besides China Life Insurance, some other insurance companies also have launched the businesses of micro insurance gradually^[1].

Secondly, the experimental types and experimental areas are expanding gradually. In 2009, the main insurance was mi-

cro accidental injury insurance, but now it has expanded to micro term life insurance. In addition, the new insurances, such as small-amount credit loans insurance, peasants' house property insurance and so on are developed. Besides, the experimental areas have expanded from 50 counties to all counties and cities in the whole province.

Thirdly, the capability of serving the economic and social development is enhancing continuously. From January to May in 2010, the branch of China Life Insurance in Hebei alone has claimed 1 986 cases with 2.086 million yuan of indemnities concerned. The micro insurance has fully displayed its functions in terms of economic compensation of agricultural production and peasants have got many profits from it.

Fourthly, the combination of micro insurance and small loan has achieved great success. The model, which combine the credit loan with insurance not only can solve peasants' difficulties in loaning, but also can ensure the insurance. The model is beneficial to further perfecting the service system of rural finance. In addition, it plays a positive role in improving the living conditions and in preventing risks of peasants with low incomes.

2 Problems in the development of rural micro insurance

There are some problems in the development of rural micro insurance based on the analyses of the questionnaire.

2.1 The promotion of micro insurance is inadequate In the 261 valid questionnaires, only 105 persons have heard about rural micro insurance, accounting for 40.2%, but there are 156 persons have not heard about questionnaires, accounting for 59.8%. The statistics show that the micro insurance has not been fully known by more people. The reason is that the time of practicing micro insurance in Hebei Province is still fairly short and the newly-born insurance has not been accepted

widely.

From the questionnaires, it can be known that Peasants get to know micro insurance from the following ways: (1) some peasants have bought micro insurance; (2) some other people has bought micro insurance; (3) peasants' relatives and friends have introduced it to them; (4) some peasants know it through TV broadcast, newspaper and magazines, and internet; (5) some peasants know it through the promotion organized by insurance companies; (6) some know it from the promotional materials in the banks and post offices. The investigation shows that, 29.1% of peasants know micro insurance from the promotional materials in banks and post offices; 27.97% of peasants know it from the introduction of their relatives and friends but only 4.6% of peasants know the micro insurance from the promotional activities organized by insurance companies (Fig. 1). It can be seen that there are problems in the promotion of micro insurance.

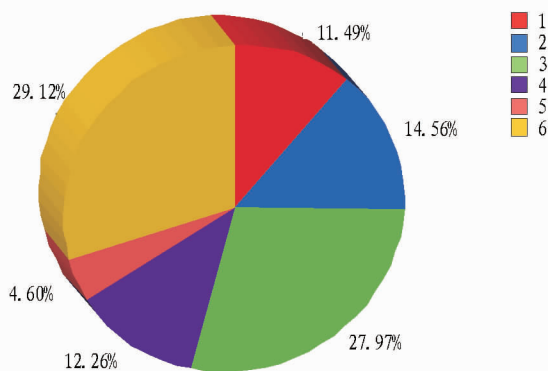


Fig. 1 The proportion of peasants' ways of knowing the micro insurance

2.2 Peasants' awareness on insurance is weak The insurance awareness directly affects the purchasing inclination and reflects peasants' level of understanding the insurance in a certain region. In the questionnaires, peasants are asked what they would do when facing the traffic accidents, illness and accidental disasters and some other dangers which may harm their life and health. The questionnaires provide five kinds of choices. (1) Accept it helplessly; (2) turn to relatives and friends; (3) turn to village's committee and local government; (4) choose the insurance; (5) other ways. The results show that 59% of them choose to turn to relatives and friends; 8% of them choose to turn to villages' committee and local government; only 24.9% of them choose insurance, that is to say, lower than 25% of them may think of purchasing insurance. It can be seen that peasants' awareness of insurance is weak (Table 1).

2.3 The understanding on the functions of micro insurance is unclear When being asked "What is your opinion on buying rural micro insurance", the questionnaires provide the following choices: (1) the insurance can provide certain security and reduce some worries; (2) insurance is a kind of investment; (3) insurance plays the same role as deposit in banks; (4) there is no need to buying insurance after taking part in the

rural new cooperative medical care system; (5) there is no dangers so it is no need to buy insurance. The results can be seen on Table 2.

Table 1 The results of peasants' awareness on purchasing insurance

Valid answers	Frequency	Percentage %	Valid Percentage // %	Cumulative Percentage // %
1	20	7.7	7.7	7.7
2	154	59.0	59.0	66.7
3	21	8.0	8.0	74.7
4	65	24.9	24.9	99.6
5	1	0.4	0.4	100.0
Total	261	100.0	100.0	

Table 2 Peasants' understanding on the functions of micro insurance

Valid answers	Frequency	Percentage %	Valid Percentage // %	Cumulative Percentage // %
1	159	60.9	60.9	60.9
2	27	10.3	10.3	71.3
3	15	5.7	5.7	77.0
4	18	6.9	6.9	83.9
5	42	16.1	16.1	100.0
Total	261	100.0	100.0	

It can be seen from Table 2 that 60.9% of peasants think that they can get certain security and reduce some worries; 10.3% of peasants take insurance as investment; 5.7% of peasants think that insurance is similar to deposit in banks; 6.9% of peasants think that there is no need to buy insurance for they have taken part in the rural new cooperative medical care; 16.1% of peasants think there is no danger, so it is no need to buy insurance. The above data show that peasants still have certain misunderstandings of insurance and only 60.9% of peasants hold the right opinion.

2.4 The channel for the marketing of micro insurance is single As for the problem "by which channel do you buy rural micro insurance", the questionnaires provide the following seven choices. (1) Buy insurance through the salesman; (2) buy it through bulk purchase in a village; (3) buy it through the rural credit cooperatives or post offices; (4) buy it in the insurance company; (5) buy it through the internet; (6) buy it through the at-site promotion and introduction of insurance company; (7) buy it through relatives and friends. Among the peasants who have bought the micro insurance, 43.30% of them choose bulk purchase; 24.52% of them choose to buy it through the promotion of salesman; 13.79% of peasants buy it by themselves in the rural credit cooperatives and post offices; only 5.36% buy it voluntarily from the insurance companies; 10.34% of them buy it from the at-site propaganda and no one buy it through the internet (Fig. 2). The above data show that the marketing channels of micro insurance are imbalance.

2.5 Complex reasons account for why peasants do not buy micro insurance When being investigated why do not buy the micro insurance, 35% of peasants choose that they

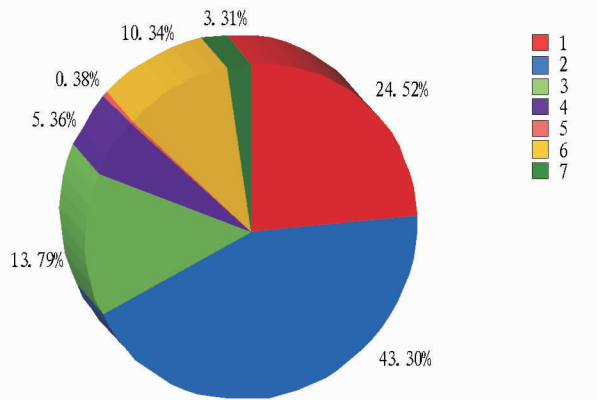


Fig. 2 The proportion of the distribution of marketing channels of micro insurance

have not heard of micro insurance; 18% of them choose that they do not have the habit of buying insurance; 6% of them think there are no suitable types of insurances for them; 40% of them choose that they have attained the new rural cooperative medical care and they do not need to buy insurance; 1% of them choose that they have bought other insurances. From the above analysis, it can be seen that peasants has low understanding on rural micro insurance.

2.6 The service quality of insurance companies needs improving When being asked the problems of the service quality of insurance companies, 48% of peasants think that when the companies introducing their products, they just promote their advantages but cover up the disadvantages; 42% of peasants think that it is hard to get claims and 10% think the attitudes of some insurance companies are bad. All of these data show that peasants are dissatisfied with the service of insurance companies and even distrust them.

3 Countermeasures and suggestions

Through the above mentioned investigation and analyses, the existing problems are detected and the following countermeasures are put forward.

3.1 The insurance company should enforce the promotion and improve peasants' awareness of insurance The all-around, multi-directional and fully-wrapped promotional net work should be established. Besides the traditional promotional tools, such as broadcast, TV, public blackboard, banner and leaflet, the influences of internet should be laid stress on. With the further execution of the national policy of providing subsidies for rural households who buy appliances, the network will soon be set up in rural areas. It is inevitable for opening the specialized network and for marketing micro insurance. In addition, the insurance companies can further expand their influences by launching the activities of "quality service month". besides, the government and relevant organizations should fully display their functions as well. They should try to influence the peasants and improve their awareness of insurance by using the real cases. The insurance company should let the peasants understand the essence of micro insurance and let them know the knowledge of transferring risks through insurance. The improvement of insurance awareness is a gradual process and it

can not be formed in a short time, so the insurance company should start from long term benefits and win the trust of peasants through careful and patient efforts. Insurance companies can go to villages to promote and interview, so as to introduce the advantages of micro insurance, the way of transferring risks and some other ways of micro insurance.

3.2 The insurance company should widen the marketing channel and shift their management The insurance company can entrust the marketing of micro insurance to the rural grass-root organizations and institutions, such as Women's Federation, Villagers Committees, farmers' cooperatives, marketing cooperatives, villagers' clinic, family planning organizations, rural credits cooperatives, outlets of post offices and staffs in new rural cooperative medical care. In the above marketing ways, the priority should be given to the way of bulk purchase of the whole village. In July 8, 2009, villagers committees of Weizhuang, Baigou Town, Gaobei of Hebei Province, bought accidental insurances from China Life Insurance for 681 villagers from 3 years old to 85 years old. Each one of the 681 villagers only needs to pay 33.31 yuan per year, but they may get the accidental injury insurance worth 10 000 yuan and the accidental medical insurance worth 2 000 yuan. The bulk purchase way can get macro economic interests, as well as good social interests. In order to consolidate the measures, the salesman who works permanently in the village should be settled down. In addition, the outlets of rural credits cooperatives and post offices can play a complementary role in satisfying the demands of individual purchase.

3.3 The insurance company should innovate the products of micro insurance and encourage technological innovation At present, peasants are badly in need of medical care insurance, accidental injury insurance, old-age insurance, children' insurance, household property insurance and so on, but the products of micro insurance are mainly accidental injury insurance and term life insurance. Therefore, the insurance company should create new insurance products according to the situations, for example, the complementary insurance mainly subsidies hospitalization of rural cooperative medical care. Besides the life insurance, the micro property insurance should be developed, such as rural micro loan insurance, mortgage loan insurance for forest right. The insurance company should develop the insurance for economic crops with local distinctiveness according to the local conditions. Furthermore, the insurance company should encourage the technological innovation, support the establishment of unified language service system and set up the specialized content for micro insurance, so as to let the costumers to check the policy effect, policy expense and other situations through the policy number query and let the company solve the complaint of costumers timely. The insurance should support the cooperation with banks and telecommunications and launch new and convenient micro insurance service by the aids of ATM machine of banks and mobile equipments. The insurance company should encourage and support the marketing of the micro insurance by the aids of the mobile terminal and provide the services of providing mobile notes and paying certificates at any place and any time. Thus the moral risks in the process of providing note and charging^[2].

3.4 The insurance company should improve the service quality and foster the positive image of insurance companies

In the primary stage, the quality of personnel involved in the insurance industries should be improved and their comprehensive quality and business abilities should be enhanced through training. The insurance company should provide no less than 30 hours' training for the agents of micro insurance and the agents should be provided with certificates by the Insurance Regulatory Bureau. The training should cover the basic knowledge about insurance, relevant regulatory requirements, marketing of micro insurance, service and claims and so on. In the second place, much attention should be paid to the service quality of insurance company, especially to the problems of the timeliness and full compensation in the process of claims. At the same time, the practices and procedures should be simplified. Only by good services, can insurance company attract peasant households, and then further improve the sustainable development of rural micro insurance. In the last place, the image of insurance company should be well forged. For example, the insurance company can launch the "service month" activities and take the social responsibilities boldly. In addition, the insurance company can take setting up scholarships in rural middle and primary schools into consideration, as well as the system of donating for disaster-hit area. Good image of a company is the foothold of it.

3.5 The support from the government should be strengthened to help poor peasants to affiliate to insurance

Although the premium per peasant in per year is lower than 50 yuan, it is still difficult for some low income households to afford it. The micro insurance should be functioned as the policy-based insurance and the premium should be shared by the governments, the village collections, insurance companies and peasants themselves. At present, limited by the finance, it is unrealistic for the government to subsidize the micro insurance for all the

low-income peasants. However, the government can try to develop the subsidies of micro insurance for special low-income peasants such as rural households with minimum needs, "households enjoying five guarantees" (free food, clothing, medical care housing and burial expenses), family members of servicemen and martyrs. Currently, the nation has expanded the new type rural cooperative medical care system in rural areas. Therefore, from the types of insurance, the government can provide subsidies of the death and disability insurance for the main labor force in low income families^[3]. With the augmentation of the state finance, the government should strengthen the support to peasants and let the micro insurance fully display its functions of benefiting peasants.

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(From page 18)

$$s.t. (IR) \int u(s(\pi)) f(\pi, a) d\pi - h(a) u(s(\pi)) \geq \bar{u} \quad (20)$$

$$(IC) \int u(s(\pi)) f_a(\pi, a) d\pi = h'(a) u(s(\pi)) \quad (21)$$

Constructing lagrangian function, lagrangian percentages of participation constraint IR and incentive compatibility IC are respectively λ and μ , and then make derivation of $s(\pi)$:

$$\frac{v'(\pi^* - s(\pi^*))}{u'(s(\pi^*))} = \lambda_{22} + \mu_{22} \left(1 - \frac{f_a(\pi, a)}{f(\pi, a)}\right) - \frac{\lambda h(a)}{f(\pi, a)} -$$

$$\frac{\mu h'(a)}{f(\pi, a)} \quad (22)$$

$s^*(\pi)$ can be decided by Formula (22), and it not only related to likelihood ratio $f_a(\pi, a)/f(\pi, a)$, but also related to management cost to object of insurance by insured.

3 Conclusion

In a word, when effort cost function is $C = h(a) u(s(\pi))$, insured (agricultural producers) associate the obtained effectiveness with management effort in object of insurance. The in-

sured and the insurers would both benefit the insurance when the effort cost related to the achievable effectiveness. If the insured manage the objects of insurance more seriously, the rate of disasters would be lowered. Therefore, the insurance claimed against the insured would be lessened, and the benefits of the insurers would be increased at last.

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