

# **On the Innovation Development of Micro-insurance of China Life Insurance Company (CLIC)**

## **I. Main Products of China Life's Rural Micro-insurance**

The development and promotion of China Life's micro-insurance products have gone through two stages—the self-promotion stage and the independent innovation stage.

### **1.1 Self-promotion Stage (1982-2007)**

As China lifted the cap on life insurance industry in 1982, China Life Insurance started to promote its industrial life insurance products in 1983. The product was originally targeted at all groups of customers but the focus was gradually shifted to the low-income rural population. The design of the product has the characteristics of micro-insurance products: Firstly with respect to the scope of coverage, industrial life insurance was available for both groups and individuals, which met the massive demands of the rural area; as to payment, early industrial life insurance only provided payment on a monthly basis priced at RMB 1 yuan per policy and the annual payment later offered was also based on RMB 1 yuan per month, which built on a very small amount of value; finally from the perspective of insurance liability, the product assumes the liabilities of death, accidental disability, waiver of insurance premiums and due premiums, which catered to farmers' basic security needs. Later optional insurance amount was added to accidental disability and death to single out the risk protection function of the product.

In 2007, China Life Insurance developed new industrial life insurance in response to the latest situation. On top of the traditional characteristics of industrial life insurance, the new product features two innovations: Firstly, the insurance function was highlighted with an amount eight times the accidental death insurance; secondly, profit was returned to farmers in pricing the product whose profitability was much lower than other similar products. The product was sold in Hebei, Henan, Jiangsu and other provinces, which created remarkable social benefits and new growth points for the company.

Anyway, from 1982-1997, with our social responsibilities and civic awareness as a major state-owned insurance company, Chinalife launched several rural micro-insurance products based on our own development demand. As a whole, during the period, our company voluntarily conducted micro-insurance operation and mostly we did it alone instead of communicating with international micro-insurance counterparts.

## **1.2 Independent Innovation Stage (2008 - Now)**

In 2007, with great facilitation from China Insurance Regulatory Committee and support from International community, China insurance industry formally participated in international micro-insurance team. In 2008, in order to adapt China urbanization process and the earlier arrival of the ageing society and better solve “three rural issues”,

In 2007, with the efforts of China Insurance Regulatory Commission and support of the international community, China joined the international working group on micro-insurance. In 2008, China Insurance Regulatory Commission issued the *Plan on the Pilot Small-sum Personal Insurance in Rural Areas*. In compliance with the requirements of insurance regulatory authorities, China Life Insurance developed nine special small-sum insurance products in 2008 and another three extraneous risk insurances in 2009.

### **1.2.1 Characteristics of the Nine Special Products**

\* Four products systems are formed established for an extensive coverage of risks for farmers. The four product systems are: general accident products including two products of accidental injury insurance aimed at group customers and individual customers, traffic accident products including one traffic accident injury insurance, fixed-term life insurance products including two aimed at group customers and two for individual customers, and micro-financial products including one accident injury insurance product and one fixed-term life insurance product. Our company abounds in accidental liabilities for general accident products and traffic accident products, including accidental death liability, accidental disability liability and burn accident liability. The burn accident liability is an innovation of China Life Insurance in micro-insurance practice.

\* In view of the condition of rural areas, liability exemption is axed in designing the product. With regards to liability exemption, micro-insurance products have considerable innovations compared on the basis of traditional products. Compared with traditional products, four liability exemptions are ruled out in small-sum fixed-term life insurance products in the light of the reality in rural areas: “1. The participation of the insuree in highly risky sports such as diving, parachuting, rock climbing, adventure, martial arts competition, wrestling, stunts, horse racing and racing; 2. prenatal and postnatal check, pregnancy (including ectopic pregnancy), abortion (including artificial abortion), childbirth (including caesarean section), contraception, sterilization, infertility treatment and complication arising out of the causes aforesaid; 3. drug usage or medication not as directed by physicians (not including non-prescription drugs used as instructed); 4. genetic disease, congenital malformations, deformation or chromosomal abnormality of the insuree.” In addition, “drunk driving, driving without a valid driving license or driving any automobile without a valid vehicle license by the insuree” is simplified to “drunk driving of the

insuree” in the light that many farmers in rural areas drive agricultural motor tricycles, which does not require any driving license. The deletion of liability exemptions essentially expands the scope of liabilities and enhances the security for farmers.

\* Short-term insurance is extended for long-term functions to facilitate farmers in consistently obtaining insurance. The so-called long-term design of short-term insurance is to automatically renew short-term insurance via product design and virtual practice, maximally increase the renewal ratio of short-term insurance, optimize the structure of short-term insurance business and reflect the profit of short-term insurance in a more objective and accurate way. In design short-term micro-insurance products, China Life Insurance extends the grace period by 60 days. The Company will continue to assume insurance liabilities in case the insuree fails to pay insurance premium for all reasons within the grace period. For short-term fixed-term life insurance products, provided that insurance premium is paid in time, 90 days of waiting period will no longer apply, which significantly encourage farmers to renew the insurance. Specifically, farmers can pay the insurance premium for renewal in the form of automatic transfer via banks, or door-to-door service of insurance staff sent by the Company.

\* The pricing is based on the principle of breakeven and meager profit as a reflection of commitment to the social responsibility of a large company. China’s agriculture can be divided in five categories including farming, forestry, animal husbandry, sideline production and fishery. The majority of the agricultural production falls to occupation class two or above of the Underwriting Manual of the Company. (note: six occupation classes are provided in the Underwriting Manual). Therefore, the rate of micro-insurance products of our company must be determined in reference to all occupation classes of agricultural production. With a view to facilitating the insurance purchase for farmers, the rate structure of small-sum life insurance products is simplified: For example, small-sum accident injury insurance of China Life Insurance is no longer charged on the basis of six occupation classes but on only two rate standards, namely, A and B. The A-risk rate is determined on occupation class three or below while B-risk rate is determined on occupation four or above; rural small-sum accident injury insurance is not separately designed according to different vehicles but on drivers and passengers.

The rates of our small-sum products are lower than other similar products compared with all types of risks faced by farmers, which can be specifically analyzed as follows: the rate of rural small-sum fixed-term life insurance has two classes—class A and class B—in which class A refers to occupation class 1, 2, and 3 while class B refers to occupation class 4, 5, and 6. In the light that the empirical death rate of farmers is 20-30% higher than that of urban residents, the rate priced at this level is expected to generate basically zero profit. The rate of rural small-sum accident injury insurance is split up into class A and class B where the rate of class A is 20% lower than that of general accident insurance for occupation class 1 and the rate of class B is 12% lower than general accident insurance for occupation class 5. According to the empirical pay-off over the past years, certain profit is expected to be generated with this pricing.

### **1. 2. 2. Characteristics of Three Extraneous Insurances**

In 2009, with an end to better meeting farmers' demand, China Life Insurance developed three extraneous insurances for accident medical cost compensation, respectively annexed to corresponding main risks, which are: rural small-sum extraneous insurance for accident medical cost compensation, rural small-sum extraneous insurance for traffic accident medical cost compensation and rural small-sum extraneous insurance for group accident medical cost compensation.

\* An extensive coverage is in place to protect from medical risks of accident injuries. The three medical cost compensation insurance can supplement and co-exist with the basic medical insurance.

\* The insurance liability of cost compensation products can be specified according to various demands of different regions. With a broad territory and different levels of development around the country, insurance demands may sharply vary from one another. The deductible, benefit ratio and waiting period can be appropriately negotiated based on local reality.

\* The product design goes with the condition of rural areas. As to the settlement of claims, given the actual condition of rural areas are taken into account, the death certificate issued by "other medical institutions acknowledged by the Company" is added for apply for insurance benefits, which simplifies the settlement of claims.

## **II. Distribution Channels of Small-sum Insurance Products**

In terms of distribution channel, there are direct channels and indirect channels. Direct channels rely on the Company's service teams settling in rural communities and group insurance sales channels while indirect channels use the platform of the New Rural Cooperative Medicare Scheme, banks and post service, among others. It includes "village-wide uniform insurance", "alliance & interaction", "credit & insurance 1+1" and "small group insurance policy" which are four practical insurance modes.

## **III. Inspiration for the Innovation Development of Micro-insurance in Future**

\* With regards to products, focus will be laid on the development of products connected with China's national poverty alleviation projects on the basis of the 12 micro-insurance products already in the market. The next step is to develop products associated with New Rural Cooperative Medicare Scheme and New Rural Insurance and exclusive products for rural immigrant workers.

\* As to channels, based on the current three distribution channels (individuals,

groups and agencies), the contracting of rural grass-roots organizations (village committees and women's federations) and rural financial institutions (banks in towns and villages) as agencies of micro-insurance products is to be reckoned with.