

## Research on development status of China's rural commercial insurance

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### Abstract

With the rapid development and progress of society, the insurance industry has gained increasing public attention. It has been a long period from its struggling at the very beginning to its flourishing currently. During the process, rural population, a huge insurance group, has greatly influenced China's insurance industry. This paper mainly discusses the development process and development status of rural commercial insurance. Concerning factors restricting development of rural commercial insurance, feasible solution plans have been put forward from the perspective of policies and institutions. Besides, the author analyzes rural commercial insurance as to how rural commercial insurance should maintain its sound development momentum, expand its business scale and expand its business coverage, and offers pertinent suggestions for relief, safeguarding, and development models of commercial insurance in rural areas.

### Keywords

Rural areas; commercial insurance; development status

### 1. Introduction

Currently, China's rural areas have a huge demand for insurance. In recent years, rural commercial insurance has been in the spotlight. It plays an important role in rural construction through improving rural production capacity and bettering social security system. However, there are some obstacles hampering rural commercial insurance in China. Compared with the rural insurance market with great potential, rural commercial insurance development is too slow. How to expand and develop rural commercial insurance has become a new research topic.

#### 1.1 Development history of rural commercial insurance

China's rural commercial insurance has been developed for more than seven decades. During the long development period, rural commercial insurance ran several small-scale experimental units in the early 20th century, but stopped running after the 1930s. In the 1980s, rural commercial insurance resumed its experimental units. 1992 was the peak year of rural commercial insurance revenues with the premium reaching 820 million RMB. However, faced with the claim ratio of 116%, rural commercial insurance was still losing money and shrinking annually. In 2001, rural insurance revenues hit the bottom, 200 million RMB. At that time, there were 230 million rural households. The premium of every household was less than 2 RMB on average. Despite of great emphasis of the national government attached to the rural insurance, the development status was still not optimistic, thus resulting in a low guarantee level of rural insurance [1-4].

#### 1.2 Status of rural commercial insurance

Currently, small business scale of China's commercial insurance companies is the major status of rural commercial insurance. Currently in China, there are more than 30 commercial insurance companies, but few of them are devoted to rural commercial insurance. The high claim ratio has withdrawn insurance companies focusing on maximization of commercial profits from stepping into the field of rural insurance. Even now, rural commercial insurance is still in a low development level, featuring a weak guarantee capacity. However, with the improvement of farmers' educational and

cultural level, and the sharpening of their awareness of insurance, the insurance popularity has been increased. This is a factor for development potential of rural commercial insurance, which has also boosted development of rural commercial insurance.

## **2. Factors restricting development of rural commercial insurance**

### **2.1 Policies**

The Chinese government has failed to play an effective role in boosting development of rural commercial insurance. There are neither laws specially for rural commercial insurance nor insurance systems in line with rural characteristics. Functions and duties of the national government in solving the issue have not yet been clarified. Government's support for rural commercial insurance lacks standardization. All these greatly impede development of rural commercial insurance.

### **2.2 Insurance companies**

Rural commercial insurance is characterized by a huge coverage, a high claim ratio and high compensation risks. Consequently, many commercial insurance companies seeking maximization of profits keep themselves away from the field. Statistics of China Insurance Regulatory Commission (CIRC) showed that compensations incurred by agricultural insurance in China totaled at more than seven billion RMB from 1982 to 2004, but the insurance revenues were just 460 million RMB. Take People's Insurance Company of China (PICC) for example. It paid 100 million RMB for keeping the unprofitable business of rural commercial insurance. Compared with cities, villages feature a scattered living status. Due to the extensive distribution of rural marketing branches, insurance companies have to pay a high cost for personnel training, document application and insurance policy approval. The living characteristic poses a huge challenge towards insurance management cost. Low income of farmers results in a small amount of premium. The cost to approve every insurance policy is much higher in villages than that in cities [5-6].

### **2.3 Farmers' awareness of insurance**

With a vast territory and a huge population, China is perplexed with the huge development gap in different parts. Insurance is unacceptable to many backward rural areas. People in these areas just care about tangible profits. Lacking a correct understanding of insurance terms, many of them even think insurance is a fraud. Affected by the fuzzy awareness of influence, rural commercial insurance is hard to thrive.

## **3. Suggestions for development of rural commercial insurance**

### **3.1 Enhance government support**

China's rural area is a special economic group in Chinese society. Government departments should attach great importance to insurance of rural residents. The special economic conditions of China's rural areas decide rural commercial insurance to be a complex and huge system project. Relevant policies should be formulated to encourage farmers to actively buy insurance and enhance their awareness of insurance. Relevant laws should be drawn up to regulate behaviors of insurance companies, stimulate them to expand their insurance business in rural areas, and encourage them to innovate their insurance products. By doing so, the Chinese government can efficiently develop commercial insurance.

Stimulate insurance companies to develop insurance products in line with rural characteristics

Insurance companies should actively develop insurance products suitable for rural residents. They should take the economic status of rural areas and the insuring capacity of rural residents into consideration. In this way, areas in different development statuses can choose insurance suitable for them. In terms of product development, low premium and extensive insured liabilities should be principles to adhere to so that insurance will be more acceptable to farmers. Besides, medical insurance for unintentional injuries and hospitalization medical insurance can be developed to make insurance closer to life of farmers and meet diversified insurance demands.

### Sharpen farmers' awareness of insurance

Issuance of policies about “countryside, agriculture and farmers” and policies benefiting farmers has increased income of farmers and provided capitals for insurance of farmers. Under the condition, farmers should also sharpen their awareness of insurance. Currently, savings still dominate farmers' mind, which are also the crucial reason for backward development of rural insurance. Farmers think that it is much safer to store money in banks. The national government and insurance companies should analyze different issues differently, develop farmers' awareness of insurance, popularize knowledge about insurance, open farmers' vision through media or rural cultural activities, and deepen farmer's understanding of relevant insurance knowledge through the case study of major insurance claims [7-8].

## 4. Development prospects of China's rural commercial insurance

The rural population accounts for a huge percentage in China. The large population base and the rapid development of rural economy have created the room for further development of rural commercial insurance. Insurance companies can provide household property insurance for farmers and expand the insured objects from furniture and apparels to grains and subsidiary agricultural products. As farmers' income increases, they pay increasing attention to the health issue. Agricultural production is tiring. The tiring work might cause hidden dangers for health. Insurance companies can provide personal health insurance. At present, farmers have increased their awareness of cover insurance for their fruits, vegetables and other agricultural products. They have a strong desire for getting insured. All these create favorable conditions for development of rural insurance. The emergence of township enterprises has also ushered in a new path for rural commercial insurance.

## 5. Conclusions

China is a large agricultural country. Issues related to farmers should always be the top priority. Development status of rural commercial insurance reflects China's attention paid to farmers. Development of rural commercial insurance can efficiently guard farmers against economic losses caused by disease or other accidents. It can promote agricultural production. Government's support for rural commercial insurance has helped expand the rural insurance market, and benefited more farmers. Besides, development of rural commercial insurance can alleviate social contradictions. To solve insurance-related issues is not only a task of the insurance industry, but also a reflection of all-around development of China's economics, politics and culture, and efforts of the national government to create a better life for its people.

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