



Reconstruction of China's Social Insurance Service Delivery System

Commissioned Paper by CISS-CASS



**A paper commissioned by the IBM Cúram
Research Institute.**

**Authored by the Centre for International
Social Security Studies (CISS) at Chinese
Academy of Social Sciences (CASS)**



Foreword

Martin Duggan, Director, Cúram Research Institute

Since the 1990s, China has made great progress in developing a modern social insurance system which is currently the largest one in the world in terms of covered population. However, the service delivery provided by the Social Insurance Administration (SIA) system is still evolving. While it provides more benefits and services every year, it faces a range of obstacles to meet increasing public needs in a rapid economic and social transformation process. So, this paper was written to provide a better understanding of the Chinese system and the challenges it currently faces and some possible solutions being explored.

This paper conducts a historical review of the development of China's social insurance benefit delivery system. It describes the current conflicts in establishing a fully-working model: growing social insurance coverage with limited work staff nationwide; the budget constraint caused by reducing financial transfers and increasing administrative costs. The paper also draws international case comparisons and outlines suggestions on how to reconstruct the social insurance benefit delivery system for improvement in some areas. It was written by the [Centre for International Social Security Studies at Chinese Academy of Social Sciences \(CISS CASS\)](#) and was commissioned by the [IBM Cúram Research Institute](#) as part of the [IBM Cúram Thought Leadership Series](#). It was published in August 2014 as part of a larger collection of [work](#).

The [IBM Cúram Research Institute](#) is IBM's health and social policy research arm. Its mission is to foster the development of innovative service delivery models to raise the social and economic potential for people and society. The Institute is committed to undertaking and commissioning research with a focus on the cross-over from policy to service delivery. In order to analyze contemporary health and social policy issues and foster the development of innovative new ideas and solutions, the IBM Cúram Research Institute launched the [Thought Leadership Series](#) which involves running industry thought leadership Executive [Roundtable events](#), commissioning research papers with policy experts and researchers, and holding workshops and interview sessions with health and social organizations in order to learn about and share industry best practices. The hope is to help organizations improve outcomes for all.

The [Centre for International Social Security Studies at Chinese Academy of Social Sciences \(CISS CASS\)](#) was established in May 2010 as a non-profit academic institute under the administration of [CASS](#). It aims at providing intellectual support for decision-making about China's social security development and reform as well as relevant theoretical study. Its goal is to become a domestically leading and internationally renowned think tank in the field of social security.

I encourage you to read and learn more about social security development and reform strategies.

Martin Duggan

Twitter: [@martinduggan](#)

LinkedIn: www.linkedin.com/in/martinduggan



Reconstruction of China's Social Insurance Service Delivery System

Introduction

Since 1990s, China has made great progress in developing a modern social insurance system which is currently the largest one in the world in terms of covered population. However, the service delivery system provided by the Social Insurance Administration (SIA) system is still underdeveloped and facing a variety of challenges to meet the increasing public needs in the rapid economic and social transformation process. In 2013, the 3rd Plenary Session of the 18th CPC Central Committee made the decision to construct a service-oriented government in which the reform of social security administrative system was one of the most important tasks.

To discover in depth about China's social insurance service delivery system, the IBM Cúram Research Institute and the Center of Social Security Studies at Chinese Academy of Social Sciences (CISS CASS) sponsored a cooperative research project titled "Reconstruction of China's Social Insurance Service Delivery System". This project includes a historical review of the development of China's social insurance benefit delivery system, the current conflicts of growing social insurance coverage with the limit of the work staff nationwide, the constraint of the financial transfer to the administrative cost expansion, international cases comparison, and suggestions to reconstruct the social insurance benefit delivery system, thus having a comprehensive perspective for China's social insurance delivery system reform.

Basic Facts

China’s modern social security system was introduced in the mid-1990s as one of the essential elements in a market-oriented economic reform. In the past two decades, the social insurance programs for pension, health care, unemployment, work injury and maternity were progressively implemented and expanded rapidly both in rural and urban areas. At the end of 2013, it was estimated that there were 322 million pension participants, 573 million medical insured, 164 million unemployment insured, 199 million work injury insured and 164 million maternity insured covered by urban social insurance system, and 497 pension participants were covered by the rural system (see figure 1).

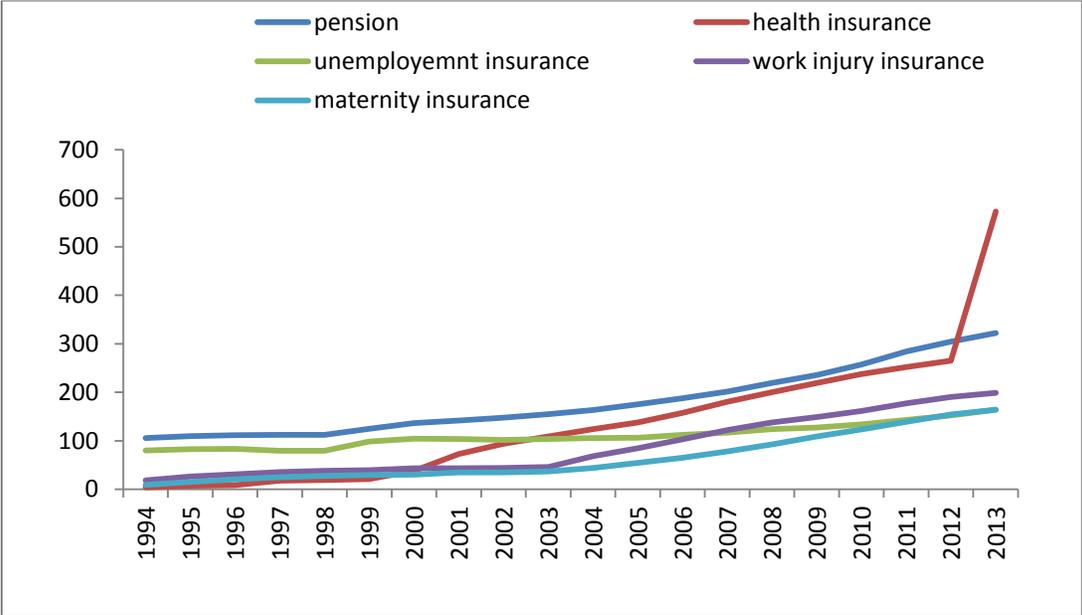


Figure 1 Covered Population in China’s Urban Social Insurance System 1994-2013 (in millions)

Source: 1994-2004 MOHRSS Bulletins on Social Security Development.

As those social insurance programs expanded, SIA agencies at different level of the governments were established. At the end of 2013, there are totally 8363 agencies, 177,000 work staff in those agencies (see figure 2).

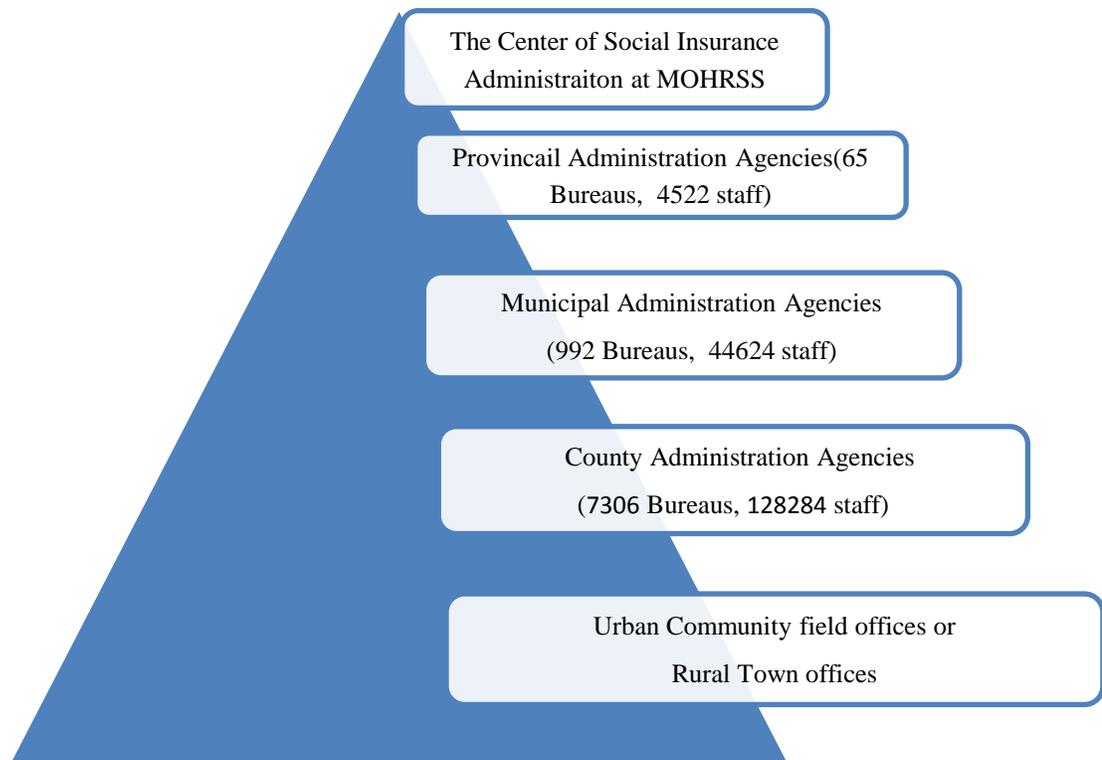


Figure 2 Social Insurance Administration Agencies at Five Level Governments

Source: MOHRSS 2014.

Originally, those agencies belonged to government branches which took the responsibility of delivering social insurance service including collecting social insurance contribution, managing social insurance funds, recordkeeping, paying benefits, etc. Recently, most of them had been redefined as public institutions undertaking social insurance services. However, more than half of those agencies are administrated according to the rules applied in the government sectors, and their administrators are usually treated as government officials who enjoy the same kind of salary and welfare benefits which civil servants have.



In relation to the funding issues, those agencies are financed by general transfers from the governments. All of the expenditure items, including salary, office expense, infrastructure maintenance, IT investment are funded by the right level of the governments which administer those organizations. In 2013, the total expenditure of those social insurance administration agencies was about 15.8 billion Yuan of which more than half was personnel expenses.¹

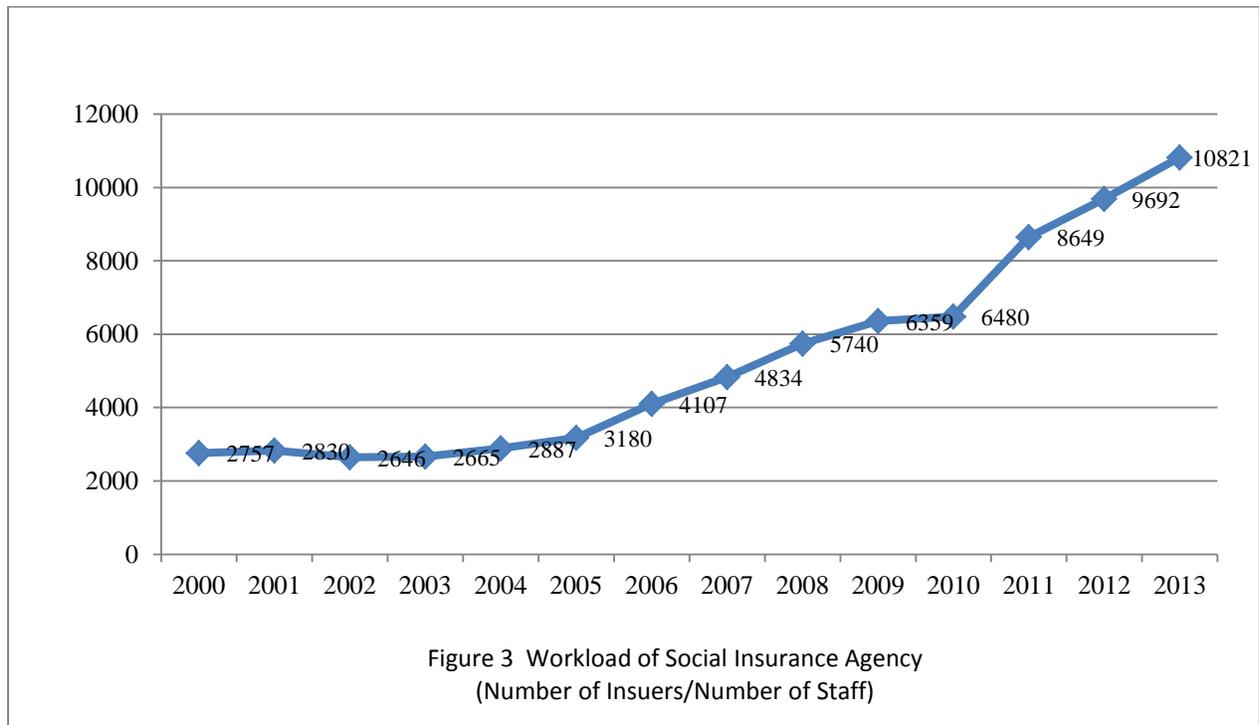
Current Difficulties and Challenges ahead

In the past two decades, China's SIA agencies have made great achievements in delivering service as social insurance programs expand rapidly. However, the current administration system is under great stress to provide high quality and efficient service to the public and facing big challenges ahead.

Understaffing

The workload for China's SIA agencies is among the highest in the world. From 2000 to 2013, the workload ratio (number of served insurers by per staff) increased from 2700:1 to 10000:1(see figure 3). Over the past 14 years, the covered population of the five social insurance schemes and the social insurance revenue managed by those agencies increased by 830% and 1200% respectively, but the workforce at social insurance agencies grew by only 140%. As the business managed by those agencies increased dramatically, employees at SIA's field office are always very busy and have a hard time to accomplish their over burdensome tasks. Since workers at SIA are public employees, the size of their personnel force is restricted by local governments under the background of cutting public budget in recent years. The situation becomes even worse at SIA's field offices at county, community or town levels where very few specialized staff work. In some agencies, they have to employ temporary workers who are unskilled and lack of expertise to handle the business. Therefore, the current state of poor workforce has made SIA pay more attention to finishing their duty than to improving their performance. In other words, SIA is locked in the situation of "dealing with" business and the service delivered to the public is rather quantitative one than a quality one.

¹ MOHRSS 2014



Source: MOHRSS 2014.

Underfunding

Unlike many countries in the world which fund social security administration by social security revenue, China use public transfer to fund social insurance administration expenses. According to public budget planning rules, the funding for public institutions is linked to the size of their personnel force, which consequently limits the growth of SIA's funding. As shown in table 1, although the funding for SIA rise significantly from 2010 to 2014, its level is still declining when compared to the revenue of social insurance revenue. By 2013, the ratio of service fees paid for each insurer (SIA's funding/the number of covered population in the five social insurance schemes) is only about 8.2 Yuan (1.3 US Dollars), which is far behind countries in Europe and America whose ratio usually is higher than 20 US Dollars.



Table 1 SIA’s Funding 2010-2013

Year	SIA’s Funding (billion Yuan)	Funding/social insurance revenue	Service fees per insurers (Yuan)
2010	11.25	0.73%	11.54
2011	13.13	0.64%	9.39
2012	14.81	0.62%	8.88
2013	15.78	0.58%	8.2
growth per year	8.83%	-5.60%	-8.20%

Source: MOHRSS 2011,2012 and 2013.

Another funding issue is that there isn’t a national criterion on funding SIA agencies. Since the budgets of SIA agencies are made by local finance bureaus, in most cases richer governments allocate more resources to SIA than the poor ones do. The funding gaps among SIA agencies exist widely in the 31 provinces. Even in the same province or same city, such gaps also emerge. As budget is tough, some local offices in poor areas especially at the county level have a hard time to invest more to improve their office condition, infrastructure building, and IT platform which greatly influence their efficiency on doing business.

Poor administration system

SIA’s structure has evolved as the five social insurance schemes were introduced and expanded rapidly. However, in this process SIA’s reform has lagged behind the changing world. Besides, so far there isn’t a clear guidance or strategic vision on how to develop the system, resulting in a disordered administration system.

- **Organization.** Traditionally, SIA's organization has followed governmental structure, with a headquarter belonging to MOHRSS, provincial bureaus and local branches. The overall administration system is not independent since the workforce, funding and property of those agencies are managed by local authorities. This results in great disparity on local agencies' settings. So far, there isn't a unique name for SIA agencies--some are called "bureaus", some called "centers", some called "offices" and so on, always makes the insured person feel confused when they go to SIA's office. Another important issue is that the officials at local agencies care mostly about their administration grades in official rank series. Even within the same level of local agencies, their departmental grade could be different.
- **Integration.** Currently, there are five social insurance schemes among which pension system and health care system have developed both in rural and urban areas. Efficiency improvement could happen if some kind of services such as revenue collection, record keeping and IT network in those five programs could be incorporated. However, traditionally most of those schemes are managed by separate entities, with some functions and organizations overlapping. As a result, the systems and business procedures have been created over time to fulfill a specific historic purpose or program requirement, without integrating the needs of other social insurance programs. Currently, the authorities are pushing forward an integration strategy on administration for those five schemes. Hopefully, this situation could be changed in near future.
- **Efficiency.** So far, SIA has not developed a standardized system on proceeding business. Different local agencies have their own administration procedures both in the front window service and in back office management. The differences in processing design brings troubles for the costumers, especially for those migrant workers when they have need to totalize their social insurance benefits accrued in different areas. On the other hand, many procedures and tools are outmoded and are still being used, combined with the weak IT system, resulting in inefficient service outcomes.

Undeveloped IT system

The efficiency of social security administration relies a great deal on information technology. In 1990s, SIA had been a community-based agency where face-to-face contact is the primary mean of delivering service. At the beginning of 21century, MOHRSS launched a national "Golden Security" project in which SIA's IT system is involved in as a major component. Currently, a variety of technologies including telephone service, the internet, and other communication technologies are being used to serve SIA's customers. However, SIA IT system is still developing and far from well functioned.

Firstly, there seems lack of an overall strategy on the development of current fragmented IT platform. Usually, the IT systems are constructed at provincial or municipal levels, and each region has its own system which is seldom compatible to others. As a result, customer's social insurance records are always managed at local levels, resulting in unnecessary troubles when customers transfer their benefit across

regions. Although millions of social security cards have been issued, those cards cannot be universally used across the nation.

Secondly, the funding for IT system construction and maintenance are also very weak. At the central government level, there is not a funding channel for the investment of IT system, and thus so far the national computer center (database center) is not established yet. Since there isn't an available budget plan on IT system, most of the local agencies have to find resources to finance their own IT projects.

Thirdly, SIA relies a lot on other government departments such as Ministry of Civil Affairs, Ministry of Public Security and so on, to get basic information of the insured population. However, this kind of information sharing mechanism has not been realized and a universal network covering citizen's information has not been created.

In sum, those difficulties mentioned above have largely undermined SIA's capacity on serving the public. Currently, SIA's reform is at a critical juncture in promoting its ability to fulfil the mission committed to the public in the coming decade. Undoubtedly, the mission has grown and the scope of the agency's responsibilities far exceeds what the current agency could provide. Looking forward, challenges such as shifting demographics, millions of migrants in the rapid urbanization process, changing customer expectations, burgeoning workloads, and rapid technology innovation have pushed SIA's ability to deliver high quality service to the brink.

Those challenges are immense and trend analysis points to some basic conditions that are likely to emerge in next decade.

- As the new urbanization strategy being push forward, millions of migrant workers will take part in the social insurance system. It is estimated the overall population by times covered by social insurance system will beyond 3.3 billion by 2020, rising by 7% per year. The rapid extension of social security coverage will continue to add burdens on SIA.
- To construct a service-oriented government, the nation will put more effort into social governance. A rights based social insurance service will be one of fundamental component of social services in modern society. How to provide a high quality service will be the priority for SIA's development. SIA should be independent, professional and innovative in the changing world.
- The demographics of the country are shifting and the population will continue to grow increasingly older. As the informal sectors grow dramatically, more and more employees in small enterprises and self-employed will enter into this system. The diversity of the insured groups will affect the needs and expectations for service. More personalized, delicate and flexible service will be on demand.



- Technology will become the primary means for service delivery. With the advent of new technologies there will be a proliferation in potential service delivery options. Mobile will become increasingly an important communication mechanism for conducting social insurance business for a large part of the population.
- There will be a transformation in the nature of “work” that is a reflection of the electronic world. Routine work will be automated and the bulk of the residual work will require more analytical or interactive skills. SIA’s work should be standardized, integrated, highly portable, flowing “on demand” to employees. A well-trained and flexible workforce will have the tools and capacity to process a diverse set of transactions to completion from any location.

International Experience

Modern social security system in the world has a history of more than 130 years. In sum, there are three types of social security administration models (see table 2).

In the first model, the government agencies deliver social security benefits directly. Countries in this model include the United States, UK, Canada, Australia, Japan, Korea, Sweden, Norway and other countries.

The second could be called “Autonomy Model” under which autonomous corporations or non-profit organizations take the responsibility of manage social security business. Such cases exist in some European countries as German, France, Spain, Portugal, Italy and Netherland.

In the third model, private companies manage social security fund. Typical cases are Chile and other 10 ten Latin American countries which have a private pension system.

Table 2 Social Security Administration Agencies in US, Japan and Korea

	Name	Independence	Manage Plan	Governance	Employee	Funding by	Organization
US	Social Security Administration (SSA)	Independent government agency	OASDI (old age, survivor, disability insurance)	Trustee board	62000 government employees	OASDI Trust Fund	10 regional branches, 1400 field offices
Japan	Japan Pension Service (JPS)	Independent public corporation	National Pension Plan and Employee Pension Plan	Trustee council	12000 private employees	Pension Trust Fund	9 regional branches, 47 affairs centers, 312 field offices
Korea	National Pension Service (NPS)	Independent public corporation	National Pension Plan	Trustee council	62000 public employees	Pension Trust Fund	89 regional branches

Source: US.SSA, <http://www.ssa.org>; Korea NPS, <http://english.nps.or.kr/jsppage/english/main.jsp>; Japan JPS, <http://www.nenkin.go.jp/n/www/english/>

Generally, China’s case should belong to the first model under which US, Japan and Korea could provide some experience for China to learn. Agencies in those three countries are independent, have a governance structure, and their administration costs are funded from social security fund.

Solutions for Future Reform

The social insurance service system is at a critical juncture in its ability to fulfil the mission of delivery benefits efficiently with high quality. Despite these difficulties and challenges mentioned above, the agency can step up and be promoted to a higher level performance by a comprehensive reconstruction with proper planning and development strategy.

- Regarding the organization of the agency, SIA should be redefined as special public institution which uses a modern governance structure to evaluate its performance. At the central government level, the National Social Insurance Service Bureau should be organized as an independent government agency; and at the local level, there should be a de-administration process on regional agencies which have a uniform functional structure.
- Regarding the issue of understaffing, a dynamic increase mechanism should be introduced in which the number of work staff in social insurance service system could match the number of participants in social insurance system, thus ensuring a reasonable workload level and good service quality.
- Regarding the issue of underfunding, funds appropriation for the service system should not be determined by the fiscal budget at different levels of government, and should be drawn from the social insurance funds. In order to improve the poor conditions of office and infrastructure, more resources should be invested into local agencies especially at county levels.
- Regarding the issue of disordered business operation, the procedures and tools used by SIA should be standardized, simplified and integrated in order to enhance the efficiency of operation and save cost.
- Regarding the IT system, there should have an overall strategic plan put forward by the central government and develop a national IT platform and universal network for social insurance administration and service delivery.