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Drop half a cent.

How China is curtailing the "people's" insurance replacement.

China closed mutual aid platforms, a cheap alternative to health insurance. Such services were prevalent—as a rule, they did not even require regular contributions, but through crowdfunding, they collected enough to, for example, pay one of the participants for an operation for several tens of thousands of dollars.

They were used by tens and even hundreds of millions of people in China. Major technology companies promoted the idea, and even the authorities supported it. However, the official attitude has changed; now, the services are closed individually.

Not that the authorities seriously decided to fight them. But against the background of tightening control over financial and technology companies that began last year (the example of Alibaba and its financial arm Ant Group, for which this turned into an IPO failure, a fine, and restructuring, not counting rumors about the house arrest of its founder Jack Ma), "people's insurance" attracted the attention of regulators.

Previously, the authorities ignored that popular services operate in the "gray zone"—like insurance—but without strict requirements for the organizers. This also suited the market leaders who started such projects, even if they did not correspond to their core business (transport or food delivery). But now, these projects are an extra headache for them.

Insurance

In China, almost the entire population – approximately 97% – has basic health insurance. Some people pay mandatory fees, and some are subsidized by the state (subsidies, for example, are received by residents of rural areas). But for many, this is not enough. In a survey conducted by Ernst & Young among residents of large cities, about 40% of respondents said they were unsatisfied with public health care. Many complained that basic insurance did not cover the drugs they were prescribed. Restrictions may arise if a person

wants to receive help outside their place of registration—some of those who went to work in another city said they had to return home to use insurance. China's population is gradually "aging." According to official forecasts, from 2010 to 2030, the proportion of people over 60 will increase from 13% to 25%, while the share of the working-age population will decrease from 70% to 57%. This increases the burden on formal health care and the demand for medical services.

The extra cost—what people pay out of their pocket—can be significant. McKinsey estimates 20-30% for primary insurance inpatient care and much higher for some diseases. According to the company, people pay about a third of China's healthcare costs directly. Bribes can also be added to this, for example, to get an appointment with a doctor quickly.

Not everyone can afford additional insurance. Authorities say it can be affordable for less than 100 yuan (less than \$15) annually. However, industry officials acknowledge that the more expensive products — insurance against serious illnesses — may be out of reach for many. Often, people also do not have the savings (according to an Ernst & Young survey, about a third of respondents said this) to pay for treatment costs - including in addition to insurance - on their own.

Platforms

At the heart of "people's insurance" is the same idea as the usual one—to collect more participants and spread the risks. The difference is that it can do without regular contributions and a constantly replenished fund. If one of the participants becomes seriously ill, others will have to raise money for treatment or surgery.

Another difference is low administrative costs. Maintaining such platforms in China, on average, took about 8% of the funds raised (for insurance companies, such fees are higher - in the US, they range from 12% to 18%; in general, about a third of US spending on healthcare goes to administrative purposes)

Similar communities exist in other forms as well. Mutual aid funds operated in the Soviet Union - participants paid contributions, and in return, they could receive loans. Neighbors or co-workers sometimes set up "mutual aid funds" like mutual credit societies in Egypt. Each month, they pay dues, and the collected money is given to one of the participants in the order of priority.

Participants can receive a large amount—for example, for treatment or a large purchase—but they must return it in full.

One of the platforms was founded in the early 2010s by Zhang Mading, a financier from Tai'an (eastern China). The idea came about after he had to borrow money for an expensive treatment—he figured that others could use a semblance of crowdfunding for this. Zhang created a community in the QQ messenger (similar to WhatsApp) for mutual help with cancer and other diseases (the list consisted of several dozen, including diabetes and Parkinson's disease).

The idea proved popular.

In a few years, the community has grown to 500 thousand people.

Participation was free - and everyone could claim up to 300,000 yuan (about \$45,000) for assistance - with such a payment, the rest had to hand over less than 1 yuan (about 15 cents) each. For this, it was necessary to stay in the community for at least a year - and all this time to help others. Applications were also carefully checked (checks were assigned to one of the insurance companies). In general, of all applications submitted, about a quarter were approved.

People were attracted not only by the benefits - many liked the simplicity of the model (an analog of insurance could be obtained without unnecessary formalities) and the ability to help others directly. "You can call it social innovation," said Hu Jinbei, a professor of economics at Shanghai University. "We have enough good people in China, but we lack the systems that would allow them to help each other."

Although the services are designed for the masses, they, like conventional insurance, may have limitations. For example, in the case of Xiang Hu Bao, the age service was opened only for users under 60 years old (at the same time, parents could enroll their children older than one month there). Other platforms, such as Shuidi Huzhu, have targeted people over 60 as well.

Others followed suit, and hundreds of such startups soon emerged in China. Many projects turned out to be short-lived, but large technology companies took their place - in 2018, Ant Financial, a division of Alibaba, launched the Xiang Hu Bao service (roughly translated - "mutual aid"). Meituan (one of the largest food delivery operators), the transportation service Didi Chuxing, and even smartphone manufacturer Xiaomi have acquired their platforms. Their

customer bases provided new services with rapid growth - in a month, Xiang Hu Bao had 20 million users, and in a year, it had 100 million. Alibaba predicted that by 2021, there will be 300 million of them, and by 2025, such services in China will be used by 450 million - about a third of the population.

Control

At this scale, contributions remained small when they still had to be paid. When one of the members, Xiang Hu Bao, a girl from Shanghai, suffered a head injury and needed surgery, 300,000 yuan was raised for her. From each (this happened shortly after the creation of the platform), it took only 0.03 yuan - about half a cent. Another participant, a businessman from Hangzhou, a city in southeastern China, said that he took out two "people's insurances" for his family at once and paid contributions of about 50 yuan (\$7.7) a year. Another farmer from a small town in eastern China received about 30,000 yuan (\$4,600) from the Shuidi Huzhu platform, previously spending about 15 yuan (\$2.3) a year on donations.

"I joined Xiang Hu Bao because I wanted to help people," said a resident of the southern province of Hunan. "One or two yuan is not much. And I was not looking for any benefit for myself at all. But when I got sick, it came in handy." When he was diagnosed with cancer, 100,000 yuan (about \$14,000) was collected for him. By then, he had spent about 4 yuan on contributions - less than \$1.

Most of those who used "people's insurance" - were people with medium and low incomes and residents of small towns and rural areas. The creators of the largest platforms - Xiang Hu Bao and Waterdrop Mutual - admitted that they do not bring profit. However, Ant Financial says such services increase people's interest in conventional insurance. According to surveys for 2019, about one in three Xiang Hu Bao participants would buy health insurance shortly. Sales of companies that offered their products on the Ant Financial insurance platform after the launch of Xiang Hu Bao grew by tens of percent - and this, according to the creators of the "people's insurance," manifested its side effect.

The authorities' attitude was favorable. Some official documents approved the idea of mutual assistance: "Such a community is a positive addition to the social security system," wrote the official press about one of the early projects.

The growing market for "people's insurance" required more resources from operators to verify claims. The creators of Xiang Hu Bao have recently received about 2,000 payout requests every week. Some users complained that checks on their cases lasted for months.

But last year, China began to tighten control over the financial and IT sectors (one of the reasons is the desire of the authorities to limit the growing influence of large companies). This was reflected in the attitude towards "people's insurance."

Last September, the Banking and Insurance Regulatory Commission called the market for such services "wild," saying it operates "in a gray area where there is no oversight " and that the situation could become risky for both participants and companies.

Theoretically, companies had the opportunity to resolve issues with the regulator - but they have decided it is easier to deal with problematic services.

e get rid of. In early 2021, Meituan announced that it was closing such a project at home (according to the company, more than 10 million people participated in it) and "focus on the core business." Soon, Waterdrop, an insurance company backed by Tencent, one of China's largest investors, announced that it was halting its service (which had been around for several years, had 80 million members, and helped tens of thousands of them). Xiaomi also announced its exit from this market. Several other platforms have done the same. Some offered compensation to the participants, such as Waterdrop, the usual annual insurance at the company's expense. Ant Group admitted that they could get rid of their service (according to the company, more than 116,000 people received help there over the years - for a total of \$ 2.6 billion). But later, from unofficial sources, it became known that regulators considered the closure of the largest "people's insurance" undesirable. There were fears that this could cause a "wave of social discontent." One of the possible options is to reformat the service, turning it into a regular insurance business.