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# The role of life insurance in an emerging economy: Human capital protection, assets allocation and social interaction \*

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## Abstract

In this paper, we provide micro-econometric evidence on the determinants of life insurance demand in China, the largest emerging market in the world. We employ the China Household Income Project (CHIP) dataset for the year 2002 in the analysis. The timing is ideal, because of the nature of the less well developed capital markets and social security systems in China in 2002, which sets a suitable stage to study the insurance demand behavior of emerging markets. The results indicate that both the human capital protection motive and the asset allocation motive are important in explaining the purchase of life insurance in China. In addition, we present three empirical regularities: (1) the positive correlation between the returns to human capital and the returns to market portfolio decrease the demand for life insurance; (2) both the current wealth and future income of a household exert curvilinear impacts on life insurance demand; (3) the breadth of a households social connections has substantial impacts on life insurance demand.

**Keywords:** Life insurance; Human capital; Assets allocation; Social connections

**JEL Classification:** D14 G22

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