



Exploring the financial lives of low- and middle-income households in China

Briefing note

March 2023

1. Introduction¹

When researchers began to visit the Deng family in Pingjiang County in Hunan in 2020, the family ran a well-established home-renovation business alongside part-time jobs, allowing them to save on average USD 500 each month for their children’s education. During the initial lockdown in 2020, they lost all their income and most of their savings. Then, as the business began to recover, the family was hit by a new crisis: Mrs. Deng was hospitalized twice for foot surgery and, despite benefiting from the government’s rural medical scheme, the family faced around USD 3,000 in medical expenses. When new pandemic measures were implemented in 2022, with the renovation business unable to operate, part-time work unavailable, continuing tuition fees and medical costs, and its savings entirely depleted, the family’s expenses surpassed its income by almost USD 1,000 a month. Like many other domestic migrants, the Deng family is considering returning to their village.

Between June 2021 and May 2022, researchers from the Chinese Academy of Financial Inclusion (CAFI) at Renmin University of China spoke with almost 200 low- and middle-income Chinese families, like the Deng family, every two weeks. These in-person and virtual surveys, conducted in Yijun, Pingjiang and Shanghai, uncovered detailed information on families’ financial lives, including their income, spending and savings. The research began six months before the 2022 COVID -19 lockdown in Shanghai and charts the experiences of rural and urban households before, during and after COVID -19 lockdowns were in place.

These financial diaries, supported initially by the World Bank and, in its most recent phase, by AXA Research Fund and AXA Emerging Customers, represent the first time that the methodology, developed by Hulme and Rutherford at Manchester University and used in Jonathan Morduch and Rachel Schneider’s renowned study of low-income households in the US,² has been applied in China.

This study aims to uncover those vulnerabilities, and the ways in which families manage their finances day-to-day. The study provides a detailed portrait of the financial lives of low- and middle-income families in China’s cities, towns and countryside. It is intended to generate insights for financial service providers to deepen financial inclusion in the country and, in this way, to contribute to greater opportunities and resilience for low- and middle-income families in the country, like the Deng family.

2. Changing financial lives in the city, towns and rural areas

2.1. A new urban population at risk

China’s urban population has boomed in recent years. In fact, 21% of the country’s population, or 0.3 billion people, are classed as “new urban residents” – those who have moved to urban areas but have not yet obtained permanent residence with the local government or have done so in only the last three years.³ Many of these residents are migrant workers or new graduates. These new arrivals find themselves in short-term and insecure employment or, in many cases, set up their own small businesses. They are, on the whole, only just making ends meet and are unable to save. This population faces significant risks and insecurity and is ill-equipped with the social networks or financial services to manage these risks.

Households that make up this new urban population are largely women-led. In Shanghai, more than 80% of heads-of-households surveyed were women, and the research showed that most acted as the managers of family assets and decision-makers on family spending.

¹ Introduction: Written by Alice Merry and Michal Matul, this briefing note is based on the full report published by CAFI team in January 2023 ‘Improving household financial health in an uncertain world. Financial diaries of low- and middle-income households in China’, <https://en.cafi.org.cn/>. The project was funded by AXA Research Fund and AXA Emerging Customers, see more about the project, <https://axa-research.org/en/project/xiugen-mo>.

² Morduch, J., & Schneider, R. (2017). *The Financial Diaries: How American Families Cope in a World of Uncertainty*. Princeton University Press.

³ China Banking and Insurance Regulatory Commission and People’s Bank of China (2022). Notice on Strengthening Financial Services for New Urban Residents

2.2. Multiple income sources and multiple risks in China’s towns and countryside

Respondents in rural areas and towns rely on diverse sources of income. The Lei family, for example, in Shiilipu Village in Yijun, owns land where the family grows corn and walnuts. Mr Lei also has a job and, in addition, occasionally works part-time at a high-speed railway construction site nearby. Income from permanent or temporary jobs has come to represent half of the family’s income, in comparison to 39% from agriculture. This trend is even more pronounced in small towns, where many families have abandoned farming altogether, despite owning farmland.

Farming income is concentrated in a few months of the year, and families look to other activities for income throughout the year. In Yijun, for example, it was found that most household’s incomes peaked as a result of farming income in February and March, but other sources of income, including wage jobs, small businesses and temporary labour, were more important in other months (Figure 1).

Despite depending on several income streams, incomes in towns and rural areas remain highly volatile, as seen below.

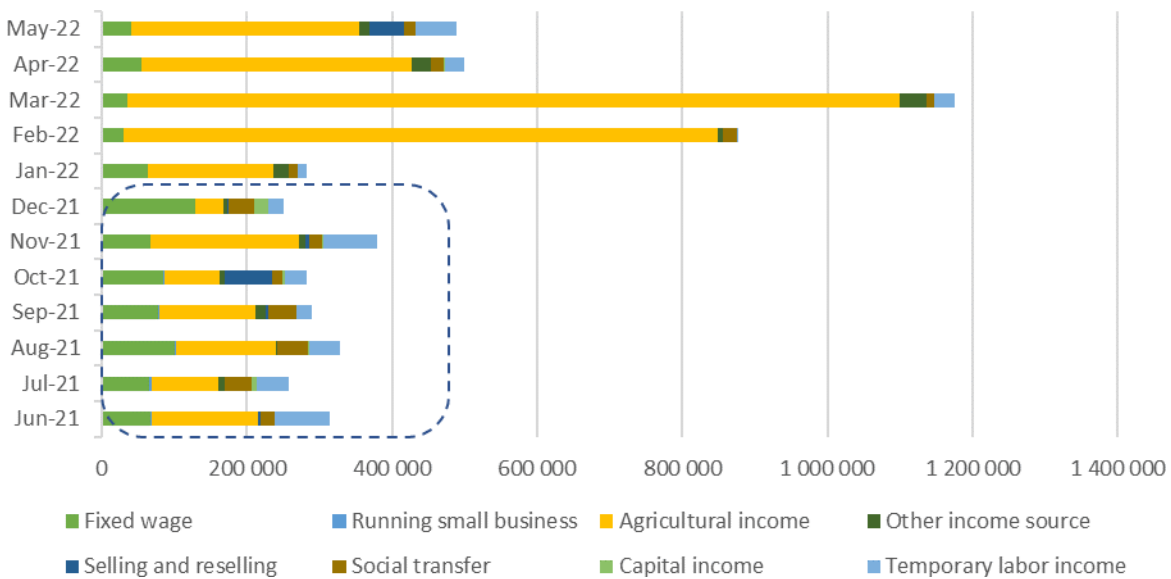


Figure 1. Income levels and sources over the period of a year in Yijun

In addition to volatile and insecure incomes, the poor, particularly in small towns and rural areas, are disadvantaged financially in social transfers. Social transfers, particularly Renqing, in which money is given as a gift at banquets to celebrate life events or holidays, is an important and expected aspect of social interactions. However, the financial diaries showed that low-income households with relatively low social status and resources are disadvantaged in these social interactions. Indeed, of all money paid out and received as social transfers among diary participants, only 4% was recorded as income in Yijun, the most rural of the three areas studies. This compares to 16% in Pingjiang and 22% in Shanghai.

Furthermore, in comparison to income and spending levels, social costs are highest in rural areas. Participants in Fushou town, in Pingjiang, for example, reported an expectation to give a sum amounting to almost a quarter of the average income in the region when attending the banquet of a friend. Mr. Lin in Fushoushan Town described the pressure to participate and the costs for his family:

We don't usually spend much, but there is huge pressure when attending a banquet that involves cash giving or Renqing in Pingjiang. Here, locals will host a feast for everything, ranging from weddings and funerals to all kinds of small things, especially in rural areas.

3. Resilience at risk: The impact of crises and of everyday shocks

3.1. COVID-19: A story of two worlds

COVID-19 has had a dramatic impact on China's record in lifting millions out of poverty. According to the Global Findex Survey, a striking 28% of the Chinese population experienced severe financial stress as a result of the pandemic.⁴ The financial diaries reveal how this impact varied between groups.

On the one hand, formally and permanently employed participants in the diaries were able to manage the financial consequences of the crisis. They were able to access support from employers and social welfare and were better equipped to make use of tools like digital group buying tools to help them get hold of necessities during price increases. For small business owners, gig workers and those without formal employment, on the other hand, the impact of lost income coupled with high prices was hard to bear.

These differences are charted in the spending patterns of five families (Figure 2). The Dong family, employed in public institutions, saw a significant drop in spending during the lockdown, as food and daily necessities were distributed by their employers and community, meaning they had few expenses. After lockdown restrictions were reduced in May, the family soon recovered to pre-lockdown spending levels. Huang worked as a cleaner in a private enterprise, and her family spending also declined significantly during the lockdown, as the owners of the property they rented shared their vegetable production with the family in order to support them. However, unlike the Dong family, the Huang household's spending did not recover after May. Another family, also with the name Liu, benefited from a good welfare package at the foreign company where she worked, which sent food and daily necessities to employees. In addition, the family had supplies on hand as they like to stock up on necessities. After May, the household spending began to increase again. The Shang family, on the other hand, faced greater struggles during the COVID-19 lockdowns. With a limited pension, Shang works as a part-time salesperson in a nursing house, which offers no welfare benefits. During the COVID lockdown, the family's spending surged, as they were forced to depend on expensive group buying,⁵ to access necessities, which cost two or three times the normal cost. Despite good salaries at private internet companies, Liu and her husband struggled during the lockdown given the companies' limited welfare benefits. Their spending reached short-term high in April, due to price hikes, and began to fall back in May. However, some expenses reduced during the lockdown and the impact was manageable for the family.

⁴ Demirgüç-Kunt, A., Klapper, L., Singer, D. & Ansar, S. (2022). *The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19*. World Bank.

⁵ During the COVID-19 lockdowns, when residents could not leave home to buy necessities, volunteers and community officers made bulk deliveries on behalf of groups of families.

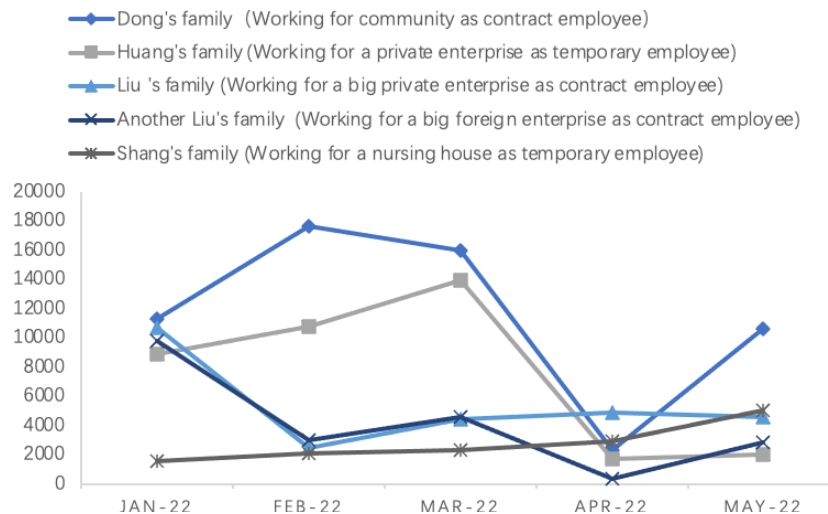


Figure 2. Spending changes during the lock down for five typical families

This range of experiences shows how the resilience of families depended on the stability of their income and their access to formal and informal support. For medium and low-income households with better security and welfare, such as those who work in public institutions or semi-public institutions, large enterprises and foreign enterprises, their spending declined due to the lockdown, but later recovered rapidly after restrictions were lifted. However, for casual workers, employees of small private enterprises, and self-employed individuals without sound security and welfare, the price hikes during the lockdown led to an increase in spending, and a weaker recovery once measures were lifted. Small business owners were particularly hard hit, as many businesses found themselves with next-to-no income during the lockdown and, in some cases, continuing expenses.

3.2. Everyday shocks matter, particularly income loss and health

Acute as the impact of the COVID-19 crisis was for many, every-day shocks play an equally important role in wearing down families' resilience over time and putting their hard-won progress at risk. Even during the pandemic, for many families, such as the Deng family described in the introduction, it was the combination of the pandemic and family risks – in the case of the Deng family, medical expenses for surgery – which brought the family to the brink.

A mapping of the probability and financial impact of various risks was created based on the financial diaries (Figure 3). Loss of a main income source is the most impactful risk and, alarmingly, also experienced relatively often in comparison to other risks. Medical risks, on the other hand, are by far the most probable. Indeed, despite strides in expanding access to China's basic state medical insurance, which now reaches over 95% of the population,⁵ health problems remain the costliest risk faced by families in the financial diaries project. Co-payments for health events covered by the national insurance range from 30% to 60%, depending on the province and treatment required, meaning that families need to make significant out-of-pocket payments in many cases. The frequency of the risk means that costs quickly add up. Outpatient medical expenses are a particular burden, with a family member needing outpatient treatment on average every other year. Mr. Zhao in Shanghai reported the burden of medical expenses that he experienced:

⁵ World Health Organization. [Universal health coverage and health reform in China](#) (accessed 13/01/2023)

I often go to the hospital many times a month, and almost spent all my pension on this. A few hundred or thousand a time adds up to a lot.

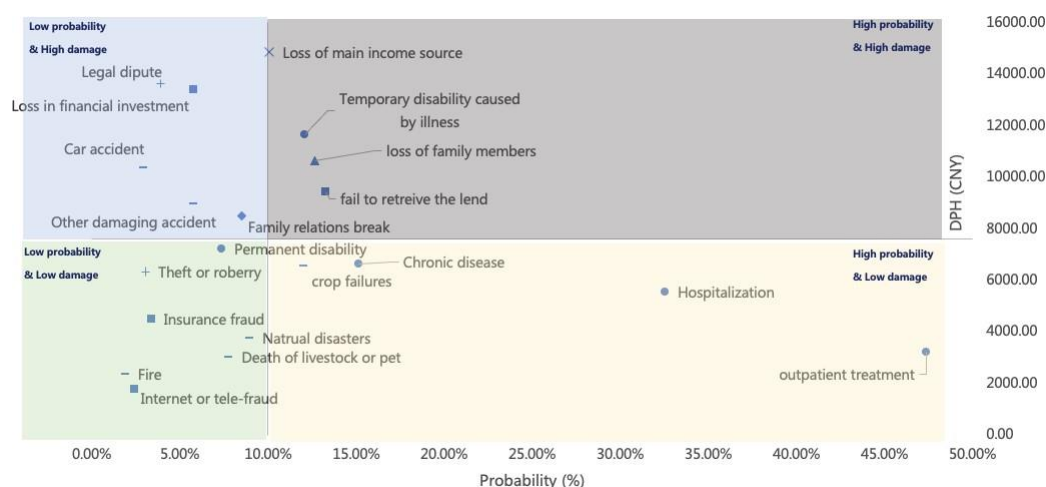


Figure 3. Risk map according to probability and financial impact of risks

Furthermore, health problems frequently represent a double hit: families must both cover medical expenses and face the lost income of an ill or disabled family member. Ms. Huang in Shanghai, for example, explained that she was carrying out exhausting physical work as a cleaner in her fifties because of her family's difficult financial situation. In addition to her father's stomach cancer, her husband had suffered a cerebral infarction, leaving her with high debts, mounting medical expenses and the loss of her husband's income.

3.3. The resilience of small businesses – the cornerstone of the Chinese economy – has been impacted

Small businesses are essential to the Chinese economy, representing over 60% of the country's gross domestic product, half of its tax income, 79% of job creation and 68% of exports.⁶ However, even before COVID-19 hit, they faced significant risks. Small businesses experience volatile cash flows and are highly exposed to business shocks, as well as the personal risks of the business owner and key workers.

In this context, the COVID-19 lockdowns and related economic challenges proved devastating for swathes of small businesses in the country. The story of the Deng family and their home renovation business illustrates how business and personal risks interact (in this case, lost business income and high medical expenses for a family member), with devastating consequences. This is seen clearly in the balance of income and expenses recorded for the family overall most two years, in which steady decreases are seen as a result of lost income during pandemic control measures, as well as sudden drops as a result of family costs.

⁶ OECD (2022). Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard. OECD Publishing.

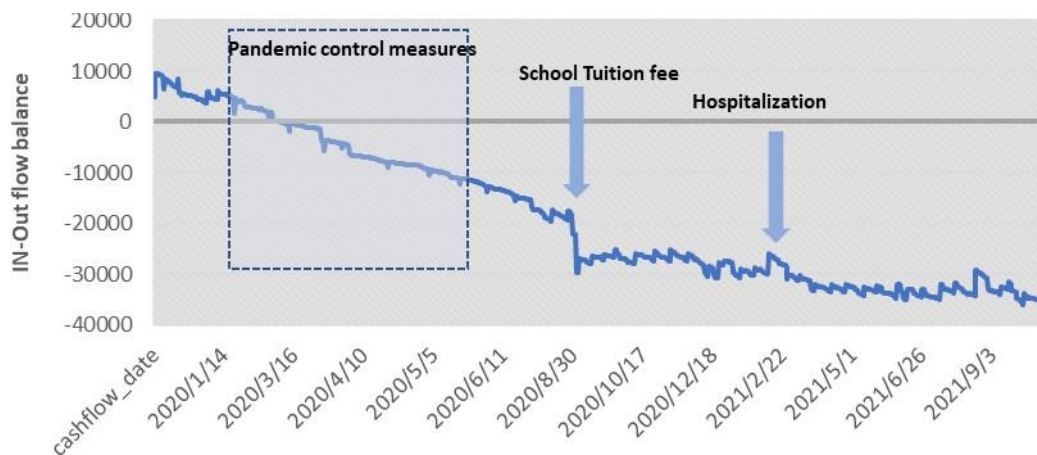


Figure 4. The balance of income and expenses of the Deng family between January 2020 and September 2021

3.4. The tools available to low- and middle-income people to protect their families and their businesses are falling short

The financial diaries show that participants do not have sufficient informal or formal mechanisms to protect themselves and their businesses. In all three areas studied, families reported that they rely largely on family for support in a financial emergency, with 65% of financial diaries participants in Yijun, 71% in Pingjiang and 77% in Shanghai reporting they would go to family for financial help in the case of a medical emergency. Other important responses included taking personal actions, such as increasing working hours or selling assets, and seeking help from friends. However, these informal mechanisms are insufficient, with only 29% of the country's low-income population reporting that it could not raise a moderate sum of money in a financial emergency.⁷

Furthermore, despite the most mature digital ecosystem in the world and an impressive 89% of adults having a bank account,⁸ the financial diaries found that few families made use of financial services to manage their risks. Insurers in China have introduced low-cost microinsurance products. However, families reported that financial institutions, including insurance, played a small part of their response to risks. Therefore, with formal protection largely unavailable or not accessed, and informal mechanisms providing insufficient protection, low- and middle-income people and small businesses in China find themselves under-protected.

4. Financial tools: rapid advances and important gaps

4.1. Digital payments are accelerating but highly uneven

Individuals and businesses, particularly in cities and towns, are increasingly receiving money and carrying out payments through digital tools. However, there are key gaps, particularly for small businesses and agricultural households, which still carry out many transactions in cash. Insurance payment in particular, with the exception of motorbike and car insurance, remain heavily cash based.

⁷ Demirgüç-Kunt, A., Klapper, L., Singer, D. & Ansar, S. (2022). *The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19*. World Bank.

⁸ Ibid.

4.2. The impact of credit is limited

China benefits from arguably the most mature digital ecosystem in the world and an impressive 89% of adults owning a bank account.⁹ However, access and use of a wider range of financial services is limited among much of the population. The diaries show that low- and middle-income households do not have the skills or tools to effectively manage credit and debt. Use of credit varies between locations, with rural populations using credit to fund agricultural production, in towns it is most often used to deal with short-term cashflow issues, and in Shanghai credit is most often used to smooth spending. However, in all locations, credit is not being used fully to expand the opportunities of families' and businesses. Furthermore, since those taking out debt, particularly in the case of older customers, often do not have good credit management skills, they often make mistakes or default. These problems were exacerbated during the lockdown, as reported, for example by Ms. Shangin Shanghai:

"My only credit card hurt me badly enough. I borrowed RMB1,200 in total, but I couldn't go out to earn money during the lockdown the card became overdue. As a result, the overdue fee plus interest totalled more than RMB 400 [approximately USD 49]."

4.3. Insurance is under-used and mistrusted

Around a third of households that participated in the study had some form of commercial insurance, but it is concentrated in certain forms of insurance, particularly agriculture insurance, which is widespread in rural areas. In fact, spending on (largely agriculture) insurance, represented 7% of total spending in Yijun. Nonetheless, not all farmers are insured, and some uninsured farmers reported devastating losses. In addition, insurance has not always proved effective or sufficient. In 2018, there was a natural disaster which affected walnuts, a major farming activity in Yijun. Farmers reported that the insurance companies did not pay the claims for the government-subsidized insurance for the crop and simply returned the year's premium. Farmers in the region did report receiving claims pay-outs for government-subsidized insurance for the apple production in 2016 and 2017. However, the payments covered less than a quarter of production costs and only a fraction of their lost income. In addition, given the multiple and often insecure income streams of rural households, agriculture insurance only covers one element of rural household's income and only one of the risks they face. Rural households continue to be exposed to the risk of lost income and to personal risks like health emergencies.

Beyond rural areas, there is an emerging but still relatively underdeveloped use of insurance in cities, and insurance is particularly under-used in towns. Limited use of insurance suggests the need for insurers to continue innovating to offer relevant products, particularly outside of major urban centres. It also reflects poor trust in insurance among low- and middle-income consumers, and particularly among elder consumers. When financial diaries participants were asked how they felt about insurance sales, almost 30% reported that they would refuse to talk to or would be uncomfortable talking to an insurance salesperson, with only 20% interested or willing to have such a conversation. Ms. Huang's story reflects the experiences of many. Ms. Huang, who lived in Shanghai, had taken out an inclusive commercial health insurance policy for her family, including her father. When her father needed an operation for gastric cancer, she was told that the medical expenses for the operation could not be reimbursed. Ms. Huang described her frustration and disappointment: "the annual premium of CNY 500 (approximately USD 75) per person is a big expense for our family, but we ended up facing endless disputes and excuses."

⁹ Ibid.

5. Recommendations

Based on the findings of the financial diaries, the financial sector and government actors in China can take steps to promote the resilience and well-being of low- and middle-income families:

- Support low- and middle-income households to better manage their cash flow, and small business owners to increase production, through accessible, affordable loans and savings products.
- Develop flexible, digital insurance products to meet the needs, irregular cash-flows and most pressing risks of China's growing population of gig workers, self-employed workers and small business owners. Loss of income and health risks are key to these groups.
- Recognize the myriad economic activities and risks now faced by rural populations and those in small towns, for whom agriculture is no longer their only important source of income. Promoting personal insurance products is just as important as promoting agriculture insurance in small towns and rural areas.
- Greater provision of inclusive health insurance is central to improved resilience. Endorsed by local authorities, progress on Huiminbao schemes over the last three years has been spectacular, with over a hundred million people benefiting from a fair, supplementary benefit to cover social security co-pays for hospitalizations. Providers should focus on further filling gaps in public coverage. This could include adding simple out-patient cover, especially for medication and laboratory tests, to existing in-patient schemes, and providing primary care through digital health services.
- Higher demand for insurance was found among young families, which are increasingly led by women. There is a need for providers to appeal to female decision makers and design products adapted to the needs of young families, such as education insurance.
- The government, regulators and insurance sector should partner to promote financial literacy and trust in financial products, particularly insurance. Distrust and limited use of insurance is currently restricting its role in building the resilience of the Chinese population. A sector-wide approach should be developed to counter this challenge, with a particular focus on reaching vulnerable groups, like new urban migrants and elder customers.

6. Conclusions

The COVID-19 pandemic revealed the vulnerability of much of China's low- and middle-income population, with a striking 28% of the population reporting that the pandemic brought them into severe financial stress.¹⁰ Yet, the impact of the crisis was highly uneven, as seen in the experiences of the families who participated in the financial diaries project. On the one hand, formally and permanently employed participants in the diaries were able to access support from employers and social welfare and were better equipped to make use of tools like digital group buying tools to get hold of necessities during price increases. For owners of small businesses, gig workers and those without formal employment, on the other hand, the impact of lost income coupled with high prices was devastating. Some households went from a surplus of around USD 500 a month to monthly deficits of USD 1,000. The uneven impact of the pandemic can only be fully understood by looking at the existing vulnerabilities of large numbers of low- and middle-income families in China, and their lack of tools to manage financial crises.

The diaries make clear the complex and precarious financial lives of many low- and middle-income Chinese households. Despite making money from multiple sources – from farming to odd jobs, businesses, or part-

¹⁰ Ibid.

time work – families’ incomes are volatile and insecure. And, despite strides in expanding access to China’s basic state medical insurance, which now reaches over 95% of the population,¹¹ health problems remain the costliest risk faced by families in the financial diaries project.

At the same time, families have few sources of support to handle these risks. Despite the most mature digital ecosystem in the world and an impressive 89% of adults having a bank account,¹² the financial diaries found that few families made use of financial services to manage their risks. With friends and family unable to provide sufficient support, and little use of formal safety nets like insurance, low - and middle-income families and small businesses in China are left unprotected.

To regain and consolidate the progress of low- and middle-income families in China, the country faces the urgent task of building their resilience. This cannot be achieved without widespread use of high-quality insurance and other financial services. Although China has made important strides in promoting access to basic financial services like bank accounts and digital payments, use of other financial services among low- and middle-income people is very limited. To address this, financial service providers need to expand the availability of products which are adapted to the needs of vulnerable families and small businesses. And providers, alongside government, must be drive trust, quality and use of these formal safety nets.

¹¹ World Health Organization. [Universal health coverage and health reform in China](#) (accessed 13/01/2023)

¹² Ibid.



AXA – 25 avenue Matignon, 75008 Paris