

A Study of Chinese Mutual Insurance

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ABSTRACT

Mutual insurance, as the first form of insurance, has been developing for several hundred years. The form has become a mature one in developed areas, such as Europe, North America, and Japan, while in China, mutual insurance just came to the market. With the rapid development of the Internet, mutual insurance—mostly sold on Internet platforms—is becoming more and more popular among Chinese customers. However, since the insurance form is still at a very early stage of development, there arise many problems. This paper investigates these problems and proposes plausible solutions. This paper also reviews the history of mutual insurance of China and the world, in order to form a solid conclusion and predict future trends from historical perspectives.

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1. Introduction

Mutual insurance, as the first form of insurance, provides mutual protection for its policyholders. Since being introduced to the market, mutual insurance has been an important component of the international insurance market. However, in China, while joint-stock insurance companies are thriving, the mutual holding companies have not been fully developed. Before 2017, there was only one mutual insurance company nationwide.

In 2017, the China Banking and Insurance Regulatory Commission (CBIRC) approved the establishment of three mutual insurance companies, Trust Mutual Life, Public Mutual, and Hero Mutual. Since then, a new era of mutual insurance has opened in China: many big companies started to join the market of mutual insurance, such as Shui Di Chou, Alipay, and E Hu Zhu. All kinds of mutual insurance are springing up like mushrooms after a rain, and with them comes a stream of negative news as well as public doubts and worries. For example, in 2019, the Xianghubao Critical Illness Group Insurance by Trust Mutual Life was ordered to be withdrawn from sale by CBIRC due to suspected regulation violation (CBIRC, 2019). Xiang Hu Bao by Alipay eliminated thyroid cancer from the clause terms and extended the waiting period for malignant tumors after a quiet three-day announcement, while the majority of policyholders were not aware of it. When Googling Shui Di Chou insurance online, people find that most of the search results are negative reviews.

In today's insurance market, various types of mutual insurance are still in a state of wild and unregulated growth, and many kinds of problems exist. In terms of product design, most of the products are poorly designed and very much similar to each other; besides, many of them have not undergone precise actuarial calculations, so the actuarial risks are huge. The policy terms are confusing and insurance companies often modify clauses. So the rights and interests of policyholders are hard to protect. In terms of supervision, the market lacks supervision in that there are no unified and clear normative rules or regulations on mutual insurance. The supervisory authorities are not unified either, which leads to the violations of policies for many insurance products. Furthermore, mutual insurance companies face predicaments, too. The forms of mutual insurance organizations are too simple so that there are only two kinds existing in China. The sales channels are relatively single and so sales performance is not ideal. In the meantime, mutual companies experience difficulty in capital financing which would result in the bankruptcy of those companies.

How should the mutual insurance market be regulated to better secure customers' rights? What is the right path for the development of mutual insurance companies? What is the future of mutual insurance in China? To answer these questions and to propose the most plausible solution, a review of international and China's mutual insurance history is conducted. It aims to provide a historical perspective. In addition, a case study on a Chinese mutual insurance company is performed to identify the market's general problems and the company's challenges.

2. Overview of Mutual Insurance in China

2.1 The History of Mutual Insurance

2.1.1 The development of mutual insurance outside China

The idea of mutual insurance originated 6500 years ago in ancient Egypt. Stonemasons who built pyramids for the pharaohs signed an agreement—if any of them died, the funeral expenses would be shared by the total membership fees (Editorial Board of A Brief History of Insurance, 2015). From the 13th to 16th centuries, with the development of society, the idea of mutual risk-sharing was further deepened and practiced. By the 17th century, more and more mature mutual insurance organizations were established, such as the British Friendly Society (Gorsky, 1998) and the French Mutual Aid Society (Sibalis, 1989). These organizations offered a wider scope of coverage, including death, disease, theft, fire, sea transportation, and so on.

In the 18th century, the development of actuarial science propelled that of mutual insurance. More formal mutual insurance companies were established in Europe, such as Scottish Widows, Society for Equitable Assurances on Lives and Survivorships, Hamburgische Allgemeine Versorgungs – Arsalt, and Societe de Bienfaisance de la Trinite (Garrioch, 2017). Meanwhile, this new insurance form was introduced to the United States, and in 1752, Philadelphia Contributionship for the Insurance of House From Loss by Fire (later changed to Philadelphia Contributionship) was established in the United States (“Philadelphia Contributionship,” 2021).

The early 20th century was a golden time for mutual insurance. Many joint-stock insurance companies were mutualized because of the fast development of mutual insurance. In Japan, after 1935, nearly 90% of life insurance companies were converted to mutual insurance companies. In the United States, between 1900 and 1936, at least 15 life insurance companies went through a mutualization process, including Metlife and Prudential (Guo & Wang, 2007). By 1997, there were six mutual insurance companies among the world's top ten insurance organizations; in Asia, there were eight among the top nine; and in North America, almost half of the top 23 insurance companies were mutual insurance companies (Swiss Re, 2016).

After rapid development in the early 20th century, the pace was slowed down at the end of the century. From Table 2.1 and Figure 2.1, we can see that starting from 1992, the mutual insurers' share of global market premiums started to decline.

Table 2.1: Mutual insurers' share of global market premiums, by major line of business

	Total	Non-life	Life
1987	50.00%	32.00%	66.30%
1992	51.30%	33.60%	65.20%
1997	46.30%	32.80%	55.70%
2007	24.10%	31.80%	19.30%
2008	25.60%	32.50%	21.20%
2009	26.60%	32.90%	22.50%
2010	26.20%	32.00%	22.50%
2011	26.60%	31.60%	23.30%
2012	26.50%	31.60%	23.10%
2013	26.90%	31.90%	23.40%
2014	26.20%	31.70%	22.40%

✧ Source: Swiss Re, Sigma (Apr, 2016)

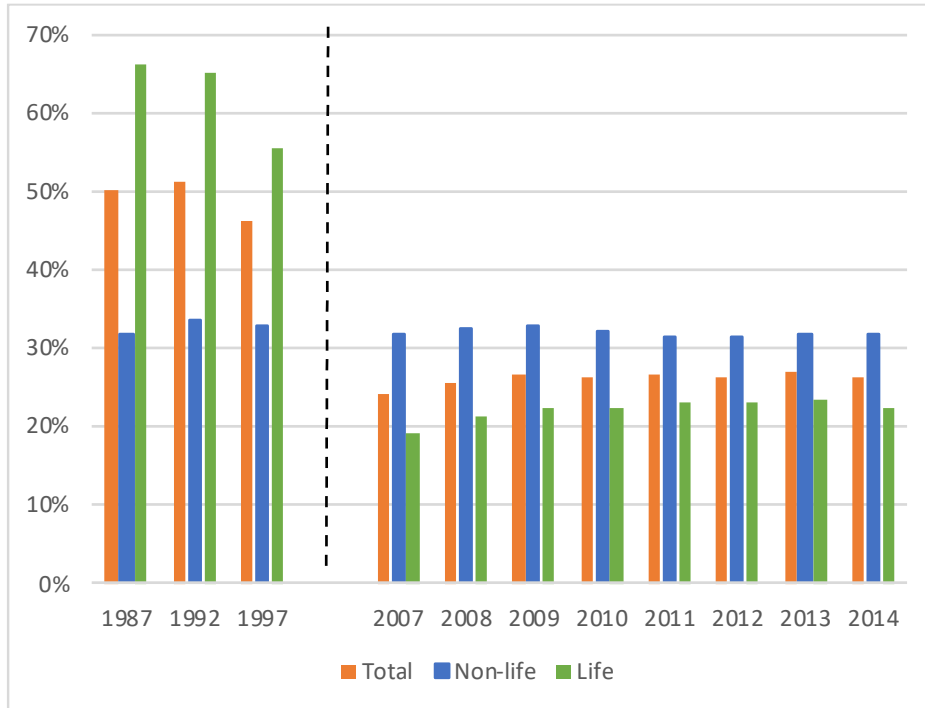


Figure 2.1: Mutual insurers' share of global market premiums, by major line of business

✧ Source: Swiss Re, Sigma (Apr, 2016)

However, after 2007, especially after the 2008 financial crisis, mutual insurance seemed to recover again. This is illustrated in Table 2.2 and Figure 2.2 where the annual nominal growth in mutual insurance premiums kept positive from 2008 and exceeded the premium growth of the total industry in most of the years.

Table 2.2: Annual nominal growth in mutual and world insurance premiums

	Total Mutuals	Total Industry
2007		
2008	8.80%	1.80%
2009	1.40%	-2.70%
2010	4.10%	5.50%
2011	7.60%	5.90%
2012	0.70%	1.00%
2013	1.10%	-0.30%
2014	1.30%	3.60%
2015E	-3.40%	-4.30%

✧ Source: Swiss Re, Sigma (Apr, 2016)

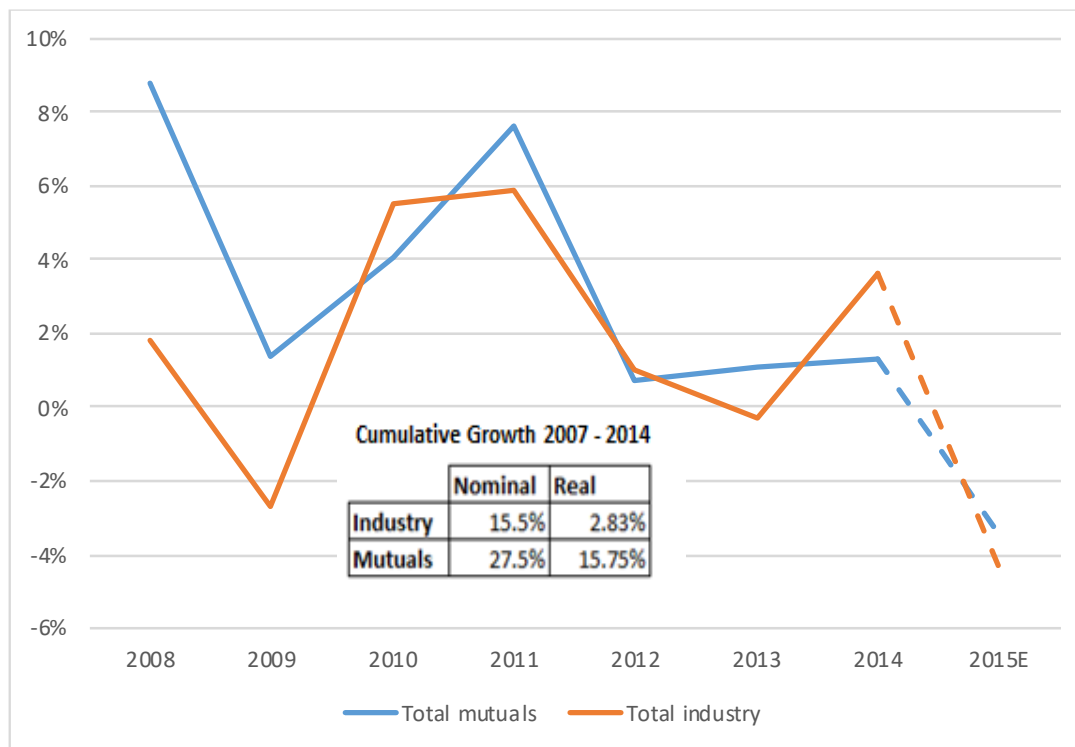


Figure 2.2: Annual nominal growth in mutual and world insurance premiums

◇ Source: Swiss Re, Sigma (Apr, 2016)

2.1.2 The development of mutual insurance in China

As one of the four ancient civilizations, China did not fall far behind on the idea of mutual aid. As early as 1000 B.C. ancient Chinese started to practice the idea of mutual insurance. In the Qing Dynasty, there were many mutual aid organizations to provide the deceased with funeral expenses, such as Longevity Association, Parents Xuan, Family Welfare Association, and so on. From the mid-19th century, with the opening of international business, the concept of insurance started to develop in China. In 1856, China Mutual Insurance Company was established in Fuzhou. In 1898, a British merchant established China Mutual Life Insurance Company in Shanghai. In 1905, a fire mutual insurance company was established in Guangzhou (Xie, 2016).

However, due to the lack of actuarial knowledge and the impact of wars, most of the mutual companies were closed not long after.

Since World War I, mutual insurance has been underdeveloped in China. China's first mutual insurance company was not established until 2005—on January 11, 2005, Sunlight Agriculture Mutual Insurance Company was established in Heilongjiang Province. The company's business mainly focuses on agriculture, as well as property and casualty. However, its business model has not yet been promoted across the country and so far, there are only four mutual insurance companies nationwide.

In 2017, CBIRC approved the establishment of three mutual insurance companies, Trust Mutual Life, Public Mutual, and Hero Mutual. Since then, a new era of mutual insurance is opened in China; many big companies started to join the market of mutual insurance, such as Shui Di Chou, Alipay, and E Hu Zhu.

2.2 The Types of Mutual Insurance in China

2.2.1 Designed for specific groups of people

This category includes mutual insurance that is designed for specific groups of people. For example, the Nankai Alumni Mutual Aid Program, initiated by the Tianjin Chapter, is aimed to provide protection for Nankai Alumni and their relatives. The program covers expenses incurred from critical illness and accidents, which will be shared by enrolled alumni (Nankai University Alumni Tian Jin Association, n.d.).

2.2.2 Providing specific liability

This category includes mutual insurance that provides specific liability, such as An Ping Liability Mutual Insurance Company which mainly provides protection for insurance agency-related businesses. The company has raised ¥ 130 million in initial funding (Henan Province Financial Supervision Administration, 2015).

2.3 The Types of Mutual Insurance Organizations in China

2.3.1 Mutual holding insurance companies

These companies are owned by all the company's members. After purchasing the company's insurance, customers will become the company's members and participate in the company's management and share its dividends. Nevertheless, some mutual insurance companies in China are funded by one or multiple shareholders. For example, the Sunlight Agricultural Mutual Insurance Company was founded by Beidahuang Group with initial funding of ¥ 120 million, and the Public Mutual was funded by Qianhai Financial Holdings and other eleven companies with an initial investment of ¥ 1 billion.

The mutual insurance companies have to go through a restricted process to apply for an insurance company patent and need to file to and be approved by CBIRC. The approved companies will be listed on the CBIRC website. A complete list is shown in Table 2.3.

Table 2.3: A List of China Mutual Insurance Companies

中国银行保险监督管理委员会
China Banking and Insurance Regulatory Commission

保险许可证信息

发布时间: 2021年04月25日

机构持有列表 近期机构设立情况 失控情况 机构退出列表

机构名称: 相互 机构地址: 流水号: 机构类型: 请选择 机构层级: 总公司 监管机构: 请选择 查询

共查询出 4 条数据 (用时约 0.316 s)

序号	机构编码	证件流水号	机构名称	批准成立日期	发证日期
1	000225	0001071	汇友财产相互保险社	2017-06-22	2020-08-03
2	000221	0001060	众惠财产相互保险社	2017-02-10	2020-05-06
3	000223	0001049	信美人寿相互保险社	2017-05-05	2019-12-06
4	000094	0000315	阳光农业相互保险公司	2005-01-11	2014-02-20

注: 本系统中所称“发证日期”是监管部门对保险类机构(换)发许可证的制证日期;“批准成立日期”为监管部门批准该机构设立的日期,保险类机构的业务范围以保险许可证上的业务范围为准。另注红色流水号为失控证,正在补办中。

网站标识码: bm5500001 京ICP备19014889号 京公网安备11010202008000号
主办单位: 中国银行保险监督管理委员会 地址: 北京市西城区金融大街甲15号 邮政编码: 100033
中国银行保险监督管理委员会 版权所有 访问次数: 56080 次

Source: CBIRC website

2.3.2 Online crowdfunding-like mutual aid platform

These platforms take advantage of the Internet and gather a crowd of people with the same risk type. When one of the members is diagnosed with a critical illness, the platform will inform all other members to share the total medical expense. The shared amount for each member is usually around or under ¥1, but there is a trend that the amount is getting bigger and bigger. In addition, the registration fee varies by platform. Some require it, but some do not.

Examples of online crowdfunding-like mutual aid platforms include Kang Ai commune, E Hu Zhu, and Quarkers. Kang Ai Commune adopts the operation of crowdfunding; there is no registration fee, but when one of the members is diagnosed with some critical illness, the platform will activate fundraising from other members. The patient will receive as much as ¥350,000 for treatment. In contrast, E Hu Zhu and Quarkers require members to make an initial deposit at registration, and some amount of the deposit will be taken out for members' treatment.

To share the benefits generated from the prosperous mutual insurance market, many public companies also created online mutual aid platforms, for example, Xiang Hu Bao by Alibaba, which has accumulated almost ¥ 100 million policyholders and raised mutual-aid funds for nearly ¥ 17 billion.

2.3.3 The difference between mutual insurance companies and online mutual aid platforms

The mutual insurance companies are approved as official insurance organizations by CBIRC, but CBIRC stresses that the online mutual aid platforms should be not considered as insurance. The difference can be addressed from three aspects.

- a) The source of capital. For mutual insurance companies, the capital mainly comes from policyholders' premiums. The companies will establish special solvency funds with this income and carefully invest the capital. For online mutual aid platforms, the capital is not owned by the platform and there are no special funds

established. The money will be collected by a third-party organization for management.

- b) Product pricing. The pricing of insurance products is conducted by actuaries in mutual insurance companies, while for the platforms, there is no actuarial department to test the products.
- c) Regulation. Although the regulation for mutual insurance companies has not been completed, the companies are supervised by CBIRC. However, so far, there is still no legislation to regulate online mutual aid platforms, and they solely rely on the platform's self-discipline.

2.4 Case Study On A Typical Chinese Mutual Insurance Company, Trust Mutual Life

2.4.1 The overview of Trust Mutual Life

Trust Mutual Life, established on May 5, 2017, is the first mutual life insurance association in China. The initial fund was ¥1 billion, and it was founded by Ant Group, Tianhong Asset Management, Guojin Dingxing, Junson, BYHEALTH, Tempus, Nexgo, YW, and Chuanglian Education Group, with the strong support of Central University of Finance and Economics Education Foundation as well as Adream Foundation (Trust Mutual Life, 2021).

After only three years of operation, the company became profitable. In 2020, Trust Mutual Life obtained an annual premium income of ¥3.5 billion with a ¥69

million profit. The total capital is accumulated to ¥9.6 billion with a 7.39% capital return in 2020, exceeding the industry's 5.41% by nearly 2%. By the end of 2020, their total accumulated members had reached 58,584 (Trust Mutual Life, 2021).

2.4.2 The Products of Trust Mutual Life

Currently, there are seven products developed by Trust Mutual Life that can be purchased in the market. The products encompass five insurance kinds, annuity (3), illness (1), life (1), accident (1), and health insurance (1). The corresponding product information can be found in Table 2.4.

Table 2.4: Products and Corresponding Insurance Kind of Trust Mutual Life

Insurance Kind	Trust Mutual Life Product
Annuity	Zhi Xin Yi Sheng Life Annuity, Tian Tian Xiang Shang Children Annuity, Xing Sheng Nian Nian Annuity
Illness Insurance	Ai Wo Bao Bei Children Leukemia Insurance
Life Insurance	Chuan Jia You Dao Life Insurance
Accident Insurance	I Zi You Transportation Accidental Injury Insurance
Health Insurance	Pu Hui Million Health Insurance

✧ Source: Trust Mutual Life

The claims of Trust Mutual Life in 2020 totaled ¥32.43 million. From the annual claim report, we can see that critical illness insurance is the major source of claims (Trust Mutual Life, 2021). The detailed claim distribution is shown in Figure 2.3.

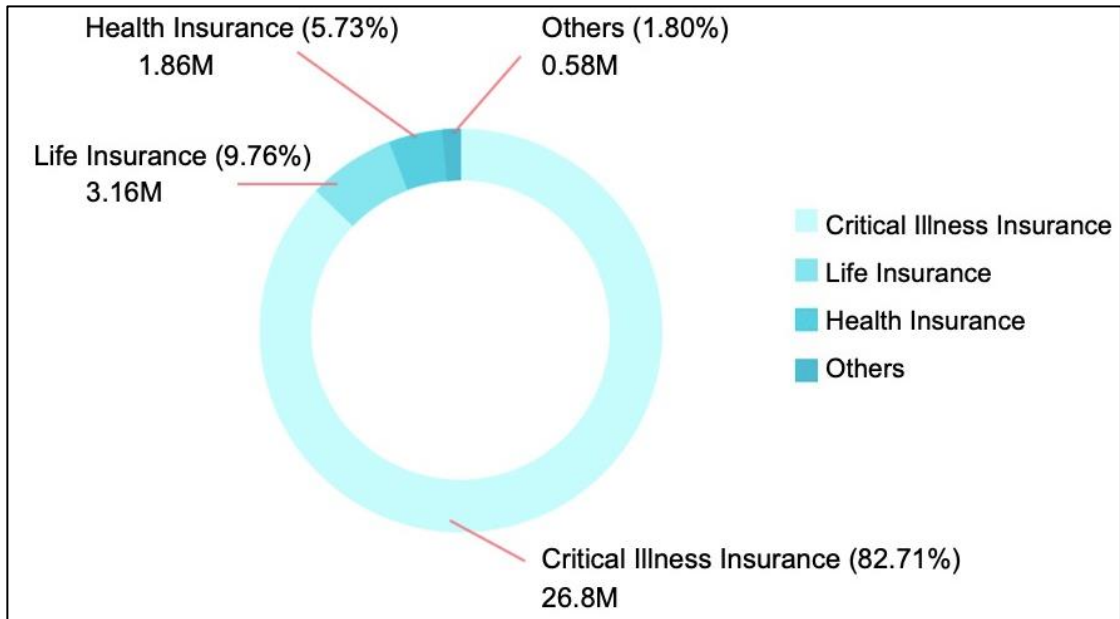


Figure 2.3: The Claims of Trust Mutual Life in 2020

◇ Source: Trust Mutual Life, 2020 annual report

2.4.3 The Business Model of Trust Mutual Life

Trust Mutual Life is a technology-driven insurance company with a special joint-creation model. The joint-creation model means that product design is a joint effort of the company and customers. The actuaries of Trust Mutual Life communicate directly with customers about their needs and then design customized products based on interviews and surveys. In addition, Trust Mutual Life modularized policies enabling customers to come up with their own combinations of products in order to design a satisfying plan.

In this Internet era, Internet insurance has been developing rapidly. From Figure 2.4, we can see that the premium income of Internet insurance is increasing since 2012 despite a slight drop in 2017 due to a regulation restriction. Most of Trust Mutual Life's products are sold through Internet channels and the booming of this

market has provided and will continue to provide great opportunities for the company's development.

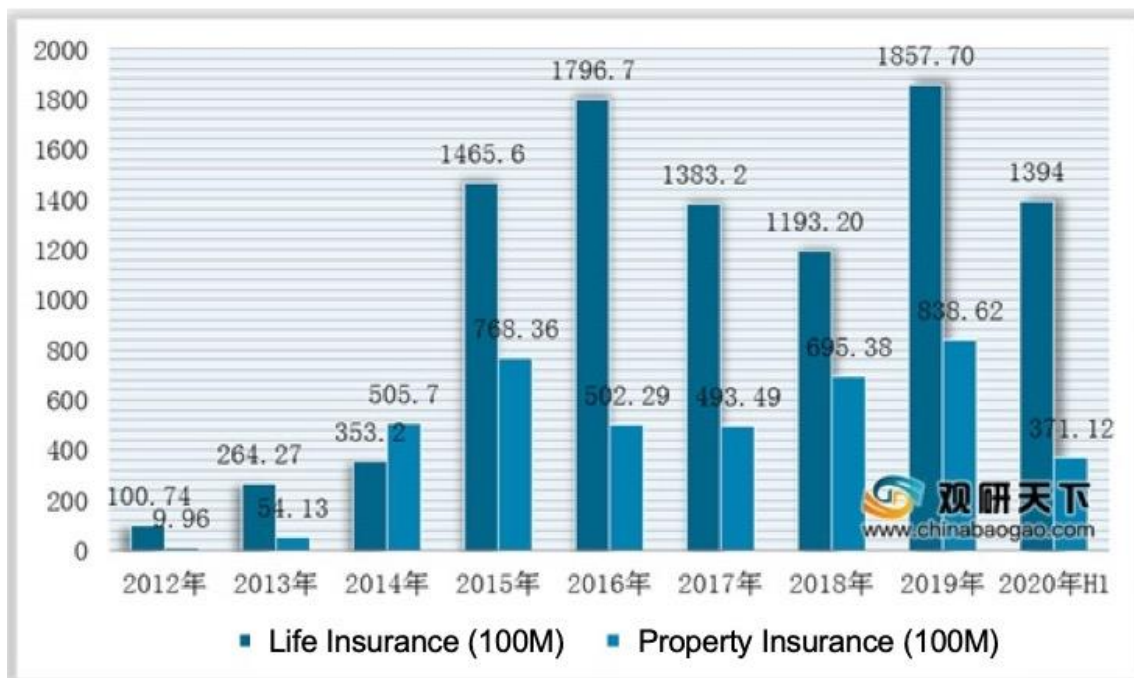


Figure 2.4: The Premium Income of Internet Insurance in 2012-2020H1

◇ Source: Chinabaogao

As a technology-driven company, Trust Mutual Life utilizes high technology to improve the company's operation. The company has been promoting digitalization within the organization, including data-driven management, mid-end service upgrade, and research capability improvement. From the company's 2020 annual report, 97.93% of the purchases and claims happened online.

Trust Mutual Life is a newly established mutual insurance company. But with the effective utilization of technology and Internet platform, it has been developing rapidly. The form of mutual insurance has been more and more accepted by customers, and so the future for Trust Mutual Life will be even brighter.

3. The Problems and Predicament of China Mutual Insurance

Since the development of mutual insurance is still at a very early stage, there exist many problems from various aspects. This paper summarizes six major problems of mutual insurance and the predicament experienced by mutual insurance organizations in China.

3.1 Organization Form

The forms of mutual insurance organizations are relatively simple. There are only two official forms of mutual insurance organizations in China—mutual insurance companies and mutual insurance associations, and only the Sunlight Agricultural Mutual Insurance Company takes on the form of the mutual insurance company, while the rest are founded as mutual insurance associations. In the United States, the reciprocal inter-insurance exchange and insurance cooperative are popular forms that have not yet appeared in China. Therefore, compared to developed areas, such as Europe, North America, and Japan, the forms of mutual insurance organizations are relatively simple.

3.2 Product Design

The design of insurance products is relatively rough. This problem is very pervasive, for traditional and newly developed mutual insurance products. For traditional mutual insurance products, after a long period of exploration, they have

accumulated a considerable sales number. However, the product design is still not very refined. It does not provide differentiated products for different areas or meet different customers' needs. And for newly established mutual companies, the products are less innovative and practically identical to other products in the market.

3.3 Actuarial Science

The products are not well calculated under actuarial science. Most of the mutual insurance products are not precisely calculated by actuaries, and some products did not even go through an actuarial calculation at all. This substantially increases mortality risk. In addition, the mortality table used in the pricing process is not appropriate. Similar to life insurance pricing where the mortality rates are adjusted based on experience study, the mutual insurance pricing should adopt the same approach, instead of just using the generic mortality table. Most of the mutual insurance policyholders are from a certain group who work either in the same profession or in the same industry. So their risk homogeneity could be even higher than usual. Therefore, the mortality table needs to be adjusted accordingly.

Furthermore, most of the mutual insurance purchase happens online, unlike the traditional insurance sales method which depends on agents or banks. So the commission should not be as high as the traditional sales channel. As the result, the whole pricing process, including product design, liability valuation, and profit testing would need to be reevaluated. Apparently, current mutual insurance companies have neglected these essential problems.

3.4 Sales Channels

The sales channels are relatively narrow. For traditional mutual insurance companies, such as the Sunlight Agricultural Mutual Insurance Company, their sales are still relying on insurance agents. With the rapid development of the Internet business, these traditional mutual insurance companies have been left behind. And if they do not quickly catch up, they will be eliminated by fierce market competition. On the other hand, online mutual aid platforms, such as Xiang Hu Bao, Kang Ai commune, and E Hu Zhu, are solely based on the Internet platform. If the platform stopped functioning, the company would not be able to operate normally. So, the single transaction platform is a potential risk for the business.

3.5 Capital Financing.

It is hard for mutual insurance companies to obtain capital finance. From history, the biggest factor hindering the development of mutual insurance is its hardship in capital financing. In the late 1990s, when the world economy was struck by the financial crisis, mutual insurance companies experienced an extremely hard time obtaining capital finance within a short period. To survive the crisis, they had to convert themselves to joint-stock companies. Consequently, the market share of mutual insurance dropped to 23% (Carson, Forster, & McNamara, 1998). Therefore, a mutual insurance company's weakness in capital financing makes it more vulnerable to economic downturns and increases the systematic risk for the companies.

3.6 Regulation

The regulation of mutual insurance is insufficient. Currently, there is only one regulation issued by CBIRC—the Trial Measures for the Supervision of Mutual Insurance Organizations (2015), which is an administrative regulation. And there is no regulation reflected in the Insurance Law (1995). This situation leads to many regulation violations of mutual insurance companies. At the end of 2018, the Critical Illness Group Insurance by Trust Mutual Life was ordered to be withdrawn from sale by CBIRC due to suspected violations. In 2019, Xiang Hu Bao updated its new clause terms (eliminating thyroid cancer and extending the waiting period for malignant tumors) after a quiet three-day announcement, while the majority of policyholders were not aware of it. However, without refined regulation, the market is still not carefully supervised and this will eventually hurt customers' interests.

4. The Solutions To Current Problems of Mutual Insurance In China

4.1 Organization Form

The forms of mutual insurance organizations need to be multiplied. As discussed above, the forms of mutual insurance organizations in China are relatively simple. One of the reasons is that mutual insurance is not fully developed in China, and it is still at the beginning stage. Therefore, Chinese insurance practitioners should absorb experience from developed areas, such as Europe, North America, and Japan, to increase the number of forms of mutual insurance organizations. Moreover, while learning from the developed experience, we should also be careful with localization. Not all forms are suitable for China's market environment. For example, the reciprocal inter-insurance exchange form is a unique form developed in the United States, while the corporate form of mutual insurance develops much better in Europe and Japan. Therefore, it is important to study our strengths and weaknesses, and then select the right form for China. In addition, when choosing the organization forms, a company should be mindful of the government's policy and subsidies, the company's future plan on operation, and whether the capital matches the organization form. Only in this way, could the company develop more smoothly.

In my opinion, at the current stage, we still need to mainly depend on the mutual insurance association form which is a rather simple structure to operate. After the market becomes more mature, the companies could try insurance cooperative

which is not much more complex. From easy to difficult, from simple to complex, this should be a plausible development path for China's mutual insurance market. Furthermore, from history, we can see that when mutual insurance developed to a certain degree in Europe, the US, and Japan, the corporate system has more advantages over other forms, because it is not restricted by business and financing. For this reason, in the long term, mutual insurance organizations should be converted to a corporate system.

4.2 Product Design

Product design needs to be more refined. Current mutual insurance products are very similar in the market. Most products are not designed to meet customers' needs, but simply copied from other companies. However, product design should come from market needs, especially for mutual insurance, which is usually designed to protect a certain group of people. In order to achieve this goal, mutual insurance companies should form a special team to study the customers and market needs, and design products accordingly.

For traditional mutual insurance organizations, companies could start by collecting market and customer data, and then conduct a marketing research based on the current data. Meanwhile, the company should predict future trends to grasp potential market opportunities or better react to challenges.

For newly established mutual insurance organizations, it is important to find the right position in the market and design products with their own characteristics. The

companies could start from Internet technology, channel selection, and data processing in the cloud. New mutual insurance organizations are born with the rapid development of technology, and so the companies should learn how to take advantage of technology and design more customized products for the market.

Furthermore, companies could discover product ideas from online business scenes. For example, online shopping involves product returns and refunds, and so customers have the needs of financial protection; food delivery service now is very popular in China, and so the food delivery companies have the needs of accident protection for their food delivery people. E-commerce created and cultivated many kinds of business, and mutual insurance companies should study even deeper to grasp the opportunities from those new businesses.

Nowadays, customers pay more and more attention to service in addition to the product. So when designing products, it is important to design useful additional services around customers' potential needs. For example, when a customer purchases health insurance, companies could offer free hospital registration or free online health inquiries as additional services. Good additional service could improve customers' satisfaction and will also benefit the company.

The insurance market is a very competitive one, how to distinguish oneself from other companies is the key to win the war. The more refined the products are, the more information a mutual insurance company has, indicating that the company understands the market deeper than others. This is very beneficial to the company's

development too. For newly established companies, innovative products could help them open the market more quickly and acquire greater market share.

4.3 Actuarial Science

Products need to go through more precise actuarial calculations. As discussed above, most mutual insurance products developed by online mutual aid platforms have not been actuarially tested before launch in the market, which planted a seed of potential risks for both the platform and customers. Online mutual aid platforms should take this problem seriously and set up a formal actuarial department to conduct a precise pricing process on the products. Moreover, platforms and mutual insurance companies should conduct an experience study or invite consulting companies to do so. As discussed, it is not appropriate to directly use the generic mortality table for mutual insurance pricing. However, many mutual insurance companies have not yet accumulated enough data for an experience study and so they just use the generic mortality table as an approximation. One solution is to hire a consulting company to conduct an experience study as they have access to more market data. Furthermore, mutual insurance companies need to reevaluate commissions and profit targets, since their sales channels are much different from the traditional ones. This practice will decrease the price of products which not only is good news for customers but will also increase the competitiveness of the company.

From history, we can see that before actuarial science was introduced, mutual insurance products were designed based on experience. So it was hard to

protect members' rights and the organizations' solvency was not guaranteed. As a result, many mutual insurance companies went out of business quickly. Therefore, only a precise actuarial testing system could secure the healthy operation of a mutual insurance company.

4.4 Sales Channels

Mutual insurance companies need to find the most effective sales channels for their development. Sales Channels play a vital role for insurance companies. A good channel could sell mediocre products with a high sales volume. When choosing the right sales channels, traditional and newly established mutual insurance companies should investigate their own strengths and weaknesses, instead of adopting the one-channel-fits-all solution.

For traditional mutual insurance companies, they should mainly stick to their original channels which have become developed relatively mature and successful; and meanwhile, they should explore Internet channels to better operate this era of big data. Developing an Internet business does not mean a simple addition of mutual insurance and the Internet, it means making the most of the advantages of the Internet to perfect product design, sales channel, and customer service. Traditional mutual insurance companies should find the balance between original channels and the Internet channel. If they solely develop Internet channels and neglect the traditional ones, it will lead to an unequal allocation of resources and make most of the effects to be in vain.

For newly established mutual insurance companies, the right sales channel is the key to the business. In developed markets, social media is frequently used by mutual insurers to acquire new customers (see Figure 4.1). In China, mutual insurance companies could collaborate with an online insurance agency or third-party e-commerce platform, such as Taobao, which could save the time and effort of building an Internet platform from scratch. Take the collaboration of Trust Mutual Life and Alipay as an example. Trust Mutual Life launched an insurance product named Baby Protection Plan on Alipay, and the platform customers could purchase the product using the accumulated points. This collaboration turned out to be a great success: the sales from this single channel exceeded those from total other channels.

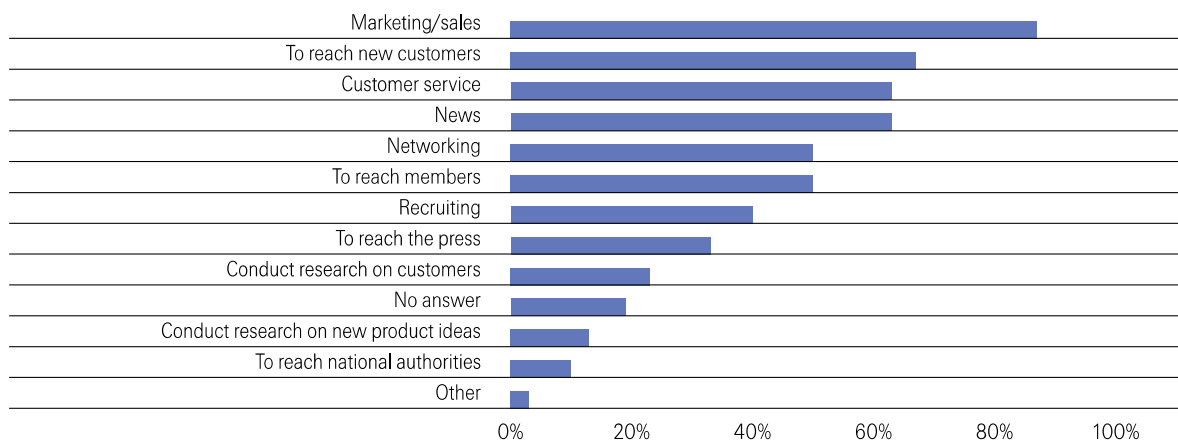


Figure 4.1: Use of social media by European mutual insurers

✧ Source: Swiss Re, Sigma (Apr, 2016)

4.5 Capital Financing

Mutual insurance companies need to find a sustainable way of capital financing. From history, this is the biggest factor that hinders the development of the

industry. Mutual insurance companies need to learn from history and find a lasting financing method that could be less affected by the external economic environment. The method should be sustainable and most suitable for the mutual insurance company's situation, which should maintain a certain amount of cash flow to ensure the company's daily operation.

Mutual insurance companies could try to import qualified strategic investors, which could be done under the leadership of the government. For example, under the supervision of the China State Council, the Beidahuang Group injected ¥ 120 million into Sunlight Agriculture Mutual Insurance Company in 2005. Nevertheless, mutual insurance companies should not overlook the risk of financing and need to take action to prevent it. One way is to design products with low solvency requirements. Besides, the company could find ways to increase members' loyalty to maintain a healthy and steady operation.

Furthermore, mutual insurance companies need to be flexible about the organization form. When the economy is changing, and it requires a mutual holding company to convert to a joint-stock form, the company should follow the environment. The decision should be made from the company's development and with the goal of providing stable protections to customers, rather than blindly insisting on the mutual holding form. As long as the company could continue to bring benefits to the market and customers, the form is not so important. Sigma (2016) discussed the suite of current and possible future capital solutions available to mutual insurance companies (summarized in Figure 4.2).

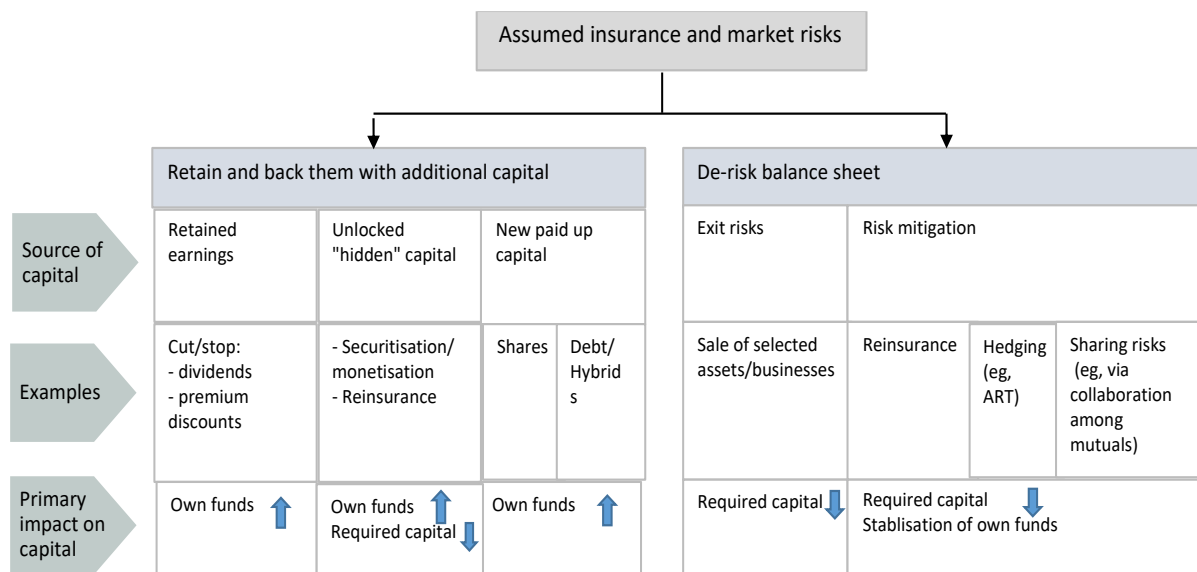


Figure 4.2: Alternative solutions for mutuals to manage risk and capital

✧ Source: Swiss Re, Sigma (Apr, 2016)

4.6 Regulation

The regulation and supervision need to be improved. With the rapid development of mutual insurance, it will surely become a major market in the future. Therefore related laws should be enacted at the national government level, and the supervision system needs to be improved too.

Firstly, the mutual insurance law needs to be added to the Insurance Law (1995) as soon as possible. Because traditional insurance is much different from mutual insurance, the law of traditional insurance cannot be simply applied to mutual insurance. Besides, the depth and degree that these two insurance forms require are different, and so the legislation needs to be differentiated at the regulatory level. Since the development of mutual insurance is still at the early stage in China, the legislation

of mutual insurance needs to be considered from multiple perspectives to ensure that all the aspects are covered and the legislation is a well-rounded one.

Secondly, the operability of legislation needs to be improved. Current legislation only makes high-level regulations on principles but does not give clear instruction or guidance. For example, the market access and exit criteria of different insurance organizations are lacking details, and as a result, unqualified companies stay in the market and cannot be cleared out. Detailed market access and exit mechanisms could create a healthy competitive market environment for mutual insurance. In addition, as discussed above, the conversion between mutual holding and joint-stock is inevitable throughout the development of a mutual company. So a detailed process of this conversion is of vital importance.

Last but not the least, the solvency standard—the most crucial evaluation for an insurance company—needs to be refined. The standards should be based on the Solvency II system which is currently used for all the insurance companies in China. However, it should be modified to better fit the logic of mutual insurance. Moreover, the regulation department should be more transparent about law enforcement. They should publish related data periodically and conduct reviews on regular basis to process or correct problems promptly.

4.7 Technology

Mutual insurance companies should make the most of technology. We have come to an era of new technology, and mutual insurance companies need to adjust

themselves to the current trend. They should study how to use new technology to improve the effectiveness and performance of the business. For example, some of the business, such as claim settlements and payments, can be transferred to online platforms, which will simplify the whole process, save operation cost, and improve total profit. Besides, customer service could be extended from telephone to online platforms which could be accessed from the company's website or WeChat. A study (Sigma, 2016) shows that larger firms tend to adopt technology better than smaller firms and the biggest difference is generated from online underwriting and claims (see table 4.1 & Figure 4.3).

Table 4.1: Mutuals' adoption of technology, by size of firm

	Claims	Distribution	Underwriting	General
Micro/Small	21%	32%	26%	43%
Medium/Large	37%	42%	39%	57%

◇ Source: Swiss Re, Sigma (Apr, 2016)

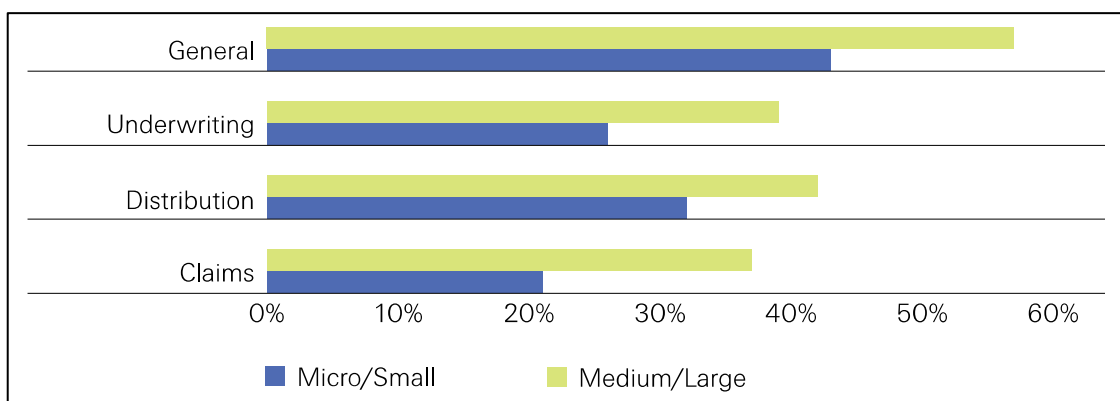


Figure 4.3: Mutuals' adoption of technology, by size of firm

◇ Source: Swiss Re, Sigma (Apr, 2016)

However, when adopting technology, the companies need to be mindful of cybersecurity, including customers' data, the company's core technology, and other confidential information. Online payment is also a focus of cybersecurity. Companies should ensure not to leak customers' personal and bank information. Because if it went wrong, not only would customers suffer from financial loss, but the reputation of companies would be damaged too.

4.8 Conclusion

The development of mutual insurance in China is still at a very early stage, and so there are many aspects that need to be improved. Firstly, the forms of mutual insurance organizations need to be increased, but at the same time, mutual insurance organizations should find the most suitable form for their development, rather than simply apply foreign successful experience. Secondly, product design needs to be more refined. Product design is the essence of an insurance company, and a good product is halfway through success. Mutual insurance companies should understand and research the market deeper to design products that better meet customers' needs. In the product design process, it is very important to let the products go through more precise actuarial calculations. Currently, the mutual insurance products are not actuarially tested and hold many potential risks. Mutual insurance companies should pay attention to this problem and correct it as soon as possible.

When choosing appropriate sales channels, mutual insurance companies need to find the most effective one for their development. For traditional mutual

insurance companies, they should mainly stick to their original channels and then explore Internet channels, while for newly established mutual insurance companies, the online platform seems to be a better choice. Mutual insurance companies always have a hard time with capital financing and they should find a sustainable way to solve the problem. Companies could try to import qualified strategic investors and at the same need to be flexible about the conversion of organization form. In addition, mutual insurance should become a good friend of high technology and try to make the most of it to improve product design, sales process, and company operation. Cybersecurity should be the major prerequisite of using high technology.

Lastly, from the government level, mutual insurance law needs to be finalized as soon as possible. Currently, there are many regulation violation cases in the mutual insurance market. The reason is that there is no official law or legislation for industry practitioners to follow. So supplementing the Insurance Law (1995) with mutual insurance provisions is very urgent.

5. Future Trends of Mutual Insurance in China

5.1 “Big Data + Mutual Insurance” Model

With the rapid development of new technology, the future business model of mutual insurance will be combined with big data. This model will help mutual insurance companies accumulate high-quality members in the long run. Using big data, the algorithm could pinpoint high-quality customers and gather those people with the same protection needs, which will greatly improve the effectiveness and efficiency of operation. In the meantime, it could help the company decrease operation cost, since most of the communication could happen online, which cuts the transportation fees to a great extent. Furthermore, with big data technology, companies could conduct various research and studies to refine pricing and to design products that better fit customers' needs.

5.2 Disintermediation

Nowadays, market intermediaries can be found everywhere. They obtain the economic benefits of both sellers and buyers. So the intermediaries are a benefit loss for both parties. However, in the ecosystem of mutual insurance, the function of intermediaries has been included. It provides a platform where buyers and sellers could exchange information and resources freely and without benefit loss. The ecosystem offers insurance as well as financial protection. So mutual insurance will expedite the disintermediation of the insurance market.

5.3 Few Market Participants

Although the future of mutual insurance seems to be bright, there is much uncertainty that will hinder its development. The biggest problem is mutual insurance's difficulty in capital financing. The companies can only acquire capital from premiums, rather than from the financial market. It limits its capital sources and has pushed many mutual insurance companies to convert to joint-stock form. So for mutual insurance companies, to gain more capital, they would need to expand the company's size to absorb more premiums. However, this would lead the companies to a dilemma that a fast-paced expansion sometimes attracts many low-quality customers, and absorbing a large number of premiums in a short time could be considered illegal fundraising. So internally, mutual insurance companies are still facing big challenges.

Externally, there has been a trend of strict regulation from the government in recent years. And with more and more policy violations by online mutual aid platforms, the government has decided to carry out more restrictive legislation to supervise the market. Therefore, the number of mutual insurance companies will not dramatically increase in the next few years. However, the number of companies does not represent the performance of the market. It is the companies' quality that can define the mutual insurance market. As we can see, more and more mutual insurance products are being noticed by customers; moreover, companies, like Trust Mutual Life, are running profitably. So we are sure that the future of the mutual insurance market will be even better!

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