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APPENDIX A

List of questions about life insurance interview in Shanghai

- Q1: Could you please describe the historical background of the life insurance industry?
- Q2: During the time that the people's social security was supported by state-owned enterprises, how did the company do their business?
- Q3: When the government support was gradually transferred to various social and business institutions, how was your company affected?
- Q4: Among bank savings, life insurance purchasing and other kinds of personal investment, which one can attract most of the people's attention. And why?
- Q5: Which kinds of life insurance are popular, please rank the amount of popularity of each kind of life insurance?
- Q6: What do you think about consumer's behavior in purchasing in Shanghai?
- Q6.1: Why do your customers decide to purchase life insurance? Are those reasons varied from past to present and future?
- Q6.2: Who are your primary target buyers? What are their characteristics?
- Q6.3: Where do customers purchase life insurance?
- Q6.4: When do customers need to purchase life insurance?
- Q6.5: How do your customers pay the insurance premiums?
- Q7: What marketing strategies do you think can help increase the market share of your company? (promotion, price, product and service)
- Q8: What are the strengths and opportunities of the life insurance business in Shanghai?
- Q9: What are the problems and difficulties of life insurance business in Shanghai?

- Q10: Based on your opinion, how should domestic insurance companies adjust their business strategies?
- Q11: What do you think the future and trends of the insurance market will be?

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Appendix B

Opinions of Managers of Life Insurance companies in Shanghai

The author interviewed the managers of major life insurance companies in the city of Shanghai between March 17 to May 10, 2001. Following is a list of the managers interviewed:

- 1) Ms. He Jing Zhi, Manager of The People's Insurance (Life) Company of China, (PICC), Shanghai Branch
- 2) Dr. Chen Lin Hui, General Manager of China Pacific Insurance Co., Ltd., (CPIC)
- 3) Ms. Liu Feng, Department Manager of , American International Assurance, (AIA) Shanghai Branch
- 4) Ms. Wang Yu Ming, Department Manager of PING'AN Insurance Company of China, (PING'AN), Shanghai Branch
- 5) Mr. Frank Zhang, Division Chief, Senior Economist, China Insurance Regulatory Commission, Shanghai Office, (CIRC)

The questions and answers in the interview are as follow:

The People's Insurance (Life) Company of China, (PICC) Shanghai Branch

Two managers were interviewed:

1) Ms. He JingZhi

Manager of PICC ,Shanghai Branch

2) Mr. Lu ShuJian

Assistant Manager of PICC ,Shanghai Branch

Date of Interview: 2001-03-17 , 1.00 - 3.00pm.

Q1: Could you please describe the historical background of the life insurance industry?

A1: Shanghai is actually the birthplace of the Chinese domestic insurance industry, and the insurance business was accounted to be a big source of capital in China and in the Far East. Before 1949 most insurance businesses were owned by foreign companies. Several decades after 1949 when the People's Republic of China was established, the Chinese government had nominated PICC to be the sole insurance company operating both domestic and international activities. As a result, other life insurance businesses were forced out and the insurance industry became languished. The government had provided people with support in secured jobs, pensions, housing, healthcare, even funerals, so life insurance was beyond a necessity for most Chinese.

However, during 1966-1976 (around 10 years) when the Cultural Revolution of China took place, there was no institution which had any role in insurance business. It was several years before 1979, a period of preparing to reform the China's economy. In 1979 the insurance business in Shanghai had resumed, and PICC had

become a major life insurance company that accounted for more than 90% of the market share until other commercial insurance companies emerged. PICC's high market share was derived from group life insurance premium which has been paid by state-owned enterprises.

After the Cultural Revolution, the Chinese government has put different levels of control over industries. The insurance industry was one of the government's industry that they loosened its control on. However during that time the insurance industry operated under regulations of the People's Bank of China (PBOC), and the industry was more freely operated since 1990s.

Shanghai was the first city where foreign investors got opportunities to start their insurance businesses. In 1992, the People's Bank of China granted a license to American International Assurance (AIA), the only foreign insurance company that could run both life insurance and non-life insurance business in Shanghai.

In November 2001, China became a member of World Trade Organization (WTO). There is hope that after joining WTO, the insurance sector will be one of the fastest growing industry in the near future, and the insurance market will become more competitive than before.

Q2: During the time that the people's social security was supported by state-owned enterprises, how did PICC do business?

A2: PICC was established in 1949. After ten years of running the business, its domestic insurance services were suspended while its international insurance services were taken over by the People's Bank of China (POBC). In 1979 PICC resumed its

business. In 1990s, there was more than ten years of China's economic reform, and the Chinese government decided to design a social security scheme according to the society and the economic situation. As the reform went further, China changed the central planned economy into market economy. The government support was gradually transferred to various social and business institutions. PICC faced new developments and opportunities at that time. In July 1996, PICC was reorganized into PICC Group with three subsidiaries: PICC Property, PICC Life and PICC Reinsurance. PICC Life has changed its name to be called: China Life Insurance Company (CLIC). PICC Life is the largest state-owned commercial life insurance company with a registered capital of RMB 1.5 billion . CLIC specializes in life, health and accident insurance. August 1999 marked the end of the restructuring of China's insurance business with the establishment of the new PICC (Life). The reformation of PICC is one measure taken to prepare its competitiveness when life insurance market is opened to the global market place with respect to WTO agreements. In other words, PICC which is a domestic insurance company should be well prepared for the challenges and opportunities resulting from the market opening.

Q3: When the government support was gradually transferred to various social and business institutions, how was PICC, which is state-owned enterprise, was affected?

A3: In the early 1980s, the government support was gradually transferred to various social and business institutions. As a result, life insurance premium has grown approximately 40 percent per year, especially in 1997, it grew 80 percent. During the past several years, more and more Shanghainese have begun to recognize the

importance of life insurance and their purchasing power of life insurance has increased. Apparently, life insurance consumers want different kinds of life insurance to satisfy their needs, and life insurance companies then must provide best services to their customers. According to the government policy on social security system with respect to life insurance, there were three major kinds of impact to PICC:

- Service quality needed to be improved.
- Various new services needed to be suited for the different market segments.
- Insurance agents needed to be more professional in advising their customers.

Q4: Among bank savings, life insurance purchasing and other kinds of personal investment, which one can catch most of the people's attention. And why?

A4: Among various ways of savings, life insurance purchasing and other kinds of personal investment, the bank savings still holds most of the people's attention. Because life insurance is still a young industry in China, people think purchasing insurance is more risky than bank savings. In addition, insurance products are intangible, unlike physical goods such as a car, a house and so on. However as the interest rate has declined rapidly, and until now, the interest rate is only a little above 1% , there seems to be an opportunity for life insurance companies to expand in the coming years.

Q5: Which kinds of life insurance are popular, please rank the amount of popularity of each kind of life insurance?

A5: First of all, we need to know that there are three major categories of life insurance: life insurance, health life insurance, and pension annuity. Firstly, life insurance comprises Individual Life Insurance, Group Life Insurance and Industrial Life Insurance. Only Individual Life Insurance and Group Life Insurance were sold in China. Individual Life Insurance includes Simple Life Insurance, Individual Whole Life Insurance, Endowment Life Insurance, Invest-linked Life Insurance and other combination policies. Group Life Insurance includes Group Whole Life Insurance and Term Group Life Insurance.

Secondly, Health Life Insurance policies are acquired in three ways: Basic Medical Expense Insurance (including individual and group), Major Medical Insurance and Disability Income Insurance (including individual and group).

Finally, Pension Annuity includes individual and group kinds of annuity. Individual annuity includes Children's Education & Marriage Insurance, Individual Pension Insurance. Group Annuity includes Group Accident Insurance, Highway Accident Insurance and Collective-enterprise Employee Retirement Insurance.

In the past, parents in Shanghai always bought their children life insurance to ensure their children's well beings, but now their buying motivation factors have been changing. Many residents have shift their focus onto life insurance. Most of those who make a major contribution to their family income need life insurance. Medical insurance and pension annuity were often demanded to be featured with the comprehensive accident insurance which could bring them higher returns.

For PICC Life, Shanghai branch, there are three kinds of life insurance products that are popular. They are:

- 1) Individual Whole Life Insurance
- 2) Major Medical Insurance (similar to Term Life)
- 3) Pension Insurance (Life Annuity)

Q6: What do you think about the consumer behavior of buying life insurance in Shanghai?

Q6.1 Why do PICC's customers decide to purchase life insurance? Are those reasons varied from past to present and future?

A6.1: PICC's customers have several reasons in purchasing life insurance products. In 1979, most Chinese customers still lacked knowledge in purchasing life insurance and were not interested in buying life insurance. They thought life insurance was unnecessary because of the government's continuing support. Most Chinese purchased life insurance because their friends whom they trust introduced life insurance for their children.

Later from 1979 during China's economic and social reform, people began to recognize the necessity of life insurance in their daily lives, and the most important reason in purchasing life insurance was the need in monetary return.

Currently, the medical system is reforming, and the people must be responsible for their own medical expenses. As a result, Disease-prevention benefits would seem to be the most important reason in buying for the Chinese in the near future.

Actually, there are 6 major reasons in buying life insurance. They are monetary return, disease- prevention benefits, pension return, risk-prevention benefits, friends' recommendation and child benefits.

From 1979 to 1995, friends' recommendation and child benefits were the first and second important buying reasons. Now, the monetary return and disease-prevention benefits are the first and second most important reasons for buying. In the near future, as I just mentioned disease-prevention benefits would seem to be the most important reason for purchasing this insurance to the Chinese.

Q6.2 Who are your primary target buyers? What are their characteristics ?

A6.2 At present, our target buyers are middle - level income (1,500 RMB per month or above), 25-45 years old, with high school degree or higher, work for private enterprises and possess the following psychological characteristics:

- demanding a secured life.
- being family-oriented
- having life insurance can represents a modern life-style of young and highly educated people.
- wanting to have a moderate return from buying life insurance as a part of their family financial planning.
- the continuing reduction of interest rate in bank savings.

Q6.3: Where do customers purchase life insurance?

A6.3: They purchase life insurance from insurance agents, banks which have mutual agreement with PICC life (Shanghai Branch), internet, brokers and other branches of PICC.

Q6.4: When do customers need to purchase life insurance?

A6.4: Customers purchase life insurance when they need stable securities, especially those people who work at private enterprises having high income but uncertain securities in lives. Due to the fact that the People's Bank of China has reduced the interest rate many times, the consumers are preferring buying life insurance rather than saving in banks. Apparently, people end up paying more medical expenses after the reform of health-care system in Shanghai. As a result, people must purchase life insurance. Besides they also buy life insurance when they are laid off from some state-owned enterprises which has now begun their organizational restructuring.

Q6.5: How do your customers pay the insurance premiums?

A6.5: PICC's customers pay their insurance premiums by cash, by installment and by credit card. Most PICC's customers pay cash to the agents of life insurance company.

Some customers pay their installments through the banks which have an agreement with PICC life, Shanghai Branch. Some pay through post offices. However, there are not many PICC's customers who pay by credit card because the money transfer systems between banks and life insurance companies are still under development.

Q7: What marketing strategies do you think can help increase the market share of PICC? (promotion, price, product and service)

A7: In term of promotion, PICC does not spend a lot of money in advertising. Because PICC has the image as the largest life insurance company of China, PICC can cut their advertising expenses and in turn reduce the prices of some types of life insurance. In addition, PICC has gained a favorable social profile by launching various campaigns with other institutions, For example, “Green Bean Project”, “Sunlight Poverty Alleviation Project” and “ Building a World of Love”, aiming at supporting the country’s education scheme for the children.

As for pricing PICC use the lowest price strategies to maintain its market share. However, most products are priced lower than those of foreign companies.

As for product varieties, the choices of life insurance products were limited in the past, due to the bureaucratic structure. In the present time, customers demand varieties of life insurance products. Further more, there is strong competition inside and outside Shanghai. PICC life, Shanghai Branch has suggested new products to each of our market segments, and paid more attention to research & development trying to understand our target customers. For example, “Office Lady Health insurance”, is a product that covers the risk of major diseases. These female customers are women working with foreign or private enterprises, have high income and adequate life insurance knowledge. This kind of insurance premium has been growing its popularity since 2001 and the premium is getting higher. It was the hottest new product after medical reform in Shanghai. As a result of its popularity, the premium may continue to increase in the year ahead.

For PICC, the services are the core of life insurance business. PICC believes that the customer is the king, and seeks customer satisfaction of both new and existing customers. For new customers, we try to help them understand the meanings and the values of life insurance, and be their advisor in choosing the most suitable life insurance product. If the customers of PICC have questions or problems, they can contact their agents anytime. In the past, to get services, customers contacted their agent directly. If their agent had left the life insurance company, they would not be taken care by other insurance agents. Those policies was ignored and called "orphan policy". For solving this big problem, PICC built several hotlines to serve their customers. At present, PICC has more than 100 hot lines and claims to offer life insurance services for more than 400 million customers.

Currently, PICC is creating conditions to apply a new module to its service management system. The newly integrated servicing system developed by PICC, Shanghai branch has replaced previous module (ex-post processing) with Pre-processing module. The ex-post processing module deals with the large number of PICC's activities including day-to-day and immediate problems, while the high-tech information system of the pre-processing module gives warnings of some kinds of risk. The new module is perceived as better in application, more flexibility and higher standards. It has many advance functions, such as service supervision, risk precaution, data inquiry and service quality analysis.

Q8: What are the strengths and opportunities of the life insurance business in Shanghai?

A8: Shanghai is a financial and commercial center of China, it has a large population (with resident card) of 16 million. In 2000, Shanghai's average per capita GDP reached 20,240 RMB, the purchasing power is higher than other cities in China. Currently, Shanghai's GDP growth rate is over 10% per year, becoming the most attractive city in China, with a stable and good investing environment, strong government support and a large number of educated human resources. People call Shanghai "Head of Dragon". Shanghai is the first city in China to open its insurance sector to foreign investors, so it has more experience in doing international business than others. In addition, the People's Bank of China (PBOC) grant some privileges of insurance to Shanghai to develop their insurance business.

The People's Insurance company of China (PICC) is China's largest wholly state-owned insurance company which is unique. The company's logo represents the famous brand and internationalized image. PICC's work force is of strong capacity but currently still in doubt of being in the front row. PICC has more than 3,400 branches throughout the country with 43,000 employees; it also runs more than 80,000 business unit agencies with about 300,000 individual agents. In addition, PICC receives strong support from Chinese government agency. The China Insurance Regulatory Commission (CIRC), this Chinese government agency has a current staff of 100, most of whom are transferred from the People's Bank of China (PBOC) and PICC. Another additional advantage is that PICC's capital is greater than other domestic companies.

Q9: What are the problems and difficulties of the life insurance business in Shanghai?

A9: Shanghai's life insurance market is still characterized by its small size, having a limited variety of life insurance products, relatively high operating costs, lack of educated customers or the role of life insurance. In the past, there was no regulations and laws, so life insurance companies played the major role in decision-making, and had a somewhat level of freedom to decide what to do for their customers. The customers had to wait for a long time to get through the complaint process. Achieving sales and getting profits were the main objectives for all agents. Under these circumstances, after-sale services were inadequate. Until now, a number of agents still feel that profit is more important than customer satisfaction. After November 2001, when China entered the World Trade Organization (WTO), some problems which Chinese domestic life insurance companies may face in the near future are as follow:

1. The life insurance market will need more competitive brokers to do international life insurance, but the human resource in the international insurance industry is limited.

2. The fact is that foreign insurance companies have more capital than domestic companies to invest in other financial markets. As a result, those domestic companies are facing more difficulties and having less opportunities to diversify risks and get more income. Furthermore, the foreign companies have greater premium reserve to attract big customers.

3. Existing regulations & laws are not suitable to deal with international insurance arena.

4. E-business of life insurance is now a vital channel but still under-developed.

Q10: Based on your opinion, how should domestic insurance companies adjust their business strategies?

A10: Now the fact is that being widely opened to the foreign insurers according to the WTO agreement, the life insurance market will be more international and mature. As for PICC strategies with the goal of building the company into first-class modern life insurer, the PICC offices at all levels must restructure its organization, strengthen the internal management, and try every effort to minimize risks and increase economic efficiency. Firstly, use the strategy "quick and efficient expansion of PICC's market share" for continuing growth of life insurance premium and continuing increase of market share. Secondly, cut expenses to reduce operating costs. Thirdly, develop new products and modify existing products. Fourthly, launch various campaigns, aiming at supporting the country's education scheme for the children in poverty-stricken areas to gain a favorable social profile. Fifthly, offer PICC's staffs and agencies continuously training programs to improve their skills and insurance knowledge and to give high quality services to their customers. Lastly, pay attention to research & development, for example, use management information system to support customer service department, and develop internet channels as a means to expand PICC's business, especially in the area of business-to-business. In general, PICC is well positioned to deliver comprehensive, easily accessible, and above all, superior service to the customers.

Q11: What do you think the future and trends of the insurance market will be?

A11: Shanghai life insurance market is now approaching its maturity stage. Shortly after the WTO accord, WTO membership will also promote China's link to the world economy, which in turn will help create more stable environment for China's economic development, thereby helping China realize the strategic goal of sustained, rapid and health development of the nation economy. Therefore, WTO membership will have a deeper impact to Shanghai, and the life insurance market will have more opportunities while there is strong competition between domestic life insurance companies and foreign life insurance companies. It will be certain that the growth of life insurance industry in Shanghai will be greater than 7% growth rate of GDP of China.

In the future, I think strong competition among foreign companies and with domestic companies will force all insurance companies to think more carefully of survival and growth strategies. Small companies may need to merge with other small company to be a big company to competed in the insurance market, or focus on several specific segments such as medicare supplement insurance, offer special and full time service to their customers. Big companies may want to build their own brand, service identity, or use joint venture strategies to find partners in expanding business. But the key success factor in doing life insurance business is offering high quality service to satisfy customers' needs and wants.

China Pacific Insurance Co., Ltd. (CPIC)

Dr. Chen LinHui

General Manager of CPIC

Miss Liu Feng

Manager of life policy department

Date of Interview: 2001-03-23, 9.00 —11.00am

Q1: Could you please describe the historical background of the life insurance industry?

A1: The insurance business first appeared in Shanghai in 1846 before the People's Republic of China was established in 1949. From 1846 to 1949, foreign companies occupied the biggest share of the insurance market.

From 1949 to 1959, the domestic insurance business was dominated by the state-owned People's Insurance Company of China (PICC). However, there was no institution which had any role in insurance business during the Culture Revolution of China. During this period, the government provided the people with support by giving them secured jobs, pensions, housing, healthcare and even funerals, so life insurance was not in great demand for most Chinese.

In 1979, the insurance business was revived after the introduction of China's economic reform and opening. The PICC came back to take a major role in the insurance business. Besides traditional insurance operations which was its core business, PICC also got involved in asset management, securities and finance. The Chinese insurance market was monopolized by PICC until 1988 when the Chinese government loosened its control of the insurance industry, and the industry was more free to operate and as a result, there has been rapid growth in the industry. All

insurance businesses including some big domestic life insurance companies were founded and operated under regulations of People's Bank of China (PBOC). PING'AN was founded in 1988 while CPIC in 1991. As a state-owned commercial life insurance company, CPIC is involved with both individual life insurance and group life insurance, while people's social security is supported by state-owned enterprises.

In 1992, the first foreign insurance company entered into China's market and started its insurance business in Shanghai. This phenomenon forced all life insurance companies to restructure and develop the insurance market to be more competitive and mature. Meaning that each life insurance business needed fast performance improvement.

At the end of 1998, the insurance regulatory body named the China Insurance Regulatory Commission (CIRC) was established; supervision and regulation rights for the insurance businesses were transferred from the People's Bank of China to CIRC.

Since November 2001, China has become a member of the World Trade Organization (WTO), and entering into the WTO offers China's insurance industry an unprecedented opportunity. The insurance industry is experiencing less restrains, and as a result the insurance market will be more competitive and internationalized.

Q2: During the time that the people's social security was supported by state-owned enterprises, how did CPIC do business?

A2: CPIC has been doing business since April 26, 1991, which was more than 10 years after all state-owned enterprises had stopped supporting the people's social

security. CPIC is a nationwide joint stock commercial company with its head office in Shanghai. As you know, after the Culture Revolution, China began a series of reforms, including social security reform. The market demand of life insurance increased rapidly during that time. As a result, CPIC had to set its own competitive marketing strategies to penetrate the market and to increase its market share. CPIC has along history in marketing experience in the life insurance business, more than other companies and they are ready to compete in the market, although there has been no support from state-owned enterprises. The government support was gradually transferred to various social and business institutions which provided CPIC a fair competitive environment in the life insurance market. In a word, CPIC has the marketing advantage, unlike other companies who need to restructure their organizations under these changes.

Q3: When the government support was gradually transferred to various social and business institutions, how was CPIC, which is a commercial enterprise, affected?

A3: The author didn't ask this item during the time of the interview, because the second question had already explained and answered this question.

Q4: Among bank savings, life insurance purchasing and other kinds of personal investment, which one can attract most of the people's attention. And why?

A4: Among various ways of savings, life insurance purchasing and other kinds of personal investment, the bank savings still earns most of the people's attention.

Currently, there are few choices in personal investment, and the stock market is a "bear market", which shows high risk and no high return in a short time. The life insurance business is still a young industry in China, so people think that purchasing life insurance is more risky than bank savings. In addition, people think that insurance products are luxury goods, and a piece of contract, not a necessary good. However as the interest rate of bank savings has declined rapidly, from 1996 to 2001, the People's Bank of China has reduced the interest rate 7 times, and the present annual fixed interest rate is 2% more. At the same time, the interest rate of life insurance of CIRC is still the same as before. As a result, the return of life insurance will be higher than bank savings. This seems to be an opportunity for life insurance companies in the coming years.

Q5: Which kinds of life insurance are popular, please rank the amount of popularity of each kind of life insurance?

A5: As you know, there are three major categories of life insurance which life insurance companies offer to their customers: life insurance, health life insurance and pension annuity insurance. Each categories is divided into several classes of life insurance and each class consists of many life insurance policies. The kinds of life insurance products which China's domestic life insurance companies offer are similar while their names, premiums and benefits are different.

During the past 20 years, China had a series of reforms which covered the economic system, social security system, medical system and the restructuring of state-owned enterprises. People in Shanghai have shifted their focus onto life insurance in order to diversify their risk.

For CPIC , there were three popular life insurance policies:

1. Individual Whole Life Insurance: in 2000 counted 7.3% of annual premiums which was about 68% growth over 1999.

2. Major Medical Insurance: in 2000 counted 8.8% of annual premiums which was about 119% growth over 1999.

3. Pension Insurance (Life Annuity): in 2000 counted 7.1% of annual premiums which was about 86% growth over 1999.

The rest of the 70% of premiums came from various policies, such as Term Life Insurance, Group Whole Life Insurance, and Property Insurance, and so on.

Q6: What do you think about consumer's behavior in purchasing life insurance in Shanghai?

Q6.1: Why does CPIC's customers decided to purchase life insurance? Do those reasons vary from past to present and future?

A6.1: CPIC entered the life insurance business in 1991. During that time, there were group life insurance customers and individual life insurance customers. They had different reasons to purchase life insurance. For group life insurance customers, most of them purchased life insurance for their children, because their companies offered them life insurance as a part of their welfare. For the individual life insurance customers, monetary return was what they were seeking.

Currently, the monetary return and disease-prevention are two of the most important reasons for buying life insurance. In the future the monetary return will be replaced by pension return. So, the disease-prevention and pension return will finally be the most two most important reasons for buying life insurance to the Chinese

customers. Nevertheless, each reason should be weighted by their importance which depends upon the external environment changes.

Q6.2: Who are your primary target buyers? What are their characteristics ?

A6.2: Our target buyers are middle-level income (1500 RMB per month or above), 30 - 45 years old, with a college degree or higher, have permanent vocations and possess the following psychological factors:

- a demand for a secured life.
- a limiting on their ceiling of individual medical expenses outflow.
- being family-oriented.
- being short of confidence in the future of their income.
- wanting to have moderate return from buying life insurance as a part of their family financial planning.
- getting a better return than interest rates at the bank savings because of the advantage in interest rate.

Q6.3: Where do customers purchase life insurance?

A6.3: They purchase life insurance from insurance agents, banks which have mutual agreement with CPIC, the company's web-site, brokers and other branches of CPIC.

Q6.4: When do customers need to purchase life insurance?

A6.4: Customers purchase life insurance when they have a balance after household spending. Many families have to pay a large amount of money in education and marriage of their children besides living expenses. The economy of China and

Shanghai city has grown constantly in the past ten years, and the incomes of CPIC's target customers has increased significantly. The customers will not have to be worry after their retirement about paying medical expenses when their income is less than before their retirement. So, life insurance has become the new and popular way of investment. Furthermore, they buy life insurance when they are laid off from companies, that are downsizing and reorganizing. From 1996 to 2001, the People's Bank of China has reduced the interest rate 7 times, so people prefer buying life insurance to savings in a bank, because they gain more benefits from buying various life insurance than saving in banks.

Q6.5: How do your customers pay the insurance premiums?

A6.5: CPIC's customers have several different methods of payments, such as: by cash, by installment, and by credit card. Most of them pay cash to their agents, because the customers think that it is a good way to communicate directly to their agents. Some customers pay their installments through CPIC's partner bank, or some of them pay through nearby post offices. There are few CPIC's customers paying via credit card, but paying via credit card is becoming more popular among young people due to its convenience. If the money transfer systems between the bank and the life insurance companies was fully developed, then payment via credit card would be the most favored choice.

Q7: What marketing strategies do you think can help increase the market share of CPIC? (promotion, price, product and service)

A7: China Pacific Insurance Co., Ltd. (CPIC) was a famous domestic insurance company. Formed on April 26, 1991, it was a nationwide joint stock commercial insurance company with its head office in Shanghai. CPIC was founded during the China's economic reform. China changed its central planned economy into a market economy, the government supports were gradually transferred to various social and business institutions. As a result, CPIC's insurance business developed rapidly in the past ten years. CPIC was the major life insurance company in Shanghai and China, with capital more than RMB 2 billion and maintains the highest rate of market shares in Shanghai. CPIC has set up 63 branches so far, 113 sub-branches and 169 agencies across China, including two foreign subsidiaries in New York and Hong Kong, respectively and a representative office in London. CPIC's policies push for an extensive and close business ties with overseas insurance communities. CPIC has been taking the construction of computerization as a means of guarantee for achieving operational goals. During the construction of computerization, CPIC has laid down a certain foundation and achieved a certain scale, through developing computer system applications of both property and life insurance, creating a system to manage underwriting, claims settlement and finance area. At the same time, CPIC has built an intranet into the group, this two way communication method made a great deal of efficiency of the company.

CPIC aims at " First Class Reputation, First Class Service and First Class Efficiency" as its company goal in the new century, it has prepared for the challenges and opportunities resulting from the market opening.

In terms of promotion, CPIC does not spend a lot of money in advertising. Due to the well-known image of CPIC. Normally CPIC advertises through Shanghai Television (STV). CPIC is also the sponsor of some foundation activities in educating people in Shanghai about the benefits of the life insurance business. For example, free consulting of life insurance in the park. In addition, CPIC is running a theoretical periodical "China Commercial Insurance" and "Pacific Insurance News". Which publishes Articles to give indepth knowledge such as, "The Theory and Practice of Commercial Insurance Companies". People also can learn more information through the web-site of CPIC.

As for pricing, CPIC use competitive pricing strategies to increase its market share. However, most products are priced lower than those of foreign insurance companies.

As for product varieties, the choices of life insurance products were limited in the past, due to the bureaucratic structure under the People's Bank of China. Nowadays, customers need more variety of life insurance products to best fit their demand. Our company has offered new products to fit each segment of the target customers. For example, Fu Lu Shou Retirement Pension Insurance (a kind of Pension Annuity, it can give annuity return after the policyholder retirement and); Lao Lai Fu Endowment, Accident Insurance, Safety Insurance (Term Insurance) and Medical Expenses Insurance, and so on.

For CPIC, the services are the heart of the life insurance business, and CPIC believes that the customer is the most important part. The company seeks satisfaction of both new and existing customers. We not only offer the traditional way of after-sale service, but CPIC has also opened a nationwide 24 hours hotline: 99550 to serve

its customers. In addition, customers can easily make a purchase and/or comment through the company web-site : www.CPIC.com.cn. Apparently, the life insurance business has not more active through the internet.

Q8: What are the strengths and opportunities of the life insurance business in Shanghai city?

A8: Shanghai is the birthplace of the Chinese domestic insurance industry, and also the first city in China to open its insurance sector to foreign investors. The household income of Shanghai residents are higher, the GDP per person in Shanghai is up to 4000 USD in 2001, and is predicted to grow to 6000-8000 USD per person in the coming 15 years. In the next 2-3 years, many foreign investors plan to start their businesses in Shanghai, and the insurance market will be more competitive and standardized. Shanghai residents easily accept and adopt new concepts which are paralleled to Shanghai's history and local culture. Because Shanghai is the key commercial city and the financial center of China, most people can conveniently do their family financial planning in the current environment. Therefore, both CPIC and other insurance companies can certainly expand life insurance business in the near future.

Q9: What are the problems and difficulties of life insurance business in Shanghai?

A9: Despite the rapid growth of life insurance in China, the insurance business is still accounts for only a small part of the entire economy, which is less than 2 percent, compared with 11 percent in Japan and 8 percent in the United States. In the past, the

Chinese government controlled the insurance sector, and domestic life insurance companies had monopolized the market. Insurance companies had limited right for investment or making other decisions. The regulation of insurance was not efficient enough to help the insurance business growing. China's insurance sector faced adjustment challenges after joining WTO. Most domestic life insurance companies have to pay out their obligations in significantly greater amounts than their current return on investments. The sector is also dominated by only a few companies. Shortages of actuaries and professional insurance management staff have contributed to poor business practices. Moreover, in terms of service quality and business skills, the domestic insurance companies are still behind international ones.

Q10: Based on your opinion, how should domestic insurance companies adjust their business strategies?

A10: As a result of the WTO agreements on insurance, China had to begin to restructure the domestic industry for the coming competition. Some of the steps taken so far include:

- Establishing more domestic insurance companies and permitting existing domestic insurance companies to operate in more cities;
- Integrating domestic insurance companies and Chinese banks. Starting with the largest insurance companies, and the largest domestic state-owned bank: Industrial and Commercial Bank of China. Then providing integrated insurance and financial services to the customers.

- Providing training programs to better permit Chinese insurance companies to compete with foreign insurers. Giving additional capable personnel for the insurance sector, and hiring foreign insurance professionals as advisors.
- Increasing the percentage of stock which Chinese insurance companies can hold.
- Enforcing regulations on both domestic and foreign insurers to create a more fair and transparent insurance market environment.

CPIC might have to make serious efforts in adopting international business standards and prudential practices, yet all their efforts will help CPIC compete internationally.

There were a large number of expensive fixed-interest-rate insurance policies sold at the peak of business operation (around 1995, before the People's Bank of China cut interest rate), CPIC must place some suitable financial strategies to reduce this risk. CPIC will not compete with low price strategy because customers judge and choose insurance companies by comparing the quality of services from various insurance companies.

CPIC is using "Think global, act local" strategy in its organization management, and it will be the key success factor of CPIC in expanding the life insurance business in the future.

Q11: What do you think the future and trends of the insurance market will be?

A11: China's entry into World Trade Organization offers corporations an unprecedented opportunities. China is the second largest recipient of direct foreign

investment, second only to the United States. Therefore, WTO membership will have deep impact to Shanghai, especially in the financial sector. Shanghai's life insurance market is now approaching its mature stage. But it is certain that the growth of the life insurance industry in Shanghai city will be greater than the 7% growth rate of GDP of China. In the next 2-3 years, there will be more opportunities since there will be strong competition between domestic life insurance companies and foreign life insurance companies. The domestic insurance companies has the advantage in the number of customers, good understanding in local culture and more experience in domestic market while the foreign insurance companies has the advantage in capital and professional management. There is no doubt that joint ventures will be a good strategy in the coming years. I believe the development of the life insurance market will be based on the efforts of all the insurance companies.

American International Assurance, Shanghai Branch (AIA)

Ms. Liu Feng

Department Manager of AIA, Shanghai Branch

Date of Interview: 2001- 04 - 22, 05.00 - 06.00pm.

Q1: Could you please describe the historical background of the life insurance industry?

A1: In the past 20 years, the world has seen China's insurance industry pass through a period of rapid growth. In the early 1980s, foreign insurance companies started to set up their representative offices. In September 1992, the People's Bank of China (PBOC) awarded AIA, the first license to a foreign insurance company since the foundation of the People's Republic of China in 1949.

In 1995, Guangzhou became the second city where foreign insurance companies were permitted to do business. Now the scope has been expanded to Shenzhen and Foshan. By the end of 1999, a total of 14 foreign insurance companies from 8 countries (USA, Japan, Canada, Germany, France, Switzerland, UK, and Australia) had been approved to do business in China, either as branches or joint ventures with Chinese counterparts.

As of May 2000, the number of insurance companies in China had increased from 1 to 28. This number included 4 state-owned companies, 9 domestic shareholding companies, 4 joint ventures and 11 foreign-invested branches. In addition, another 4 joint ventures and 1 foreign-invested branch were in various stages of preparation. Eventually, China has become one of the biggest emerging insurance markets in the world.

China has been a member of the World Trade Organization (WTO) since November 2001, as a result, the insurance sector will be completely opened in the near future. AIA had strong experience in both the international and the domestic insurance market, and also had enough capacity to compete for the market share.

Q2: During the social security reform, how did AIA conduct business?

A2: American International Assurance Co., Ltd (AIA), a wholly-owned subsidiary of American International Group, Inc. (AIG), is the largest life insurer in Southeast Asia, AIA was assigned AAA financial strength and counterpart credit ratings from the global rating agency Standard & Poor's in 2000. In 1992, AIA established its branch office in Shanghai, providing a full range of life insurance products and services to the people of Shanghai. In December 1996, AIA signed a 30 year lease of the building at No.17, the Bund, Shanghai as headquarters for its Shanghai branch. AIA grew rapidly when it was first established in Shanghai, and took over a big part of the market which was about 45 percent within in three years of entering Shanghai. During that time domestic competitors responded aggressively and have forced AIA back to a modest estimated of 14 percent share of the Shanghai life insurance market. Of the 20,000 active life insurance agents in Shanghai, about 10 percent are AIA agents.

Q3: When the government support was gradually transferred to various social and business institutions, how was AIA, which is the only foreign life insurer affected?

A3: AIA stormed into Shanghai market in 1992, became the only foreign insurance company to obtain both life and non-life licenses in Shanghai. It surprised local

competitors by selling individual life insurance policies through sales agents who made door- to-door house calls. As tough as this is, it was standard practice in the west. In Shanghai, life insurance had been sold only as group policies to state-owned enterprises. This was the first time that a professional person had come to Shanghai residents' home to offer help and protection. During this period, the opportunities of life insurance companies increased. For the domestic life insurance market, average growth rate was 50 percent, while AIA's growth rate was 14 percent. AIA got a slow growth rate because of the strong competition with the state-owned life insurance companies and the present regulation of life insurance. However, AIA's success was still the envy of other foreign insurers and local companies.

Q4: Among bank savings, life insurance purchasing and other kinds of personal investment, which one can attract most of the people's attention.

And why?

A4: Among bank savings, life insurance purchasing and other kinds of personal investment, most people pay attention to bank savings. Insurance products theoretically could bring customers a relatively high return on the investment, but these customers fear that many insurance companies may lack sufficient resources for claims. Consumers deem banks to be safer and more reliable, so some of them are saving in order to build or buy a house.

Q5: Which kinds of life insurance are popular, please rank the amount of popularity of each kind of life insurance?

A5: According to the current regulation of CIRC (China Insurance Regulatory Commission), foreign insurers can offer only individual life insurance. AIA offers its customers three major categories: individual life insurance, health insurance, and pension annuity. Firstly, individual life insurance comprises simple life insurance (for example, individual accident insurance), individual whole life insurance, endowment life insurance, invest-linked life insurance and other combination policies. Secondly, health life insurance policies are acquired in three ways: individual basic medical expense insurance, individual major medical insurance and individual disability income insurance. The last category is an individual pension insurance.

For individual consumers of AIA, they paid the highest premium for accident insurance for children, averaging RMB183 per household. The second and third highest premiums paid were for pension insurance and whole life insurance, on an average of RMB175 and RMB100 per household, respectively. For companies which paid the highest premiums for pension insurance, accounted on average of RMB196 per household. The second highest premium paid by companies was for personal accident insurance, which paid an average of RMB19 per household, respectively.

In summary, for AIA Shanghai branch, there were three popular life insurance products :

- 1) Individual Accident Insurance (Term Life Insurance)
- 2) Pension Insurance (Life Annuity)
- 3) Individual Whole Life Insurance

Q6: What do you think about the consumer behavior in purchasing life insurance in Shanghai?

Q6.1: Why does AIA's customers decided to purchase life insurance? Do those reasons vary from past to present and future?

A6.1: AIA's customers have several reasons in purchasing life insurance products:

AIA' entered the life insurance business in 1992. At that time, purchasing life insurance was a new concept for them, most of them purchased life insurance because of their friends whom they trusted introduce to life insurance for their children.

After a period of time, people had a better understanding of life insurance. Consumers familiarity is varied upon different life insurance products. Most customers purchase insurance for monetary return and retirement fund. They bought life insurance and hope to get a nest egg for their retirement (cashing in their policies at the appropriate time) or to protect themselves against accidents.

The disease-prevention insurance would seem to be the hottest insurance for AIA's customers in the coming years. People are interested in purchasing this kind of life insurance because they must be responsible for their own medical expenses after the health-care system has been reformed.

Q6.2: Who are your primary target buyers? What are their characteristics ?

A6.2: At present, AIA's target buyers are middle-level income (1500 RMB or above per month), 20 - 50 years old, with a college degree or higher, they have a permanent career or work for private enterprises and possess the following psychological factors:

- a demand for a stable return of purchasing life insurance.

- they are anxious about an uncertain career and income in the future.
- they are concerned with the continuing reduction of interest rates in saving banks.
- they realize the value of life insurance.
- they are family-oriented.
- they have confidence in the good image of life insurance

Shanghai has the highest rate of policy holders. People have a better understanding of life insurance than other property products and can describe life insurance products fairly well. However, many people do not understand claim procedures well and fear they will have trouble when submitting their claims. Women are more likely to buy insurance than men. Normally, the purchasing power rise with income, education level and age. People believe that compared with domestic insurers, foreign insurance companies have more funds and better services, while prices are higher and there are no government guarantees. For what it is worth, consumers in Shanghai are more likely to trust foreign insurers .

Q6.3: Where do customers purchase life insurance?

A6.3: They purchase life insurance from insurance agents, banks which have mutual agreement with AIA Shanghai branch, internet, brokers and other branches of AIA.

Q6.4: When do customers need to purchase life insurance?

A6.4: In the past, customers purchased life insurance when they needed stable securities. Reforms of state-run industries were underwriting a tradition of life time employment that comforted employees under the old centrally planned economy.

Families were anxious about the future and viewed life insurance as a worthwhile investment. Apparently, people ended up with paying more medical expenses after the reform of the health-care system in Shanghai. As a result, people need to purchase commercial life insurance. To specify, the year 2001, the People's Bank of China had reduced the interest rate again, and it is clear that the benefits of life insurance are far better than bank savings.

Q6.5: How do your customers pay the insurance premiums?

A6.5: AIA's customers pay their insurance premiums by installment, by credit card and by cash. Most AIA's customers pay their installments through the banks which have an agreement with AIA, Shanghai branch. Some pay cash to the agents of life insurance companies. Currently, more and more new customers are making payments using a credit card. Although the whole network of money transfer systems in Shanghai is still underdeveloped, the network system between AIA and our partner banks are working just fine.

Q7: What marketing strategies do you think can help increase the market share of AIA? (promotion, price, product and service)

A7: In terms of promotion, AIA chose local and domestic television as a major advertising channel. Relying on the agents of company is another means of promotion. As a famous international life insurance company, AIA has been involved in educational activities in Shanghai such as training programs for students. Besides, AIA-Fudan Actuarial Center was jointly established by AIA Shanghai and Fudan University in 1994 to provide training for students. After the training those students

will take professional examinations of the U.S. Society of Actuaries. As a matter of fact, the training would help produce internationally recognized actuarial professionals and hasten the development of the life insurance business in China.

The most important thing is to satisfy different customers who have different needs. One way to doing that is by advertising to the target customers via several different marketing channels.

As for pricing, AIA's life insurance policies state higher prices than other domestic life insurance companies. Low price strategy is not a way to compete for income. Our price level are calculated based on a standard equation of life insurance. A customer could receive a stable return in the case that the interest rate reduced sharply. The major objectives of AIA are consistent return and low risk

As for product varieties, consumers are varied in their familiarity with different life insurance products. AIA is advanced in new product creativity and R&D in both international and domestic life insurance market. The products of AIA are limited in individual life insurance products because foreign companies can not engage in group insurance selling to Chinese citizens. However, we are waiting for the reform of this policy in the next 2-3 year.

In 1992, AIA marketed by using door-to-door selling to penetrate Shanghai market. Many people thought that it was the first time a professional person had come to their home to offer help and protection. People in Shanghai believed that compared with domestic insurers, AIA had more funds and better services. Their agents introduced new products, explained the details and value of insurance policies and provided after-sale services. Customers could comment through their agents or through the web site of AIA which means 24 hours customer service. AIA's

customers also can receive additional special services by using “ American International Assistance Service” card. They can use this card any where, any time through a telephone line to ask for a favor in case of emergency. The domestic telephone number is 800-8203076 (only in the main cities), and the international telephone number is 8621-62959360 (AIA will pay this fee for the customer who are travelling in a foreign countries). This service card consists of travelling information. Such as ticket booking and hotel reservation. In addition, the services includes medical services, urgent information transfer, information of embassy or consulate, service support while luggage is lost between journey and entertainment documents, and other services. The secret to success in China’s market are threefold. First, understanding customer needs, life styles and aspirations. Second, delivering the right product at the right price and third, building brand equity.

Q8: What are the strengths and opportunities of the life insurance business in Shanghai city?

A8: Shanghai has been one of China’s oldest industrial base. The reform over the past 20 years has injected the city with continuing capacity of development. Currently, Shanghai is a regional economic and trade center. In 2000, the city’s GDP had exceeded US\$54.978 billion (19.55 percent of China’s total GDP), and with the per capita GDP reaching US\$4,168, the highest in China. Shanghai’s service industry now represents a growing part of Shanghai’s economy. While finance and insurance, commerce, real estate, tourism and information represent the key developing sectors. Shanghai was the first city in China where the insurance sector was opened to foreign investors since 1992. AIA became the first and the only foreign insurer to obtain both

life and non-life licenses in China and has still offered both services until the present time. After the foreign investor entered into Shanghai's life insurance market, the market has been more competitive. However, the enter of foreign investors could also improve the life insurance business to be more advance than present. Using the experience in Shanghai city AIA now plans to expand the life insurance business in China. AIA's success relies on substantial technological and managerial advantages over domestic insurers, and depends upon the good relationship with the Chinese government for a long fruitful relationship. In short, entering the China's insurance market is a long-term investment.

Q9: What are the problems and difficulties of life insurance business in Shanghai?

A9: The Life Insurance Market in Shanghai is still an infant business, the market is not under strong competition. Mainland China now is facing a grave shortage of insurance professionals and the training facilities are insufficient to meet the growth of the business. Although the functions of underwriting, claim administration and customer service have been established and are functioning in the business, the limited application of computer systems has hampered the standardization of business management. Companies have established their own underwriting systems by drawing on foreign experience. Because of the country's existing healthcare system, few individuals have a completed medical records; patients' health files are kept only in the hospitals where they have been treated. As a result, they are not available to life insurance underwriters, which greatly affects the accuracy of underwriting decisions. The only insured health information the underwriter can get is the medical check-up

result in the hospital designated by the insurance company. Some insurance companies have even set up their own check-up centers. Another underwriting challenge is that Chinese insurers currently do not require smokers to pay higher premiums than non-smokers. Because there are no tax records or accurate income records for most people, another problem is verifying the accuracy of the information supplied by individuals who are applying for large amounts of coverage.

Most underwriting personnel are doctors who are short on insurance vocational training. In addition, there is a great shortage of experienced underwriting personnel here. Because most life insurance products are endowments or annuities requiring a premium payment of less than RMB100,000, the shortage and importance of experienced underwriters is felt sensitively.

The claim administration situation is also inefficient. Due to the difficulty to collect the necessary data to process a claim, the insurers often are over paid. In addition, claimant misstatements and fraud are fairly common. According to a 1997 survey of the Shanghai insurance market, many policyholders were dissatisfied with life insurance companies, primarily because of their claim settlement decisions.

In life insurance companies here, actuaries were mainly responsible for product design and reserve calculations. In mainland China, though neither the actuarial system nor its examination system are in place. In 1995, the Japanese life table that Chinese insurers had been using was finally replaced by the PICC which stipulated China's life mortality table. China still has no morbidity table, however, and they have not acquired enough experience data, which is critical for health insurance operations. Compared with foreign markets, Chinese life insurers are

somewhat more conservative in pricing. Among themselves, there are only negligible differences in premium rates, expense rates, and agent commissions.

In 1997 ,many life insurance companies set up customer service centers. Several factors compelled them to do so, among them a rapid growth in business and inefficient and ineffective business management. Another important reason are the problems with the agent distribution channel. Misrepresentation of policy terms and conditions have increased. In addition ,the agent retention rate is quite low (more than 40 percent of agents quit during their first year of employment),which has led to an increase in orphan policies. When you combine these distribution problems with customers who are learning about insurance contracts for the first time, customer service becomes increasingly important for insurers wishing to grow in this business.

At present, customer service centers typically are responsible for policy renewal,consulting ,litigation, and orphan policy management. Because of the limited application of technology and the insufficient training of service staff, however, they are far from perfect. The customer service function will become the focal point of companies looking for a competitive advantage in Shanghai's life insurance markets.

Q10: Based on your opinion, how should foreign insurance companies adjust their business strategies?

A10: China's lengthy effort to win entry to the World Trade Organization has stumbled over foreign firms' access to the country's vast life insurance market. Shanghai will be the first city to be fully opened to foreign life insurers upon accession to the global trade body. AIA already operates in China without the 50 percent local ownership required under China's WTO entry terms, and wants to

continue that arrangement when it expands its operations. Policymakers and corporate chiefs are focusing on adapting to the new market order. To the foreign insurers, the entering strategy is very important. So far joint ventures looks to be a feasible strategy because of the restrictions on licensing and operating areas. Almost every domestic insurer is aware of the coming competition pressure and they are positively looking for joint venture partners. Thorough studies on the Chinese insurance company and positive contracts will be one of the most important entering strategies.

Q11: What do you think the future and trends of the insurance market will be?

A11: China's insurance sector has registered 10-15 percent revenue growth for several consecutive years. Total income from premiums is likely to top US\$20 billion in 2001. By 2005, the total value of insurance premiums is expected to reach \$33.82 billion, constituting 2.3 percent of the total gross domestic product (GDP) value. The average premium per person will be \$27.78. As of 2000, 17 foreign insurance companies have been granted permission to operate some form of insurance business in China, while 89 firms have set up representative offices while waiting for permission to establish their own insurance operations in China. Shanghai, so far, has the largest body of foreign insurance companies in China. However, foreign companies will need to do thorough due diligence before entering the market, then they must build up long-term relations with Chinese local governments and potential consumers. Foreign companies will also need to develop business plans that prepare their companies to be long-term players. The rules were originally intended to protect

the domestic insurance industry and will be replaced to comply with the openness and equality required for membership in the WTO.

Nevertheless, China's insurance markets offers a great potential. From the viewpoint of economic environment, China's ongoing economic reforms will continue to stimulate demand for various kinds of insurance service for business and individuals. From the view point of social environment, China's social reform will also expand future demand for insurance products and services. The social changes and reforms undertaken in China have created a huge opportunity for commercial insurance. In a word, China's market, still unsaturated, stands as one of the few fast-growing insurance markets in the world. Foreign insurers have managed to carve out shares of 7 percent and 10 percent, but we believe in the company that even a 5 percent share of China market is worthy fighting for. The industry's total premium is expected to grow more than seven fold by 2010, to \$120 billion. China has 20 percent of the world's population, AIA has to invest in Shanghai and should take advantage of the tiny window before everyone is here.

PING'AN Insurance Company of China, Shanghai Branch (PING'AN)

Ms. Wang Yu'ming

Manager of life insurance policy department

Date of Interview: 2001-04-30, 02.00--05.00pm

Q1: Could you please describe the historical background of life insurance industry?

A1: Insurance was first sold in China when two British insurance companies entered the Shanghai market in 1846, for the following 100 years, foreign companies monopolized the market.

From 1949 to 1988, the People's Insurance of China (PICC) was the sole provider of insurance in China, and all foreign companies withdrew. However, During the Culture Revolution (1966-1976), there was no institution which had any role in the insurance business.

Before general economic reform started in the late 1970s, the Chinese employment system was often called " the iron rice bowl ". Workers of state-owned enterprises were tied permanently to their respective work units and enjoyed life time benefits that included housing, medical care and pensions. Work-unit took the sole responsibility for providing old-age insurance for their employees and retirees, so life insurance was beyond a necessity for most Chinese.

China started its social security reform in 1984, the " iron rice bowl " had been broken and the employment system was moving to a labor contract system, it made pension benefits less secured. In fact, many Chinese workers believed that their retirement income security was threatened.

In April 1988, with the establishment of PING'AN Insurance Company Limited, the PICC's own monopoly came to an end. When the China Pacific Insurance Company Limited (CPIC) was founded in 1991, a true insurance market began to take shape. In 1992, AIA became the first foreign insurance company to receive approval to establish a branch office in Shanghai. Since 1988, however, China's insurance industry has developed very quickly. Insurance premiums increased by 39.6 percent each year from 1980 to 1998. The potential market for insurance in China is huge. In 1998, 120 billion RMB in insurance premiums were collected, the premiums reached 200 billion RMB (US\$24.44 billion) by the year 2000.

The current economic and social welfare reforms in China has enhanced the need for a strong commercial insurance industry. Apparently, more foreign insurers' entry hopefully will improve China's insurance market to be better in the future.

Q2: During the time people's social security had been supported by state-owned enterprises, how did PING'AN do their business?

A2: PING'AN Insurance Company of China is a comprehensive nationwide insurance enterprise. PING'AN had broken the monopoly held by PICC and started its operation on May 27, 1988 under the name of PING'AN Insurance Company. As the first stock insurance company in China, it was the first insurer to introduce individual life policies in the country and the first insurer to employ an international accounting firm approved by the People's Bank of China on March 21, 1998. Its shareholders included the state-owned industrial and commercial bank of China, China Merchants Holding Company and China Ocean Shipping Company, U.S. Investment Bank, Morgan Stanley Dean Witter and Goldman, Sachs & Co. both took passive stakes of 5 percent

in 1994. Before 1988, there was no individual life insurance policies sold in the insurance market. Life insurance had been sold only as group policies to state-owned enterprises in Shanghai. Like other insurers, PING'AN was taken by surprise when AIA introduced door-to-door sales in 1992, but PING'AN quickly caught on. In addition, PING'AN hired the U.S. management consulting firm of Mckinsey & Co., which drew up a \$3 million restructuring plan for the company, and bolstered its management ranks by recruiting experienced executives from Taiwan, Hong Kong and U.S. Insurer, Lincoln National Corp. PING'AN has prospered as a result and is expected to become the first Chinese insurer to go public in the near future.

Q3: When the government support was gradually transferred to various social and business institutions, how was PING'AN, which is a stock insurance company affected?

A3: When the government support was gradually transferred to various social and business institution, the premium of life insurance experienced a dramatic growth. For PING'AN Life Insurance Company, the life insurance premium in 1993 was 5.59 million RMB and in 1996 had increased to 71.8 million. PING'AN earned 3.4 billion RMB in life insurance premiums which accounted for a 41% market share in 1999. In 2000 PING'AN had more than 230,000 sales agents who get together at their offices every morning to sing company songs and recite slogans and listen to exhortations to meet their quota of \$600 in new premiums every month. PING'AN's top 100 salespeople make more than \$120,000 a year in China.

Since the social security coverage of the state-owned enterprise has been reduced, people began to find new ways to prevent the risk of reducing security. Hence, life insurance has become a "hot ticket" in the recent years.

Q4: Among bank savings, life insurance purchasing and other kinds of personal investment, which one can catch most of the people's attention.

And why?

A4: Among bank savings, life insurance purchasing and other kinds of personal investment, the bank savings still can interest most of the people's attention. In the past, because China's economy has been almost entirely a peasant farming economy for thousands of years, the concept of long-term investment is unknown to the vast majority of Chinese people. They were still accustomed to enjoying free medical and

retirement pensions under the old social welfare system. As life insurance products are intangible products, some people could not see the value of life insurance, in turn, they do not buy life insurance. Some people save in banks for purchasing houses, and for being easily withdraw in cash. In addition, some people have some misunderstandings about life insurance. They think life insurance purchasing has death benefit only, and not a part of the family financial planning.

After China opened an insurance sector, and China's social security reform has deepened, many new life insurance companies were established. As a result, the increased competition in China's insurance sector has helped to further the Chinese people's knowledge of insurance as more and more companies compete for customers' attention. People began to recognize the value life insurance, and pay attention to it. In addition, the People's Bank of China reduced its interest rate of bank savings many times in the past six years. At the same time, Life insurance products use the interest rate determined with CIRC which is higher than the interest rates of bank savings. Those advantages of life insurance may influence more people's awareness in the future of the life insurance industry.

Q5: Which kinds of life insurance are popular, please rank the amount of popularity of each kind of life insurance?

A5: The kinds of life insurance products in Shanghai market are similar although they are called by different titles. They are: life insurance, health life insurance and pension annuity.

In the first five years after PING'AN was established, the most popular life insurance products of PING'AN were endowment insurance and individual whole life

insurance. Currently, there are three kinds of life insurance products which are popular, they are:

1) Major Medical Insurance, it pays for the costs of catastrophic illness.

2) Invest-linked Life Insurance (variable life insurance), it depending on the investments accounts chosen, can duplicate either universal life insurance or traditional whole life insurance. This kind of life insurance allows the insured an opportunity to invest cash value in one or more. Separate investment accounts maintained by the insurance companies. PING'AN was the first life insurance company permitted to sell this kind of life insurance in China. As a result, PING'AN had a higher premium from it.

3) Pension Annuity, it provides a guaranteed income that annuitants cannot outlive. The payment received by each annuitant comes from liquidation, interest and survivorship benefits. Annuities are to provide regular income in retirement years, it will supplement the income provided by social security and company pension plan.

Q6: What do you think about the consumer behavior of life insurance in Shanghai?

Q6.1 Why do you think PING'AN's customers decide to purchase life insurance? Are those reasons varied from past to present and future?

A6.1: At the end of 1980s, buying reasons of life insurance were focus on child benefits and accident and death benefits. Most of them bought life insurance due to the introduction of their friends or relatives.

In 1990s, PING'AN's customers paid attention to the profiles of insurance company, such as size, operation performance, history, financial strength and so on. In addition, customer services of the insurance companies were also in the customers' best interest.

Now, more and more people know the value of life insurance. They bought life insurance as an investment and needed life insurance for more secured life and less risk.

Q6.2: Who are your primary target buyers? What are their characteristics?

A6.2: PING'AN's target buyers consist of two groups, middle-level income customers and unemployment customers. Most customers are middle-level income (1,500 RMB per month or above), 25-45 years old, with college degree or higher, work for enterprises and possess the following psychological characteristics:

- wanting a monetary return from buying life insurance as a part of their family financial planning.

- demanding a secured life.

- being family-oriented.

Some customers are unemployed or out of work. They have less income than the former group of customers (around 700-1,000 RMB per month), 35-50 years old, with high school degree, and possess the following psychological characteristics:

- wanting to have higher return from buying life insurance products.

- being family-oriented.

Q6.3: Where do customers purchase life insurance?

A6.3: Most PING'AN's customers purchase their life insurance from their agents and banks which have mutual agreement with PING'AN; some customers purchase life insurance from internet, brokers and other branches of PING'AN.

Q6.4: When do customers need to purchase life insurance?

A6.4: Customers purchase life insurance when they need high return and stable securities, especially those people who are out of work or work for private enterprises. In the past five years there was a large number of workers who were laid off as a part of organizational restructuring of some large state-owned enterprises. Due to the fact that the People's Bank of China has reduced the interest rate for six times from 1996 to 2001. These reasons forced this group of people to bring out their savings to invest in buying invest-linked life insurance policies. They also buy life insurance policies such as major medical insurance how that they must pay more in medical expenses after China's medical reform.

Q6.5: How do your customers pay the insurance premiums?

A6.5: There are several ways of paying life insurance premiums. PING'AN's customers usually pay their life insurance premiums in cash via their agents. However, some customers prefer to pay their installment via banks which have an agreement with PING'AN. Paying by credit card is popular among few people because of the under-developed money transfer system. It is obvious that more and more people from the younger generation likes to pay insurance premiums via credit

cards due to the modern image. Finally paying via the nearby post offices is also very practical.

Q7: What marketing strategies do you think can help increase the market share of PING'AN? (promotion, price, product and service)

A7: PING'AN mainly uses advertising via posters in each Metro station and downtown. Since PING'AN has benefited largely from social support in its rapid growth, it is firmly committed to repaying the society. Hence, it has been actively engaged in many social welfare projects. So far 23 elementary schools were built by PING'AN's donations in 20 provinces or autonomous regions under the "Project of Hope" and more projects can be expected.

As for pricing, PING'AN uses price leadership strategy to increase its market share. The average price of most products are cheaper than those of foreign life insurance companies. There are some kinds of policies that could be bought by unemployed people.

As for product varieties, the choices of life insurance products are limited in the past, but at present time customers need more varieties of life insurance products to satisfy their demand. PING'AN offers endowment policies (saving policies with some life coverage attached) with guaranteed much higher rates of return than AIA. In 1999, China Insurance Regulatory Commission (CIRC) granted PING'AN the right to sell investment-linked life insurance products. Since the competition in the life insurance market is now much more competitive than the past, one of the advantages of the life insurance company is to offer more varieties and suitable life insurance policies with fair prices.

PING'AN's customer services has a very accountable strategy. It sets up a 24-hour call center and a web page offering financial advice, online sales, and money transfers. PING'AN spends 2 percent of its premium income on information technology to help track market niches and finding new customers, which will rise to as much as 5 percent of total life insurance premiums. PING'AN offer 3A service system to seek the maximum customer satisfaction. 3A Strategy is spelled out as Anytime; Anyway and Anywhere.

Q8: What are the strengths and opportunities of life insurance business in Shanghai?

A8: Shanghai is the birthplace of the Chinese domestic insurance industry, Shanghai was also the first city in China to open its insurance sector to foreign investor since China began re-opening the industry in the 1990s. The purchasing power of Shanghai residents are higher, In 2001, the GDP per person in Shanghai is 4,000 USD, and is focused to grow to 6,000-8,000 USD per person in the coming 15 years. After the foreign investors entered into Shanghai's life insurance market, the market will be more competitive, but it could also improve the life insurance business to be better than at the present time. Comparing with other cities in China, Shanghai's insurance industry is stronger than others cities. Those strengths are:

- Shanghai has a strong market potential and Shanghai market is now more mature than other cities.
- Shanghaiese have better understanding in the life insurance business.
- Shanghaiese possess higher income and purchasing power.

- Foreign life insurance companies were permitted to open their businesses in Shanghai city. It leads and introduces many new marketing and management systems and concepts to Shanghai residences. In turn, insurance industry in Shanghai is more advance.

For example, PING'AN's investors include investment banks, Morgan Stanley and Goldman Sachs, who have pushed PING'AN to be a competitive player.

Q9: What are the problems and difficulties of life insurance business in Shanghai?

A9: Domestic insurance companies are faced with more foreign insurance companies entering Shanghai after China entered the World Trade Organization (WTO). Those domestic companies will have to compete with many big foreign investors, such as AIG, which has more capital and more experience in Financial Management. Shanghai's life insurance market is still characterized by its small size, a limited variety of life insurance products, relatively high operating costs, lack of professional agents to give customers suitable suggestions, and lack of a complete life insurance regulations and laws. An additional problem is that some new products are risky, such as a whole-life insurance policy. The whole life insurance policy invests 15% of its premiums in the volatile local stock markets. With low interest rate in bank savings, customers have flocked to the policy.

Q10: Based on your opinion, how should domestic insurance companies adjust their business strategies?

A10: As for PING'AN, we are striving to develop ourselves into a first class international financial service group with the best products, best service, best management, best talents and best system. PING'AN is already eating the foreigners' lunch and is making a bid to be China's insurance champion. Although PING'AN didn't start the business until 1988 and didn't begin selling individual life policies until 1994, PING'AN had 22.5% share of China's life insurance market in 2000. It is second behind the state-owned former insurance monopoly, PICC which has a market share of 65%. In Shanghai, China's top life insurance market, PING'AN has 55.11% of the market in 2000. PING'AN owes its partial success from the aggressive and well-trained sales force and the leadership of self-motivated senior managers under the present competitive situation. PING'AN, therefore, will improve these parts and pay more attention to customer services.

Q11: What do you think the future and trends of the insurance market will be?

A11: China's insurance market has a great potential, and China's ongoing economic reform will continue to stimulate demand for various kinds of services for businesses and individuals. The elements of China's social reform will also expand future demand for insurance products and services. The most important thing is to have a well-established insurance regulation system.

WTO membership helped China to open life insurance market widely. Joint venture will be a good strategy for the foreign insurer because of the restriction on

licensing and operating area. This strategy also can help domestic insurers learn more new things from their partners.

As Shanghai life insurance market is a mature market, after the WTO accord, WTO membership will also promote China's link to the world economy, which in turn will help create more stable environment for China's economic development, thereby helping China realize the strategic goal of sustained, rapid and health development of the nations economy. It will also have a deep impact to Shanghai, and the life insurance market will have more opportunities and meanwhile more competitions between domestic life insurance companies and foreign life insurance companies. It would be certain that the growth rate of life insurance industry in Shanghai city will be higher than the growth rate of GDP in China.

China Insurance Regulatory Commission, Shanghai Office (CIRC)

Mr. Frank Zhang

Division Chief, Senior Economist

China Insurance Regulatory Commission, Shanghai Office (CIRC)

Date of Interview: May 10, 2001 (10.00 – 11.00am)

Q: Could you please describe the role of China Insurance Regulatory Commission (CIRC) and China's insurance market position from the past to present and future?

A: The People's Republic of China was founded in 1949. After that, the Chinese government had nominated PICC to be the sole insurance company operating both domestic and international activities. During the Culture Revolution (1966-1976), there were no institutions which had any role in the insurance business. After the Culture Revolution, the Chinese government has put different levels of control over the industries. The insurance industry was the one that the government loosened its control. However, during that time, the insurance industry operated under insurance department of the People's Bank of China (PBOC). In 1984, the state council permitted more than 10 smaller Chinese domestic insurance companies to be established. The largest of these were PING'AN insurance company and China Pacific Insurance company (CPIC). The rapid growth of insurance industry required the establishment of a legal framework. In 1985, the State Council issued Provisional Stipulations of Insurance Enterprises Administration as the sole regulation guiding the industry. In 1995, the National People's Congress promulgated a formal insurance law.

In order to tighten supervision of the insurance industry, the China Insurance Regulatory Commission (CIRC) was formed on November 18, 1998 to regulate the insurance market and promote its development. Supervision and regulation rights for the insurance business were transferred from the people's Bank of China to CIRC. Subsidiaries of PICC, People's Insurance (Group) Company of China including the Life Insurance Company, the property insurance company and the reinsurance company became independent entities supervised by CIRC. Other domestic and foreign insurance organizations in China came under the CIRC's brief.

The establishment of CIRC represents a significant step by the government towards deepening financial reform and circumventing financial risks. China's financial sector has now basically achieved compartmentalized regulations. Financial institutions can only operate in separate sectors of banking, securities or insurance, managed by PBOC, China Securities Regulatory Commission and CIRC. CIRC is under the direct control of the State Council, and Ma Yongwei, the former chairman of the PICC, was appointed as the commission's first chairman. One of CIRC's crucial tasks is to seriously investigate and deal accordingly with all kinds of illegal practices, unfair competitions such as high commissions, high returns, low rates in order to improve the whole situation in a short period of time and secure market order in the long run, the establishment of the Insurance Regulatory Commission is a timely measure to stabilize and strengthen the domestic insurance market, and gradually improve the conditions for broader international involvement.

CIRC's goals include strengthening legislation, regulating the insurance industry, fostering and developing the insurance market, and the prudential management of risks. CIRC intends to pursue these goals by: making new laws and

regulations on insurance business to perfect the insurance law system; supervising the business practices of insurance companies and the operation of new insurance laws and regulations; and establishing a risk assessment system to investigate the solvency of the insurance companies.

CIRC has several functions and responsibilities, as follows:

- Formulates and enforces related laws and regulations.
- Oversees insurance business operations.
- Protects the interests of policy holders.
- Develops the insurance market, maintains order in it and ensures fair competition.
- Promotes insurance industry reform and restructuring.
- Set up a risk evaluation and advance warning system to minimize insurance risk.

CIRC has set up regional offices which report to the head office. CIRC's current staff is comprised largely of personnel transferred from the PBOC and PICC. The CIRC is headed by chairman Ma yong'wei and four vice chairmen. Under the vice-chairmen are one office and seven departments, they are:

1) The General Affairs Office

It has three divisions: secretariat, general affairs and administration.

2) The Law & Regulations Department

It has four divisions: policy research, laws & regulations, license and complaints.

3) The Finance & Accounting Department

It has four divisions: accounting principle, accounting, statistics & information and fund management.

4) The Property Insurance Department

It has two divisions: system and supervision.

5) The Life Insurance Department

It has two divisions: actuary and supervision.

6) The Intermediaries Department

It has two divisions: system and supervision.

7) The International Department

It has two divisions: international cooperation and foreign affairs.

8) The Human Resource & Education Department

It has three divisions: general affairs, personnel and qualification review.

By 2000, CIRC had established branches in more than 30 provinces, regions and municipalities around China.

After introducing the role of CIRC, let us review the China & Shanghai insurance business.

From 1949 to 1988, the People's Insurance Company of China was the sole provider of insurance in China. Since 1988, however, China's insurance industry has developed very quickly. Insurance premiums has increased by 39.6 percent each year from 1980 to 1998, an impressive figure compared to China's 9.7 percent annual GDP growth rate for the same period. Thirteen domestic companies are now established.

The potential market for insurance in China is huge. In 1998, 120 billion RMB in insurance premiums were collected. According to the World Bank, premiums in China will reach at least 200 billion RMB (US\$ 24.44 billion) by the year 2000.

The Chinese insurance market was partially opened to foreign companies in 1992. About 202 representatives of foreign insurers in China now represent 11 different foreign insurance companies. However China's massive market potential has led to an increase in demand for life insurance from foreign companies. China need to do more to increase access to its insurance market.

It is known that Shanghai's local annual premium has exceeded 10 billion RMB during 2000, 17.5% higher than 1999. Per capita premium has reached 788 RMB, 117 RMB more than a year before. The local insurance business has kept increasing at a high speed despite the negative effects of a sluggish economic situation. Property insurance had a 9.5% increase with premium worth of 3.253 billion RMB while life insurance increased 21.5% with premium worth of 7.05 billion RMB. The structure changed and life insurance has more weight in the total premium. During that time Shanghai residence were more willing than ever to buy life insurance for future financial planning.

Although China's insurance market have huge potential, its still faced with several problems. Like the banking sector, China's insurance sector will face adjustment challenges under the WTO agreement. Most life insurance companies in the country have payout obligations that are significantly greater than their current return on investments.

The insurance sector is also dominated by only a few companies. Shortages of actuaries and professional insurance management staff have contributed to poor

business practices. In terms of service quality and business skills, the domestic insurance companies lag behind international ones.

Domestic insurance companies will have to make serious efforts at adopting international business management and prudential practices so that they can be more competitive as compared to the international marketplace.

In factor, insurance leaders have several concerns. Firstly, the industry might be subjected to cut throat domestic competition, and some domestic companies have sold out large quantities of expensive fixed-interest-rate insurance policies at the peak of business operations. But since assuming those policies, the government has cut bank savings interest rates seven times. The resulting spread in margin losses threatens the viability of local companies, and some economists say that the potential losses could trigger an insurance reimbursement crisis - posing the most severe challenge the industry has ever had to face. In addition, it has been estimated that the spread in margin losses alone could cost the insurance sector as much as \$6.04 billion, against total assets of \$40 billion.

Secondly, others fear that the biggest challenge posed by the increased presence of foreign companies to Chinese insurers isn't so much in gaining business as in winning consumer confidence. A survey conducted by Horizon Research in 2000 showed that 51 percent of the respondents favored foreign insurance companies even though most of them had had little experience with foreign insurers. The reason appeared to be due to mistrust, specifically a fear that Chinese insurers might defraud them.

Lastly, China's insurance industry has its own list of complaints. For example, the government limits the use of insurance funds to control risk, which has reduced the rate of insurance investment returns.

In order to expand, the industry needs to standardize and rationally expand operations by offering new insurance products and taking advantage of higher investment returns than the world's average.

In January 2001, the CIRC published a list of insurance companies that would be permitted to invest in securities funds and the limited amount of money they can invest in these securities. Qualified firms are limited in the maximum amount of investment which is 15 percent of their previous year's total assets.

Companies that are approved at the maximum rate of investment of 15 percent are Ping An Insurance Co, China Pacific Insurance Company (CPIC), AXA-Minmetals Assurance Co, and American International Assurance (AIA) Shanghai Branch.

Also in early 2001, the Chinese government began regulating foreign-funded insurance companies and it will expedite some revisions of the insurance law in compliance with WTO agreement.

While foreign-funded insurance companies will undoubtedly boost the domestic insurance industry, they also present some problems:

- Some international companies do not strictly adhere to China's insurance laws and regulations;
- Some companies allegedly transfer funds out of China illegally. China has specific laws and regulations regarding the transfer of Chinese-made profits to international financial institutions. Some foreign partners of joint venture insurance

companies artificially inflated costs to show up as less profit and in turn to reduce their corporate taxes.

As a result of the WTO agreement on insurance, Chinese insurance businesses will have to continue their business improvement. Chinese officials have begun to restructure the domestic industry to build their strength to cope with the coming competition. Some of the steps so far taken include:

- Establishing more domestic insurance companies and permitting existing domestic insurance companies to operate in more cities;

- Setting up alliances between domestic insurance companies and Chinese banks, starting with the largest insurance company, China Property Insurance Co, and the largest domestic state-owned bank, Industrial and Commercial Bank of China. Together they provide both insurance and other financial services to their customers;

- Providing training programs to better permit Chinese insurance companies to compete with foreigners, to provide additional capable personnel for the insurance sector, and to hire foreign insurance professionals as their advisers;

- Increasing the percentage of Chinese insurance companies holding stock-based investment funds, and enforcing regulations on both Chinese and foreign insurers to create an increase in fair and transparent insurance market environment.

Let's say something about life insurance business in Shanghai. Currently, there are four kinds of life insurance products that are popular in Shanghai, they are:

- 1) Health Insurance
- 2) Pension Insurance
- 3) Individual Whole Life Insurance

4) Accident Insurance (Term Insurance)

The most popular policy is Health Insurance, followed by Pension Insurance, Individual Whole Life Insurance and Accident Insurance.

There are 43 percent of target buyers who have monthly income between 1,001 RMB to 2,000 RMB, and 16 percent of those have monthly income between 2,001 RMB to 8,000RMB or higher. Another 41 percent of the customers' income is below 1,000 RMB per month. The target customers are 20-50 years old, having a high school degree or higher, having permanent vocations and possessing the following psychological factors:

- A demand for a secured life after medical, education and social welfare reform.
- Wanting to have a monetary return from buying life insurance as a part of their family financial planning.
- They are family-oriented.

In addition, there are many factors affecting their decision in purchasing life insurance policies:

- 1) service quality of life insurance companies
- 2) characteristic of life insurance policies
- 3) suitable price of life insurance policies
- 4) quality of the insurance agents
- 5) image of life insurance company
- 6) return of life insurance policies
- 7) value added of life insurance policies
- 8) relationship between agents and their customers

9) recommendation from trust worthy people

Normally, customers of life insurance companies in Shanghai buy life insurance from insurance agents, banks which have mutual agreement with insurance companies, post offices and/or the branch of insurance companies. Currently, the young generation likes to purchase through internet or agents because it is quicker than buying from agents and also they can get a more competitive price from those comprehensive web sites. Traditionally customers pay cash to their agents or pay installments through banks. Those people who buy life insurance policies via internet or brokers usually pay by credit cards.

Because the life insurance business in Shanghai is still young, there are some threatening factors affecting life insurance purchase:

- 1) Some consumers in Shanghai still do not trust or understand the value of life insurance.
- 2) Some risk averse people still like saving in banks.
- 3) Consumers have narrow channels to get information of life insurance because of the lack of promoting by domestic insurance companies.
- 4) There are few varieties of life insurance.
- 5) Customers are told about bad experiences from friends who have purchased life insurance before.

From the survey of CIRC, Shanghai office, the major reasons for Shanghai consumers not to buy are:

- 1) complicated procedures
- 2) low trust of insurance companies
- 3) weak insurance knowledge

- 4) long term investment
- 5) other existing personal investment methods
- 6) untrustworthy agents
- 7) unclear insurance policy
- 8) other factors

Furthermore, the consumers will sell out the life insurance policies in following cases:

- 1) When they can not pay the premiums because their income are reduced sharply.
- 2) The reduction in return of life insurance policies under their expectation which may turn into future losses.
- 3) After purchasing the life insurance, contacting the agents are difficult.

As far as I can tell, China's insurance market is still in its infancy. Foreign involvement will help improve the market to be more mature. Over the coming years, and under WTO agreement, foreign companies will need to think thoroughly before entering the Chinese market, then build up long-term relations with potential consumers. They also will need to develop business plans that prepare their companies to be long-term players.

มหาวิทยาลัยเชียงใหม่
Chiang Mai University

APPENDIX C

Statistics of China's life Insurance Business

Table C-1 Insurance premium indicator in Shanghai³⁴

Year	Total Insurance Premium (billion)	Life Insurance Premium (billion)	Insurance Depth (%)	Insurance Density (RMB/Person)
1992	-	5.58	1.63	138
1994	30	-	-	-
1995	44	17	-	-
1996	58	-	2.13	431.01
1997	87.59	60	2.65	682
1998	103.03	-	2.79	788
1999	115.26	81.51	2.86	879
2000	128.81	-	2.83	978

Table C-2 Market Share of foreign investor in Shanghai insurance market³⁵

Year	Total Premium Income	Percent (%)	
		Non- Life Insurance Premium	Life Insurance Premium Income
1998	9.93	5.40	12.01
1999	11.60	6.50	13.70
2000	14.06	8.20	16.40

³⁴ "Business & Finance Review", March, 2001, p54-56.

³⁵ Ibid., p.54-56.

Table C-3 Market Share in Shanghai's Market (1998)³⁶

	Life		Non-life		Total	
	premium	%	premium	%	premium	%
Shanghai Domestic	7050		3253		10303	
AIA	747	10.60				
Zhong Hong	43.71	0.62				
AIU			108	3.32		
Tokio M&F			57	1.75		
Winterthur			41.97	1.29		
Foreign total	790.71	11.22	206.97	6.36	997.68	9.68

³⁶ Source: China Insurance Yearbook, 1999, P46-51, calculated by author

Table C-4 Market Share in Shanghai's Market (1999)

Life		Non-life	
Company	Market Share (%)	Company	Market Share (%)
China Life	36.93	PICC	56.88
China Pacific (Life)	7.63	China Pacific (Property)	15.42
China Ping An (Life)	41.46	China Ping An (Property)	8.29
AIA	12.42	Tian An	4.27
Zhong Hong	1.07	Da Zhong	6.98
Pacific Aetna	0.35	Hua Tai	2.27
Allianz Da Zhong	0.06	AIU	2.82
Jin Sheng	0.06	Tokio M&F	1.09
		Winterthur	1.75
		Royal&Sun Alliance	0.23
Foreign total	13.96	Foreign total	5.89

Source: China Insurance News, May 19, 2000

Table C-5 China's Life Insurance Business Growth (1982 -1997)³⁷

Year	Life insurance Premium Growth Rate per Year (%)	Life Insurance Depth (%)	Life Insurance Density (RMB/Person)	Rate of Total Insurance Premium (%)
1982	-	0.00	0.00	0.22
1983	556.60	0.00	0.04	1.04
1984	620.02	0.01	0.07	5.69
1985	486.56	0.05	0.42	17.14
1986	157.62	0.12	1.07	26.82
1987	120.02	0.22	2.31	37.23
1988	49.96	0.27	3.42	39.55
1989	22.61	0.29	4.13	37.39
1990	30.07	0.34	5.23	38.37
1991	38.36	0.38	6.91	39.44
1992	57.50	0.30	7.14	30.40
1993	12.90	0.30	8.62	30.90
1994	11.30	0.31	12.32	32.30
1995	2.50	0.37	18.26	31.60
1996	59.00	0.48	25.35	41.75
1997	85.31	0.80	46.90	55.60

Source: 1 *China Financial Annals*, (1988-1997), China Financial Association

2 Swiss Re: Sigma

3 Report of Life Insurance Companies in 1997

³⁷ Dongshen, Chen. *Life Insurance Industry and Capital Market of China*. Shanghai: Economic & Science Publish House, 2000.

Table C-6 China's Insurance Premium (1981-1999)³⁸

(100 million RMB, nominal price)

Year	Life	Non-life	Total
1980			4.6
1981			7.72
1982			10.4
1983			13.3
1984	0.75	18.3	19.1
1985	4.12	28.5	32.6
1986	11.3	40.5	51.8
1987	23.4	55.7	79.1
1988	34.2	75.3	109.5
1989	39.9	98.8	138.7
1990	49.1	126.9	176.0
1991	63.2	171.1	234.3
1992	93.9	260.2	354.1
1993	85.9	413.7	499.6
1994	143.1	294.6	437.7
1995	160.9	357.9	518.8
1996	214.8	386.4	601.2
1997	600.2	480.7	1080.9
1998	748.0	499.0	1247.0
1999	872.1	521.1	1393.2

³⁸ Source: Qixiang Sun, "Development, Reform and Opening of China's Insurance Industry", working paper, 1999

Table C-7 Domestic Insurance Companies in China³⁹

	Name	Property/Life	National/ Regional	State-owned/ Stock
1	PICC	Property	National	State-owned
2	China Life *	Life	National	State-owned
3	China Re	Reinsurance	National	State-owned
4	China Ping An *	Life and property	National	Stock
5	China Pacific *	Life and property	National	Stock
6	Xinjiang Corps	Life and property	Regional	State-owned
7	Tian An	Property	Regional	Stock
8	Da Zhong	Property	Regional	Stock
9	New China Life	Life	National	Stock
10	Tai Kang Life	Life	National	Stock
11	Hua Tai Life	Property	National	Stock
12	Yong An Property	Property	Regional	stock
13	Sinosafe General	Property	Regional	stock

³⁹ Source: Qixiang Sun, "Development, Reform and Opening of China's Insurance Industry", working paper, 1999

Table C-8 Foreign Insurance Companies in China⁴⁰

Name	Country	Property/ Life	Branch/ Joint venture	Region
AIA (AIG) *	US	Life	Branch	Shanghai, Guangzhou, Shenzhen, Foshan
AIU(AIG)	US	Property	Branch	Shanghai, Guangzhou
Tokio Marine & Fire	Japan	Property	Branch	Shanghai
Manulife *	Canada	Life	Joint venture	Shanghai
Allianz *	Germany	Life	Joint venture	Shanghai
AXA-UAP *	France	Life	Joint venture	
Winterthur	Switzerland	Property	Branch	Shanghai
Aetna	US	Life	Joint venture	
Royal & Sun Alliance	UK	Property	Branch	Shanghai
Colonial Mutual	Australia	Life	Joint venture	
Prudential	UK	Life	Branch	
John Hancock	US	Life	Joint venture	
Chubb	US	Property	Branch	
Sun Life	Canada	Life	Branch	
Min An	Hong Kong	Property	Branch	Haikou, Shenzhen

⁴⁰ <http://business.fullerton.edu/csefm/ResearchArticles/OpeningChinaInsuranceMarket.html>

Table C-9 Foreign Companies are Entering China ⁴¹

Period	Companies
1992	AIA (US), AIU (US)
1994	Tokio M&F (Japan)
1995	Manulife (Canada)
1997	Allianz (Germany), AXA-UAP (France), Winterthur (Switzerland)
1998	Aetna (US), Royal&Sun Alliance (UK), Colonial Mutual (Australia)
1999	Prudential (UK), John Hancock (US), Chubb (US), Sun Life (Canada)

Table C-10 International Insurance Market Comparison ⁴²

Total Business in 1998 by Country

Country	Ranking	Premiums (USD m)	Share of world market (%)	Real growth 1997/1998 (%)
United States	1	736 470	34.17	5.3
Japan	2	453 093	21.02	-3.8
United Kingdom	3	181 045	8.40	7.2
China(mainland)	17	14 281	0.66	6.6
India	22	8 303	0.39	14.4

Source: Swiss Re, *sigma* No. 7/1999

⁴¹ [Http://business.fullerton.edu/csefm/ResearchArticles/OpeningChinaInsuranceMarket.html](http://business.fullerton.edu/csefm/ResearchArticles/OpeningChinaInsuranceMarket.html)

⁴² Ibid.

Table C-11 International Insurance Market Comparison⁴³

Life Business in 1998 by Country

Country	Ranking	Premiums (USD m)	Share of world market (%)	Share of total business (%)	Real growth 1997/1998 (%)
Japan	1	361 102	28.56	79.70	-3.4
United States	2	349 390	27.64	47.44	10.1
United Kingdom	3	124 010	9.81	68.50	13.1
China (mainland)	16	8 246	0.65	57.74	9.1
India	19	6 048	0.48	72.84	16.8

Source: Swiss Re, *sigma* No. 7/1999Table C-12 Insurance Density in 1998: Premium per Capita (in USD)⁴⁴

Country	Ranking	Total business	Non-life	Life
Switzerland	1	4 654.3	1 279.4	3 374.9
Japan	2	3 584.3	727.7	2 856.6
United Kingdom	3	2 858.9	744.5	2 114.4
China (mainland)	78	11.4	4.8	6.6
India	82	8.6	2.3	6.2

Source: Swiss Re, *sigma* No. 7/1999.⁴³ [Http://business.fullerton.edu/csefm/ResearchArticles/OpeningChinaInsuranceMarket.html](http://business.fullerton.edu/csefm/ResearchArticles/OpeningChinaInsuranceMarket.html)⁴⁴ Ibid.

Table C-13 Insurance Penetration in 1998: Premiums as Share of GDP (%)⁴⁵

Country	Ranking	Total business	Non-life	Life
South Africa	1	20.63	3.49	17.14
South Korea	2	13.87	3.55	10.32
Switzerland	3	12.61	3.47	9.14
China (mainland)	66	1.49	0.63	0.86
India	43	2.61	0.71	1.90

Source: Swiss Re, *sigma* No. 7/1999.

⁴⁵ [Http://business.fullerton.edu/csefm/ResearchArticles/OpeningChinaInsurance Market.html](http://business.fullerton.edu/csefm/ResearchArticles/OpeningChinaInsuranceMarket.html)

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