

KEY POINTS

- The technical assistance supported the improvement of policy and regulatory environment for microinsurance in the People's Republic of China and Mongolia to reach poor families and enable them to better manage risks.
- Microinsurance products target low-income groups, who often reside in rural areas.
- Innovative and cost-effective distribution mechanisms will facilitate the growth and expansion of the microinsurance market.
- Commercial mass distribution including retailers and mobile phones can help address the challenge of reaching rural populations.

SOCIAL PROTECTION BRIEF

Improving Microinsurance Policy and Regulatory Environment in the People's Republic of China and Mongolia

BACKGROUND

Insurance can play an important role in mitigating risks confronted by poor families. However, standard insurance services fail to reach millions of poor and disadvantaged people in both the People's Republic of China (PRC) and Mongolia. Microinsurance can help these families manage risks and have cash available for emergencies. Insurance products are customized for this market through pricing, types of insurance services, and the way these are delivered. Microinsurance is a sustainable, private sector-led solution. As mentioned in a 2009 study by Nankai University in the PRC "... generally microinsurance is for persons ignored by mainstream commercial and social insurance schemes, persons who have not had access to appropriate products. Of particular interest is the provision of cover to persons working in the informal economy who do not have access to commercial insurance nor social protection benefits provided by employers directly, or by the government through employers."¹

In many countries, the regulation and supervision of insurance is not conducive to efforts to supply insurance products and services suitable for the poor. A 2009 study of microinsurance policy, regulation, and supervision covering five countries found that (i) proactive and inclusive policy and regulatory approaches are important for supporting microinsurance development; (ii) regulatory uncertainty undermines microinsurance development; (iii) overall regulatory burden determines the need for a dedicated microinsurance dispensation; (iv) regulators and supervisors need a clear mandate to support development; (v) similar treatment for insurers facing similar risks and strong corporate governance are important; (vi) tiering and graduation can help informal insurers grow in a sound way; and (vii) the low-risk features of microinsurance products allow regulators to structure regulatory definitions suited to the risk.²

The PRC and Mongolia are both in the emerging phases of microinsurance. Private insurers estimate market potential to be at least 200 million in the PRC, and about

¹ J. Shengzong. 2009. *Research on the Development of Microinsurance in China*. Zurich Financial Group and Nankai University, p. 5.

² H. Bester et al. 2008. *Making Insurance Markets Work for the Poor: Policy, Regulation and Supervision: Evidence from Five Country Case Studies*. CGAP Working Group on Microinsurance. Washington, DC.

400,000 in Mongolia. The China Insurance Regulatory Commission and the Financial Regulatory Commission of Mongolia have recognized microinsurance as an important new product. Both countries are planning to review market conditions, improve regulations, and support pilot projects to introduce microinsurance to their respective markets.

THE TECHNICAL ASSISTANCE

The Asian Development Bank (ADB) Technical Assistance (TA) was designed to help improve the policy and regulatory environment for microinsurance in the PRC and Mongolia. This is to enable insurance firms, in both countries, to provide microinsurance products to poor families for them to protect themselves either from death, illness or injury, or potential loss of income or property.³

Implementation of the TA was facilitated by the Access to Insurance Initiative (A2II). A2II is a global partnership of insurance supervisors and development agencies with technical leadership from the International Association of Insurance Supervisors based in Basel, Switzerland.⁴

Diagnostic studies were prepared on the provision of microinsurance and analysis of pilot projects in the PRC and Mongolia. Overall insurance market conditions, demand for microinsurance, and policy and regulatory frameworks were sufficiently analyzed in the two country assessment reports produced by the TA. Strategies and recommendations were formulated, and roadmaps for policy and

regulatory improvements were delivered based on findings. A report for Mongolia on *Access to Finance: Developing the microinsurance market in Mongolia* was published in May 2014.

MAJOR LESSONS

Microinsurance products target low-income groups, who often reside in rural areas. As of 2014, banks in Mongolia are only allowed to act as brokers and restricted as agents. Non-banking financial institutions, other than insurance companies, cannot sell or market insurance in Mongolia. These restrictions limit the capacity of insurance companies to utilize existing widespread distribution channels to cut cost. Similarly, commercial mass distribution channels, such as retailers and mobile phones, are underutilized in the PRC. Innovative and cost-effective distribution mechanisms could facilitate the growth and expansion of the microinsurance market. Appropriate regulatory improvements could also help overcome the challenges of reaching the rural population.

While ADB has been supporting financial sector development in the PRC and Mongolia, improving access to finance is given importance as it promotes inclusive growth and poverty reduction. Microinsurance is relatively new, but it is an effective financial product that can provide financial security for the low-income group. There could be substantial scope and opportunities where ADB can contribute in this area. By further engaging in policy dialogue and providing timely guidance, ADB can ensure that more inclusive insurance services can be provided in the region.

³ ADB. 2010. *Regional Technical Assistance Report: Establishing Microinsurance (REG- 7525)*. Manila.

⁴ A2II, founded in October 2009, is designed to increase voluntary usage of suitable insurance products by contributing to sound policies, regulation, and supervision, and ADB joined as partner in 2012.

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