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STRATEGIC MANAGEMENT AND MARKETING STRATEGY IN INSURANCE COMPANIES

Case: China Life Insurance Company Limited in Shifang

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ABSTRACT

Currently, rural issues have become the crucial obstacles to the sustainable development of China. In order to solve those problems, the Chinese government decided to implement the micro insurance policy in undeveloped rural areas.

In light of the government decision, China Life Insurance Company Limited, the leader and state-own life insurance company in China, launched the pilot program to sell micro life insurance to the low-income population. China Life decided to enter the rural market with its mass marketing strategy that applied in all branches of the company to cover the entire market. However, the mass marketing strategy ignores the various demands for life insurance products for different people, thus, cannot effectively satisfy customers' needs. Moreover, low awareness about life insurance in rural areas is still a problem that hinders China Life's sales.

Following the strategic management process, the author applies qualitative research method and deductive method to investigate the external and internal environment for China Life. Data are collected from primary sources, including interviews, and questionnaires, and secondary sources, such as books, journals, and electronic sources, etc.

Considering all the external and internal factors that have been analysed in this thesis, the author found out that China Life should step into rural markets with marketing strategy that emphasizes the differences among different segmentations. In other words, the company should sell tailored products to each target group in order to expand its market share in rural areas.

In addition, since life insurance awareness is relatively low in rural areas, the author proposes to continue the company's promotion plan, and human resources training plan to improve the recognition of life products as well as the quality of direct sales persons who greatly affect on selling insurance products.

Key words: China Life, marketing strategy, mainstream life insurance, micro life insurance, rural areas.

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1 INTRODUCTION

This thesis aims at adopting strategic management to discover the most suitable strategy for China Life to expand its business in rural areas. In the introduction part, the author highlights the following items: background information, objectives and research questions, limitations, research methodology, theoretical framework and thesis structure.

1.1 Background

In 2002, among 1.28 billion of the Chinese total population, 72.8% of them are living in rural areas. Still, the ratio of the rural population to the total population has decreased recently. China is a country that dominates by rural population, who are receiving limited education, low income, and poor healthcare. Additionally, in rural areas, 81% of the population is over 65, which is three times the rate for the population aged from 0-14 (23.5%). (Chinese Rural Population and Sustainable Development 2010.)

With the rapid growth of Chinese economy, incomes of the rural population have increased as well. People start to spend more on healthcare services, and entertainment services. Nevertheless, poor medical conditions, undeveloped healthcare services, and high expenses still keep numerous rural people away from standard medical services. Solving the medical and healthcare problem in rural areas becomes a crucial task for the Chinese government (Chinese Rural Population and Sustainable Development 2010).

In order to improve the living standards of the rural population, the Chinese government is dedicated to develop life insurance in rural areas. However, mainstream insurance products that are designed for the urban population are not suitable for the rural population. Thus, the emergent rural insurance market generates the needs of micro insurance products that target at low-income population.

China Life is the leader in the life insurance market. It launched the pilot program in 2008 to perform its duties as a Chinese state-owned insurance company. However, the low awareness about insurance products and the limited income for rural

population are still the main barriers for developing micro insurance (The Barriers for Micro Insurance Development 2009).

1.2 Objectives and research questions

The main objective of this thesis is to explore the best strategy for expanding life insurance in rural areas.

The thesis consists of two parts: 1) Theoretical explanation of strategic management; and 2) Case study of China Life insurance's county branch.

The first part concentrates on introducing strategic management theory. In order to understand strategic management, the following research questions should be studied:

1. What is strategic thinking?
2. What is strategic management?
3. What are strategic management processes?

The second part focuses on improving the marketing strategy in the case company. Thus, the author displays the external environment and internal factors for the case company, to define the most suitable marketing strategy for the company. Thus, for this part, research should stress on following items:

External:

4. What is the social environment in China's insurance market?
5. Who are the main players in China's life insurance market?

Internal:

6. What are the main competences of China Life?
7. What is the current marketing strategy for China Life?

Objective:

8. What is the most suitable marketing strategy for the case company?
9. How to implement the suitable strategy in the case company?

1.3 Scope and limitations

The author applies strategic management to analyse both external and internal factors that affect the case company and to define the most suitable marketing strategy for the target company.

For decades, strategic management has been favoured for making a business decision. Strategic management theory helps managers to formulate strategies upon scientific analyses, and thus, increasing the correctness of formulated strategies.

However, since strategic management highly relies on external and internal analyses. Therefore, for different companies, different external and internal factors will affect the validity of the strategy. Thus, a suitable strategy must be chosen based on certain circumstances where the business operates. In other words, the changes of affecting factors hugely influence the efficiency of the formulated strategy.

Overall, strategic management highly relies on the external and internal factors analyses. In addition, changes of those factors can heavily influence the efficiency of the formulated strategies.

Moreover, in this thesis, since marketing strategy is the main topic, therefore, the author will only discuss the strategic management related to marketing. Thus, in this thesis, the focus will be only the marketing strategy study for the case company.

1.4 Research methodology

The thesis aims at exhibiting and adopting strategic management in business life. In order to define the opportunities and threats, and the strengths and weakness of the case company, the author uses the qualitative method to investigate social environments, competition situations, core competences, and the current marketing strategy of the case company (Qualitative Research Methods Overview 2005).

Furthermore, the thesis is conducted in a deductive way. Strategic management serves as a basic theory for defining the suitable strategy for case company.

Moreover, all data are collected from two ways: 1) primary sources, including interviews, and questionnaires; 2) secondary sources, including books, journals, and electronic sources, etc.

1.5 Theoretical framework

Strategic management is conducted at three levels: 1) Strategy formulating, 2) Strategy implementation, and 3) Strategy monitoring. (Figure 1)

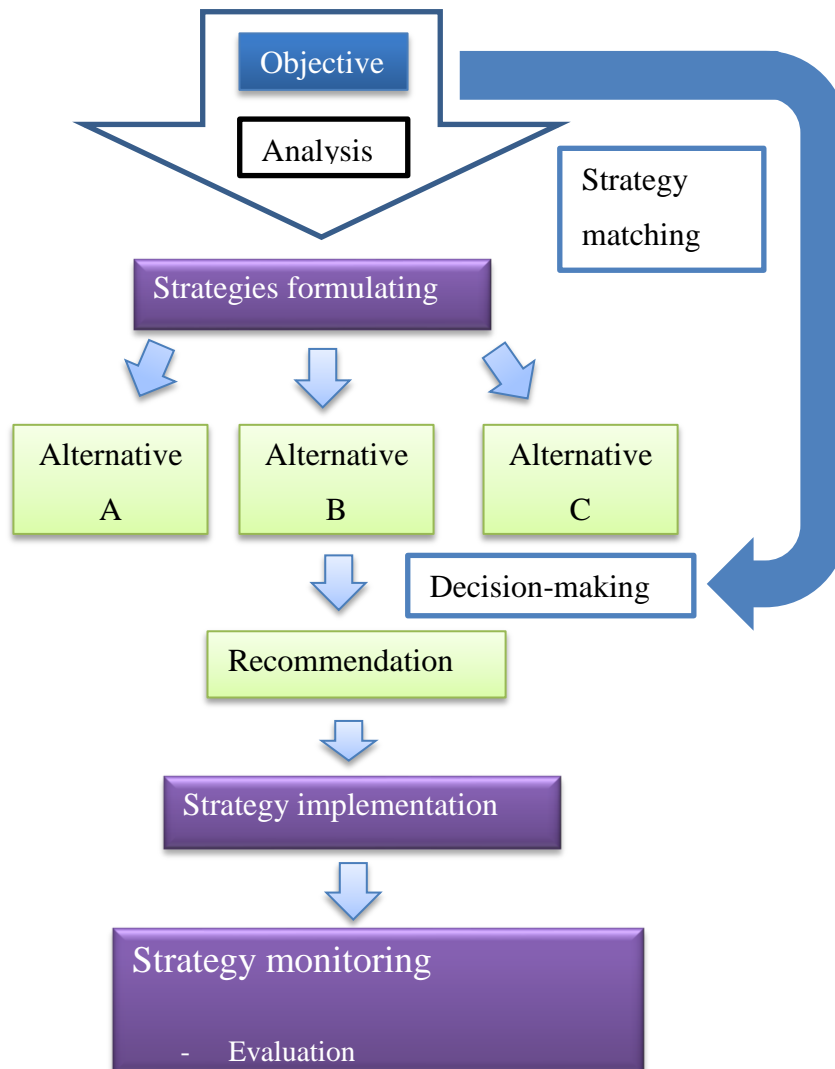


FIGURE 1. Strategic management process. (Modified from Wheelen & Hunger, 2008)

In general, strategies are generated upon objectives and analyses of external and internal factors for a case company (strategy matching). Normally, several strategies are generated at the same time. However, in reality, companies have limited resources for operations. Therefore, only the most suitable strategy will be chosen. In this case, the decision-making process should be conducted in order to make a rational decision.

The chosen strategy can be called as recommendation strategy. A recommendation strategy defines strategy in strategic level. In other words, the recommendation strategy points the direction of the business, instead of showing tactical actions to reach the objectives.

Basing on the recommendation strategy, managers will carry out the implementation plan. An implementation plan defines the tactical actions that a company should take to reach the desired results, and objectives.

The last step in strategic management is strategy monitoring. Strategy monitoring is the process of assessing and evaluating the efficiency of the recommendation strategy, in order to define the problem existing in the formulated strategy.

In general, strategic management can be used in a wide range to generate strategy in different aspects, including marketing, logistics, and product operation, etc.

1.6 Thesis structure

The thesis mainly consists of two parts: 1) theoretical study, where strategic management theory is explained, and 2) case study, where China Life Insurance Company Ltd. in Shifang is adopted as an example to show the process of adopting strategic management in reality.

There are, in total, eight chapters in this thesis (Figure 2). The second chapter explains the theory of strategic management and marketing strategy. The third chapter exhibits the analyses of social environment, and competition in China's life insurance business.



FIGURE 2. Thesis structure.

After that, chapter 4 displays the internal analyses of China Life and its branch company in Shifang in following aspects: core competencies, current marketing strategy, business models, and current strategy evaluation.

In chapter 5, considering all the external and internal analyses, the author formulates three alternative strategies that could reach the company's objectives.

Furthermore, author utilizes decision-making process to chosen the most suitable strategy from those alternative strategies.

Later, in chapter 6, the author explains the new marketing strategy in tactical level, and makes the implementation plans in different aspects, in order to solve all the existing problems in the case company, and to reach company's objectives.

Finally, the author concludes the whole strategic management process in chapter 7, and summarizes all the facts about China Life in chapter 8.

2 STRATEGIC MANAGEMENT AND MARKETING STRATEGY

Strategic management has been utilized by organizations for formulating strategies. In general, strategic management is a process of formulating, choosing, and implementing strategy to reach organizations' missions or objective accompanying with the analyses of internal and external factors. Since no business is operated under unlimited sources, quite often, a company is forced to adopt the most effective strategy in a certain functional level in order to maximize its efficiency.

2.1 Strategic management

Strategic management is an academic term for strategic planning which is preferred to be used in the business world; nevertheless, strategic planning is referred to strategy formulation only.

Strategic management enables organizations to be proactive by implementing long-term planning. Fred R. David (2009) described strategic management as the

“...art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.”

An important guideline for strategic management is to be open-minded. Managers should realize external and internal changes, and receive new technologies and new concepts in order to adapt to the surrounding changes.

Strategic management relies on the communication and cooperation between manager and employees. Recognizing that low-level managers and employees are the people who are familiar with the organization's internal factors and operations, and who finally implement the formulated strategies, organizations begin to decentralize strategic management. In other words, low-level managers, and employees are involving more heavily in strategic management processes.

2.1.1 Strategic thinking

Strategic thinking, the prime task of strategic management, was once described as the input of strategic planning. (Fred 2009; Briefing Notes: What is Strategic Thinking 2001.) Strategic thinking aims to help managers, who influence the company's direction, to be proactive and creative.

Strategic thinking originates from military practices. The highest rated strategic book is *The Art of War* written by an ancient Chinese, SunTzu. In his book, he emphasizes the importance of positioning in military strategy, and advocates for placing an army according to both the objective conditions in the physical environment and the subjective beliefs of other competitive actors in that environment. (The Art of War 2010.)

Thus, strategic thinking should consider a company's strengths and weakness, products and offerings, environment of the industry, market and customer, competitors and substitutes, suppliers and buyers. (Briefing Notes: What is Strategic Thinking 2001.)

2.1.2 Strategic management process

Strategic management processes begin first with environment scanning where managers scan the external and internal factors that affect the operation of the organization. Meanwhile, basing on the internal analysis of vision and mission for an organization, manager must set the long-term objective towards which the strategy needs to achieve.

Afterwards, strategy management will be performed in three parts: strategic formulation, strategic implementation, and strategic evaluation.

During strategic formulation, managers need to understand the vision and mission of the organization, set long-term objectives, identify external opportunities and threats, analyse internal strengths and weakness, and generate alternative strategies. Since all resources for the organization operations are limited, managers often unable to conduct all the strategies. Therefore, the strategy formulation requires

managers to choose the best strategy for the organization to implement to narrow the strategy to a specific product or service, market, resources and technologies over an extended period. (Fred 2009.)

After determining the strategy to adopt, managers come to the strategy implementation stage, where the chosen strategy should be actualized. In other words, a series of programs or activities should be defined into detailed actions and movements.

Strategy evaluation, the final stage of the strategic management process, refers to collect information about the strategy, and to obtain feedback for later improving. Strategic evaluation activities include 1) reviewing external and internal factors, 2) measuring performance and 3) taking corrective actions.

2.1.2.1 Environmental scanning

Environmental scanning of a company consists of two parts: external environmental analysis and internal environmental analysis. In general, external analyses enable a company to find the opportunities and threats it may face. Internal analyses, on the other hand, assess the organization's own strengths and weakness. (Fred 2009.)

External factors

Summarized by Wheelen and Hunger (2008), external factors that affect hugely on business can be identified as social environment factors and industry environment factors.

1) Social environment factors

Generally, the social environment is analysed in country level. It consists the elements such as political and legal issues, economic factors, social and cultural impacts, technologic development, and environmental circumstances (Figure 3).

Political-Legal	Economic	Social	Technological
<ul style="list-style-type: none"> - Tax policy - Employment laws - Political stability - Form of government - Political ideology - Legal system 	<ul style="list-style-type: none"> - Economic growth - Interest rates - Exchange rates - Inflation rate - Per capita income - Unemployment level - Outsourcing capability - Membership in economic associations 	<ul style="list-style-type: none"> - Health consciousness - Population growth rate - Age distribution - Career attitudes - Emphasis on safety 	<ul style="list-style-type: none"> - R&D activity - Automation - Technology incentives - Rate of technological
			Environmental
			<ul style="list-style-type: none"> - Climate - Environmental issues

FIGURE 3. Some important variables in social environment. (Wheelen & Hunger 2008,125)

In general, the analyses in those aspects help a company to understand the business environment in a country, and define the external opportunities in that country.

2) Industry environment factors

Industry environment consists of the affects from shareholders, suppliers, employees and labour unions, trade association, communities, creditors, special interest groups, governments, customers and competitors (Wheelen & Hunger 2008).

In formulating business strategy, competitors are heavily considered as threats that could hinder the development of the company's business (Competitor Analysis 2010). Therefore, the company's managers need to understand its competitors, including their objectives, competences, and strategies, etc.

In conclusion, external analyses focus on two main aspects: business environment analyses and competition analyses

Internal factors

In addition to external factors, internal factors are elements that can be controlled and managed. The main objective for internal analysis is to help organizations to build a better understanding about their operations, including their core competences, business model, and functional strategies (Wheelen & Hunger 2008).

Overall, external analyses enable the company to find the opportunities and threats in the market and the internal analyses enable the company to identify its own strengths and weaknesses.

2.1.2.2 Strategy formulation

Strategies are built on the former analyses of external and internal elements, and long-term objectives.

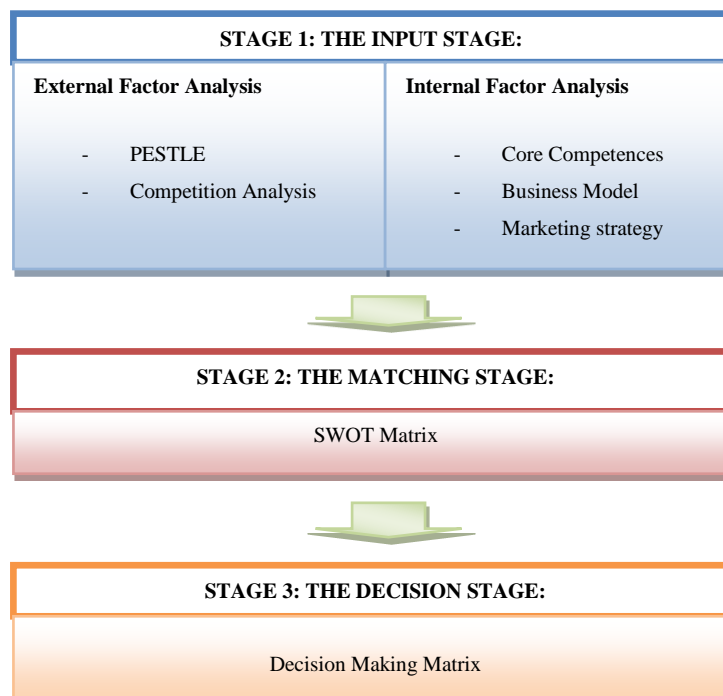


FIGURE 4. The Strategy formulation analytical framework. (Modified from Fred 2009,218)

According to Fred (2009), strategy formulation is completed at three stages: 1) input stage, where external and internal factors are analysed; 2) matching stage, where the suitable tool is selected to formulate the strategy; and 3) decision stage, where the best strategy is chosen for the company for formulating tactical actions. (Figure 4)

The strategy formulated here is in strategic level. The formulated strategy provides the idea of how to improve the business. Basing on the idea, managers are able to make the implementation plans to improve the business operations. In the implementation plans, the detailed actions should be prepared at the tactical level to actualize the formulated strategy.

2.1.2.3 Strategy implementation

Strategy implementation summarizes all the analysed results that needed for executing a strategic plan. It is the process where objectives and strategies are put into action via establishing program to create a series of new organization activities, budgeting forecast financial needs, and handling day-to day details. (Wheelen & Hunger 2008.)

2.1.2.4 Strategy evaluation and control

Strategy evaluation and control is the last step of strategic management. It is a five-step feedback model, includes following procedures:

1. Determine what to measure
2. Establish standards of performance
3. Measure actual performance
4. Compare actual performance with the standard
5. Take corrective actions

The evaluating process for an implemented strategy is depicted in figure 5, where the possible reasons of failure in strategy management process are demonstrated.

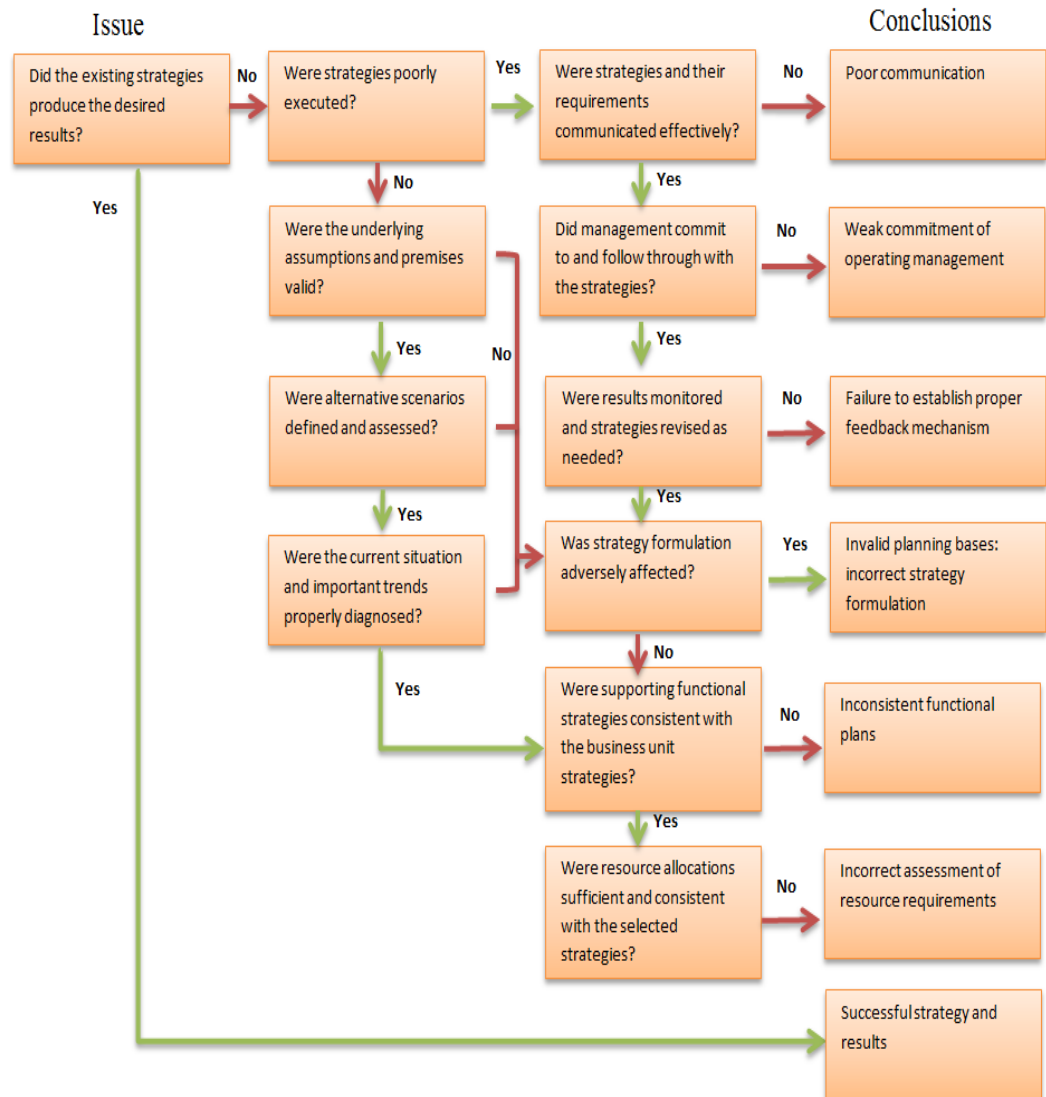


FIGURE 5. Evaluation an implemented strategy. (Wheelen & Hunger 2008, 264)

Normally, the evaluation aims at finding the existing problem for the current strategy. Doing so, the firm will be able to control the risks and fix the existing problems, or to make a better strategy and plan for the future.

2.2 Marketing strategy

Marketing is the acts of buying and selling in a market (Dixon 2002). Marketing is the primary links between companies and their customers. Therefore, marketing positions and market mixes should be seriously considered by managers (Wheelen & Hunger 2008).

2.2.1 Market positions

No company is capable of offering products or services that satisfy all customers' needs at one time. In order to access to the most profitable customer group, companies adopt the STP process to choose its target customers.

The STP process includes three steps: 1) Segmentation: categorize the potential customers 2) Targeting: choose the target customers to serve and 3) Positioning: implement marketing plan to reach the target group (Segmentation, Targeting, and Positioning 2010).

Segmentation

Segmentation helps companies to meet customers' expectations in an efficient way. Rarely any company is capable of meeting or fulfilling the needs of the entire market. Therefore, it is essential to categorize customers into different segmentations, and chooses the best segmentations to reach.

There are four basic segmentation strategies according to the various characteristics of the segmentations, including:

- 1) Behavioural segmentation, which includes the variables of usage rate and patterns, price sensitivity, brand loyalty and benefits sought, etc.
- 2) Geographic segmentation, which bases on regional variables, such as the region, climate, population density and population growth rate, etc.
- 3) Demographic segmentation, which is used for the variables of age, gender, ethnicity, education, occupation, income and family status, etc.

- 4) Psychographic segmentation, which consists of the variables of values, attitudes, and lifestyle, etc.

Analysing customers in these four aspects, managers will be able to categorize customers into different segments. Segmentation is conducted base on the common characteristics shared in the same segment. Segmentation enables managers to satisfy customers better by offering the optimized products for different segmentations, according to their needs.

Targeting

Targeting comes after segmentation where the market has been broken into several segments. Targeting is the process of choosing and concentrating companies' efforts on one or a few key segments.

The idea of targeting is to make companies focus on target segmentations in order to ensure the target group to be highly satisfied. However, on the other hand, ignoring other customers who are not in the chosen segmentations may lead to a loss of companies' market shares.

Positioning

Positioning means to create a desired image in the minds of their target market for its products, brand or organization (Product Positioning 2010). Moreover, positioning involves implanting the brand's unique benefits and differentiation in the customer's mind.

STP process, in conclusion, is a process that begins with dividing the existing and potential customers into different segmentations. And among those segmentations, only a few will be chosen to satisfy by the company. Positioning, the last step of STP process, is to implement the target groups by providing the best products and services, in order to distinguish the company from its competitors and to define the place of the company rightly in the market.

2.2.2 Marketing mix

In addition to STP process, marketing mix is another business tool that has been long time served as the principal foundation for a marketing plan. Marketing mix consisted of four parts, the 4Ps, including product, price, promotion, and place (Vignali 2001). (Figure 6)

Product: the commodity or service that is available to customers.

Place: (also known as distribution channel) activities that make the product available to target consumers. It refers to the mechanism through which goods or services are delivered from a manufacturer or a service provider to the user or consumer.

Promotion: the activities a market could utilize to provide information about their products and service to attract consumption and increase sales.

Price: the cost for consumers to receive the goods or service.

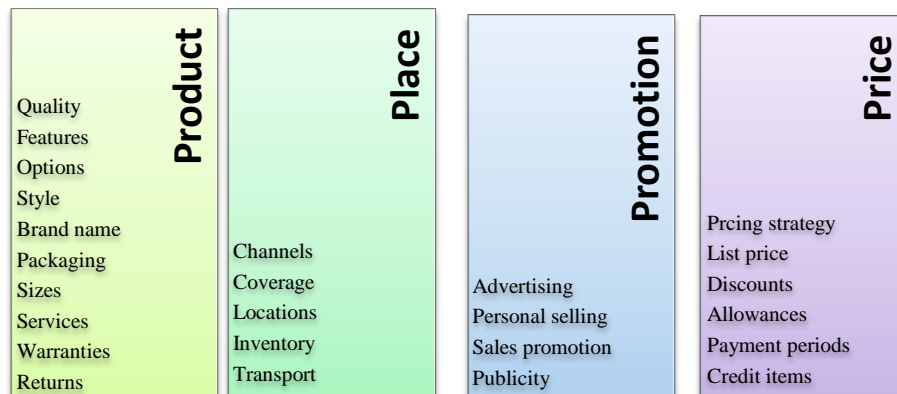


FIGURE 6. Marketing mix variables-4ps. (Vignali 2001 & Kotler 2003,145)

Marketing mix defines the tactical marketing plan. Conducting the actions of each part, the companies will be led to its target market (Marketing Mix 2000).

3 CHINESE MARKET AND INSURANCE BUSINESS

Prior to the implementation of economic reforms and trade liberalization, China maintained policies that retained the Chinese economy in very poor, stagnant, centrally controlled, inefficient, and relatively isolated circumstances. After opening up to foreign market, China grows dramatically and becomes a major economic and trade power in the world. Consequently, the booming economy helps hundred millions of Chinese people out of extreme poverty. Moreover, the overall living standards have been improved to a much higher level than previous years. (Morrison 2011.)

The special economic system in China, which is described as socialism with Chinese characteristics, contributes to the distinguish features of the Chinese economy. The system consists of a mixture of state-owned enterprises with an open market economy. Tellingly, besides the free market economy, which determined by the relationship of supply and demand, macroeconomic regulations and control functions are made to adjust and maintain the healthy growth of the Chinese economy. Therefore, the government has a great effect on the development of the Chinese economy (Morrison 2011).

Valuing farming over business was a traditional idea and policy of Chinese feudal society. At that time, insurance business, which largely depends on the growth of the economy, was useless. The first insurance business in China was a British owned and operated company built for securing transferring goods during the war. Even though, the Chinese government started shortly to establish China's insurance businesses, at that time, only 20% of the insurance companies were Chinese-owned companies. (The Development of China's Insurance Business 2011.) It is not until 20th of October in 1949, the first Chinese state-owned insurance company, People's Insurance Company of China, was born in China.

Then later, with the development of the Chinese insurance market, the legislative system regards to insurance organizations was enhanced to ensure the healthy development of insurance by implementing instruction and regulations.

3.1 Social environment in China

The open market in China grasps more and more attention in the global market. As the biggest country in terms of population, China provides numerous workforces to the world labour market, and causes a large amount of demands in the consumption market.

In 2010, China stood as the second-largest economy in the world after the US, having surpassed Japan in 2001 (The World Factbook: China 2011). However, behind the rapid economic growth, population issues in rural areas have become unpreventable threats to China's sustainable development. Therefore the issues arisen in rural areas must be solved properly and immediately by the Chinese government.

Political and Legislative

Political influences are never over emphasized when doing business in China. As the author has already explained, the market economy is not the sole affecting factor in the Chinese economy. Government, in order to make sure the healthy increases of the Chinese economy, has a strong power to guide and adjust the economic scenarios in China.

In the top four Chinese insurance companies, approximately 48% of their shares were owned by the state in 2008. The role of state in China's insurance business cannot be ignored. The government influences the insurance industry, not only as a major shareholder, but also as a supervisor who nominates directors and senior managers and sets the remuneration in state-own firms (Bell & Chao 2008).

Furthermore, insurance companies in the China's life insurance market are strictly supervised by the China Insurance Regulatory Commission, under the legislative regulation of Insurance Law of The People's Republic of China, Provisions on the Administration of Insurance Companies, and Law of the People's Republic of China on Anti-money Laundering.

In order to develop a full coverage social security system that not only benefits urban citizens but also ensures the health of the rural population. The Chinese

government decided to develop a social security system under help of insurance products, especially life insurance that suitable for the rural population.

In 2008, The China Insurance Regulatory Commission (Notification of Microinsurance Development 2008) notified the implementation of micro insurance that target at low-income areas, including Sichuan Province. (Fundsformgos.org 2009).

Economic

Having surpassed Japan in 2001, China became the second-largest country in terms of economy in the world. China had the second largest value of service production in 2010. Moreover, the value of Chinese agricultural and industrial outputs was more than that of the U.S. Nonetheless, the per capita income in China is still below the world average (The World Factbook: China 2011). The data from the CIA website (2011) reported a GDP (purchasing power parity) of 11.3 trillion dollar in 2011, which ranked third in the world. The real GDP growth rate in 2011 was 9.5%, ranked sixth in the world. However, the GDP per capita (PPP) ranked 117th in the world with the value of 8,400 dollar. Additionally, industry sector counted the most part of the GDP, at a portion of 47.1%, while service sector counting 43.3% of the GDP, as the second largest sector.

According to the data analysed by the National Bureau of Statistics of China (2011), China had a relatively stable economic development in 2011, in spite of a slightly decrease in money supply, and the overheating revenue that later dramatically decreased. (Figure 7)

Nevertheless, in 2010, the amount of disposable income increased from May to the end of the year. Furthermore, the rapid growths occurred in food and clothing, healthcare, and personal articles consumptions (Consumer Price Index (CPI) by Category 2012).

Index / Month	11-01	11-02	11-03	11-04	11-05	11-06	11-07	11-08	11-09	11-10	11-11	11-12
The Index of Industrial Production	●	●	●	●	●	●	●	●	●	●	●	●
Investment of Fixed Assets	●	●	●	●	●	●	●	●	●	●	●	●
The total Retail Sales of Consumer Goods	●	●	●	●	●	●	●	●	●	●	●	●
Import and Export Volume	●	●	●	●	●	●	●	●	●	●	●	●
Revenue	●	●	●	●	●	●	●	●	●	●	●	●
The Profits of Industrial Enterprises	●	●	●	●	●	●	●	●	●	●	●	●
Residence Disposable Income	●	●	●	●	●	●	●	●	●	●	●	●
Financial Institutions Loans	●	●	●	●	●	●	●	●	●	●	●	●
Money Supply M2	●	●	●	●	●	●	●	●	●	●	●	●
CPI	●	●	●	●	●	●	●	●	●	●	●	●
Business Cycle signal Index	●	●	●	●	●	●	●	●	●	●	●	●
	108	108	105	105	109	113	111	108	105	101	99	100

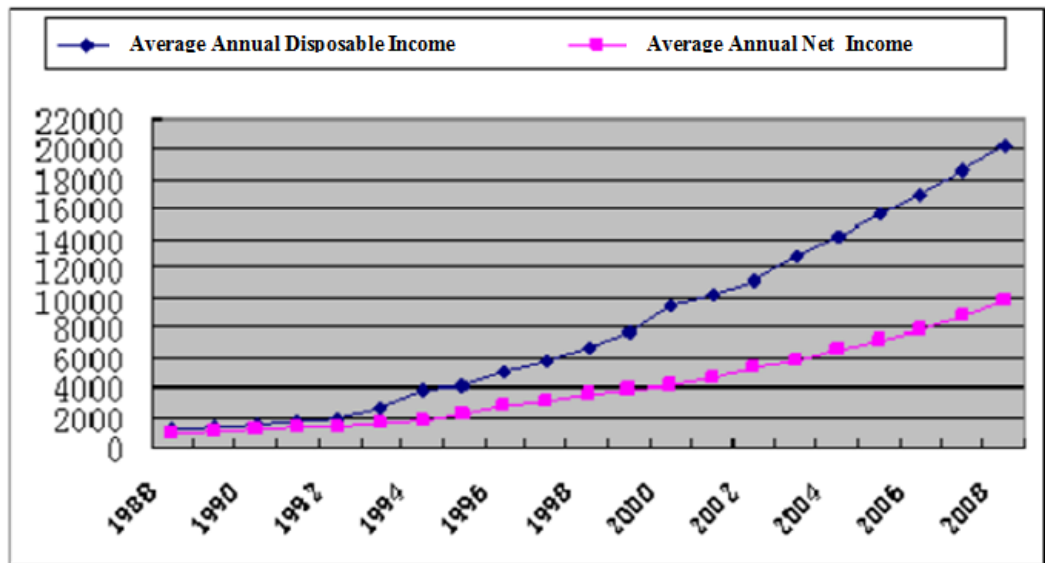
Note: ● Overheating ● Increasing ● Stable ● Decreasing ● Overcooling

FIGURE 7. Monitoring signals of macro-economic climate index. (Monitoring Signals of Macro-Economic Climate Index (2011.12) 2011)

China is the largest country in terms of labour force. In 2011, there were 816.2 million working forces, among which 34.1% worked in service sectors. The unemployment rate in 2011 was 6.5%, ranking the 67th in the world. The inflation rate in 2011 was 5.4%. Moreover, the central bank discount rate (the annualized interest rate a country's central bank charges commercial, depository banks for loans to meet temporary shortage of funds) was 3.25% in 2010. The exchange rate (RMB to the US dollar) was 6.455 in 2011. (The World Factbook: China 2011.)

The Chinese government is now facing the unequal development in different areas. The economy in coastal is much better than in interiors. Due to a huge gap of economic development between coastal areas and the interior, over 250 million people immigrated to coastal provinces with their independents to find work by 2011.

TABLE 1. Average annual disposable income and net income per capita in rural areas of China. (China's Urban and Rural Population Income Status Analysis 2011)



In addition, the income level in rural areas is still low, in spite of the recent rapid growth in urban areas. In 2006, the average annual disposable income in rural areas per capita was roughly 3200 USD (20,000 RMB), and the average annual net income per capita in rural areas is only 1600 USD (10,000 RMB) (Table 1).

Social

In order to control the rapid population growth in China, the government implements a series of policies to reduce the overcrowded population in China, which, however, have made China one of the most rapidly aging countries in the world (The World Factbook: China 2011). Until the end of 2011, the population over 60 in China was 0.185 billion, accounted for 13.7% of the population, which increased 0.47% from last year (Chinese Women 2012). According to the population census in 2010, the total population in China was roughly 1.37 billion at that time, with an average annual growth of 0.57% during 10 years. (The population census is conducted in China in a 10-year term, the latest census was in 2010, and

the fifth census was completed in 2000.) (The Sixth Population Census in China-Results 2010)

Nowadays, the Chinese government is working hard to solve the issues in rural areas. Therefore, healthcare services in China have improved dramatically. In 2009, there has been already, in total, 283,800 health facilities, 4.41 million beds, and 6.73 million health workers, and addition, 622,800 village clinics and 1.11 million village doctors. (Ji 2010.) Still there is a huge amount of people are receiving limited education, poor low-income, and undeveloped healthcare services. Moreover, in 2002, about 72.8% of the Chinese total population in the mainland lived in rural areas (Chinese Rural Population and Sustainable Development 2010) where the social security system, including health care services and insurance services were undeveloped.

Even though, at the end of 2011, the population in urban areas accounted for 51.27% of the total population, surpassing the population living in rural areas. Nonetheless, a huge amount of immigrants in urban areas were not entitled to the social security system in urban areas (China's Urban Population Surpassed Rural Population 2012).

In 2012, the healthcare reform stepped into a new stage. Government is going to support the development in healthcare by investing 732.6 billion RMB, while improving the medical security system in China. In order to do so, the government decide to develop the micro insurance industry (Investment In Healthcare Development By The Chinese Government 2012).

Technological

Thousands of new and high-tech development zones have been built in China contributing to a great increase on the annual production (New and High-tech Development Zones 2006). The great gap between China and the world's advanced countries in technology development existed in early time has been hugely shortened.

A study conducted by Bryan (2009) indicated that the number of internet users in China was over 338 million, an increase of 13.4% from 2008. Lately, a report

renewed this record, and indicated 450 million usages at the end of 2010, which was more than one-third of the Chinese population, amounting 73 million more than in 2009.

Still, the most popular media in China is radio. According to the report from the State Administration of Radio, Film and Television (SARFT), in 2008, there were in total 1.2 million radios, covering 95.43% of the total population in China. Almost one out of 2.5 Chinese people owned a radio. (The Coverage of Radio Use in China is over 95%, 2008.) In the meantime, smart phones were widely favoured by Chinese people. The smart phone usage in urban areas was 35%, and in rural areas was 12% in 2011. (China's Smart Phone Coverage Survey Report 2011)

Environmental

In China, the characteristics of climate are various depending on the region. In general, China is a country that is vulnerable to climate damages.

In 2002, meteorological disaster, especially drought and flood annually caused a loss about 200 billion RMB, which is up to 6% of the total GDP (Huang 2002).

The most common climate vulnerable areas are 1) western areas, including Xinjiang, and Xizang, where attacked by heavy snow frequently, 2) southeast areas, where often subject to low temperature, and substantial rains, 3) and southwest of China, where damaged severely by meteorological drought, for example, Sichuan. (Figure 8)

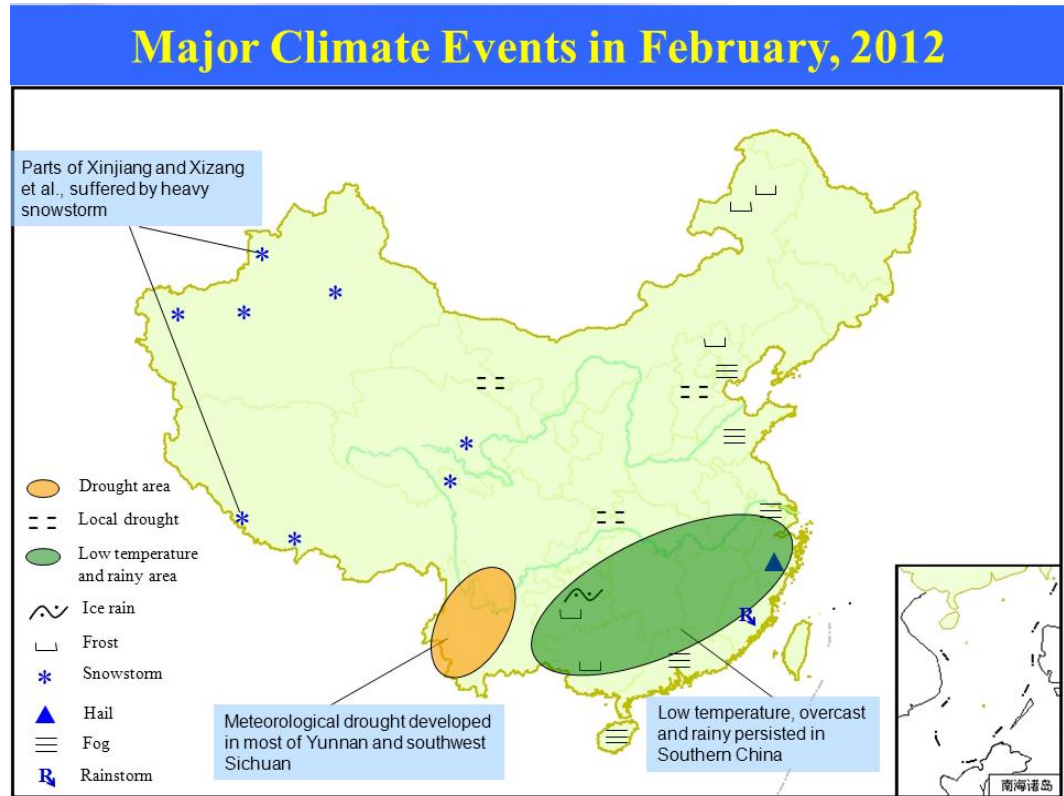


FIGURE 8. Major climate events in China (February 2012) (National Climate Center 2012)

Besides drought and low-temperature problems, some parts of China also suffer from frost, ice rain, snowstorm, hail, fog and rainstorm that are harmful to agriculture activities. According to figure 8, most part of China is subject to some kind of climate damage.

Political-legislative

- Government holds a strong power on the economy.
- Insurance business in China is supervised by the CIRC, under Insurance Law, Provisions on the Administration of Insurance Companies, and Law of on Anti-money Laundering.
- Microinsurance policy backed up by the Chinese government, experimenting in areas including Sichuan Province.

Economic

- Income per capita below world average.
- Stable economic development.
- Disposable money increase.
- Consumption increases in healthcare services.
- Inflation rate: 5.4%.
- Unemployment rate: 6.5%.
- Central bank discount rate: 3.25%.
- Exchange rate in RMB to US dollar is 6.455 in 2011
- Average annual disposable income per capita in rural areas: USD 3200.
- Average annual net income per capita in rural areas: USD 1600.

Social

- Most rapidly aging countries in the world.
- Large low education and low income rural population.
- Low developed social security system.
- Improving healthcare service, and supporting insurance services are supported by the Chinese government.

Technological

- Close to world-class level.
- A great number of internet users
- Radio coverage over 95%
- Smart phone covers 35% in urban areas and 12% in rural areas.

Environmental

- Vulnerable to climate disasters including drought and flood, especially in areas such as Sichuan Province.

FIGURE 9. PESTEL analysis for China.

Based on the analyses above, the main facts of China in the social environment can be summarized in PESTL analysis. (Figure 9) In general, the Chinese economy has been increased stably currently. The disposable income in China has been increased, even though still under the world average level. However, in spite of the rapid growth in the economy, the Chinese government now is facing essential issues arisen from a large portion of the rural population who is now still living in undeveloped areas with poor education, low income, and undeveloped social security system. In order to solve the issues arisen in rural areas, the Chinese government is working on improving the social security system under the help of implementing micro insurance in rural areas.

In light of all those facts, there is a big potential market for micro insurance products, which supported highly by the government. Selling micro insurance will be a great chance for insurance companies to improve their company images, strengthen their brand recognitions, expand their new markets, and increase their revenues.

3.2 Competition analyses for China's life insurance market

The insurance industry in China has developed for decades. Associating with the rapid growth of economy, more and more players are involving in this industry, and compete for the existed market and the potential customers. Consequently, the competition in this industry becomes fiercer than ever before.

Currently, there are around 100 insurance companies in total (Chinese Insurance Business Report in 2011, 2012), of which around 60% offers life insurance. In addition, among those companies who offer life insurance, more than half of them are Chinese invested life insurance companies (Original Insurance Premium of Chinese Life Insurance Companies in 2011, 2012).

It is reported on Souhu.com (2012) that 2011 has been a harsh year for all the life insurance companies, even though among the top six companies, half of them showed a slight increase round 1% in original insurance premiums, meanwhile, the other three declined up to 2.74% (Chinese Insurance Business Report in 2011,

2012). Additionally, the number of foreign life insurance companies declined in 2012, from 28 to 25.

In January 2012, the Chinese life insurance business was highly dominated by China Life, at a 35% market share. There were about five major players, including China Pacific, Ping An, Xin Hua, Tai Kang, and Tai Ping life insurance, with, in total, 39% of market share. The rest 20% market shares were shared by over 20 small companies and foreign insurance companies, among which a mere 3% of the market was occupied by foreign investors (Figure 10).

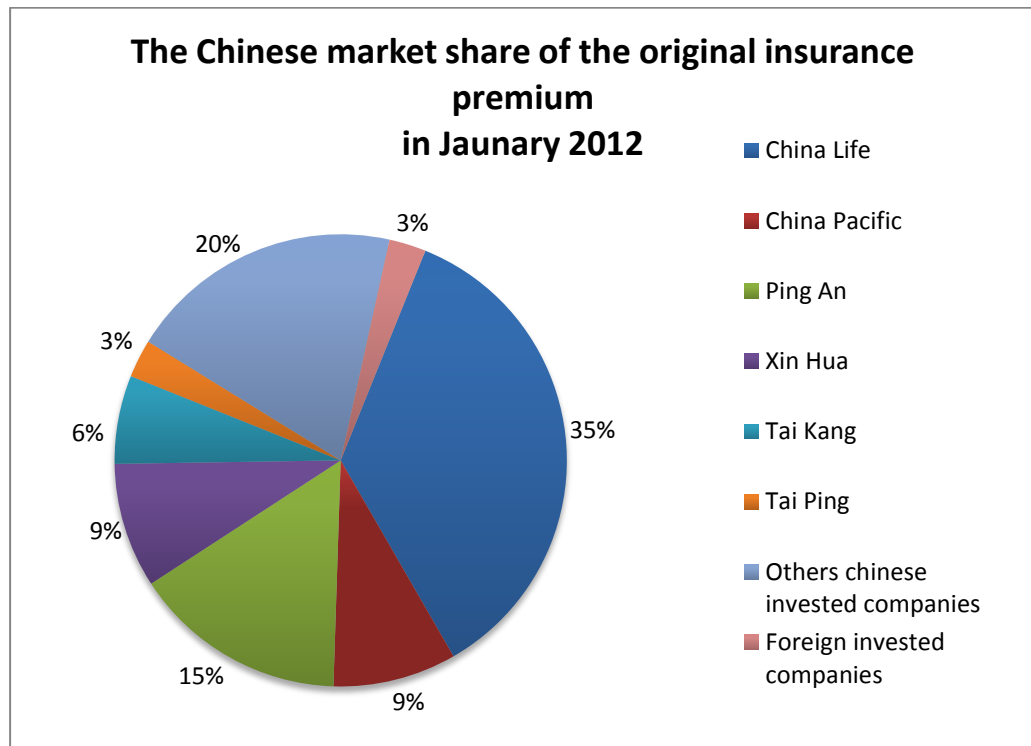


FIGURE 10. Major players in Chinese life insurance market. (Original Insurance Premium of Chinese Life Insurance Companies in 2011, 2012)

Additionally, the entrance of life insurance business in China is under the strict supervision of CIRC, and the related laws. The minimum enrolment capital is 200 million RMB. Since insurance are essentially related to people's lives, the CIRC applies a strict procedure for the applicant.

Meanwhile, in order to maintain the governmental control over life insurance industry, the Chinese government would not prefer to introduce more competitors in the market to seize the market, most possibly, from China Life.

Besides, the decline of original insurance premiums in 2011, and the failure of foreign insurance companies would impose a negative effect on possible investors.

All in all, the threats from new players in life insurance business in China is rather low, thus, the main competitions China Life is facing are among existing competitors, such as Ping An, and China Pacific.

China Life

Established in 2003, China Life Insurance (Group) Company (or China Life for short) that headquarters in Beijing, is a large state-owned financial and insurance company. It was separated from the former PICC, in 1996.

China Life Insurance (Group) Company, together with its subsidiaries constitute, is the largest commercial insurance group in Mainland China. China Life is the only state-owned insurance group with assets exceeding 1 trillion RMB. In addition, it is one of the largest institutional investors in China's capital market. The premium income of China Life in year 2010 reach 350.612 billion RMB accounted for 37.2% of the life market share in Mainland. By the end of 2010, its total asset reached 17,760 trillion RMB. Moreover, it has been listed on the Fortune Global 500 list for nine consecutive years.

As a one of the largest financial institutions in China, China Life is comprised of seven subsidiaries including (Appendix 2):

1. China Life Insurance Company Ltd.
2. China Life Asset Management Company Ltd.

3. China Life Property & Casualty Insurance Company Ltd.
4. China Life Pension Company Ltd.
5. China Life Insurance (Overseas) Company Ltd.
6. China Life Investment Holding Company Ltd.
7. Insurance Professional College.

The company has developed for years under its objectives to (About us: Company Strategic Objectives, 2012):

(We) commit ourselves to growing into an excellent life insurance company with strong capitalization, advanced corporate governance, a well-established management system, stringent internal controls, leading technology, a first-class team, superior service, an outstanding brand and a harmonious mode of development.

Ping An

Ping An Insurance (Group) Company of China, Ltd or Ping An (Appendix 3), was found in Shekou, Shenzhen in 1988. It is the first shareholding insurance company in China with shares listed on Hong Kong Exchange and Shanghai Stock Exchange. Guided by the main principle of “Expertise Creates Value”, Ping An for decades work on delivery a better value return to its customers by:

Capitalizing on favourable market opportunities, we will continue to implement our strategy of building an integrated financial service platform, adhering to the established business plan, with balanced development of our three cores business-insurance, banking and investment.

As the second largest life insurance provider, Ping An has approximately 489,911 life insurance sales agents and 175,136 full-time employees. The total consolidation assets for the group amount to 2,285.42 billion RMB, and the equity amounts to 130.87 billion RMB. (About Ping An 2012).

China Pacific

China Pacific Insurance (Group) Co., Ltd. (CPIC) (Appendix 4), as one of the largest insurance provider after China Life and Ping An, was established in 1991, headquarters in Shanghai. It consists of China Pacific Life Insurance Co.Ltd, China Pacific Property Insurance Co.Ltd, Pacific Asset Management Co. Ltd, China Pacific Insurance Co. (H.K) Ltd, and CPIC Investment Management Co. (H.K) Ltd. (China Pacific Insurance Company 2012)

It occupied 10.8% of the total market in 2011, with a net profit of 5,816 million RMB. In June 2011, for CPIC, the total assets were 537.2 billion RMB, and net assets were 79.8 billion RMB, with 490,513 million RMB investments. CPIC has for years developed under its principle of

“Looking forward, CPIC will implement customer demand oriented strategic transformation and work hard to become an internationally competitive financial service group concentrating on insurance as the core business with sustainable value-enhancing growth.”

TABLE 2. Major life insurance companies in China.

	<i>China Life</i>	<i>Ping An</i>	<i>China Pacific</i>
Established	1996 (PICC) 2003, (China Life) Beijing	1988, Shenzhen	1991, Shanghai
Premium income share in 2012	35%	15%	9%
Mission/Goal	World-class life insurance company	Developed core business-insurance, banking and investment	Internationally competitive financial service group
Core competences	<ul style="list-style-type: none"> - Strong capitalization, - advanced corporate governance - well-established management system - stringent internal controls, - leading technology, - a first-class team, - superior service, - an outstanding brand, - a harmonious mode of development 	Integrated financial service platform	-
Strategy	Full coverage	Favourable market	Customer demand orientated
Characteristics	Leader	Nicher	Follower

Overall, China Life is the leader in the life insurance business in China, with 35% of the total market share, and extensive capital investments, excellent management systems, well-established brand images, outstanding support technologies and services. Ping An, the second largest life insurance provider in China, targets at the niche market while China Pacific following the development of China Life as a follower. (Table 2)

4 CHINA LIFE INSURANCE COMPANY LTD.

4.1 Core competencies

China Life is the largest state-own life insurance company in China. It enjoys large positive supports from the government, and advantages of extensive capital structures. China Life aims to be the world-class life insurance with its excellent management and strong brand image.

4.2 Current marketing strategy

China Life insurance, the largest life insurance provider in China, adopts the mass marketing strategy for expanding its market. Moreover, the business policy designed in headquarter is equally applied to all departments and branches, so do the marketing strategy (Appendix 5).

Segmentation and targets

Mass marketing serves as a main strategy in China Life to attract the entire potential customers under the help of mass distribution and mass media (Mass Marketing 2011). Customers are simply classified into individual customers and group customers.

However, the strategy ignores the differences among customers, and treats them in a unified way. Thus, life insurance products in China Life are not designed according to different customers' needs. The company uses the same products to target the entire market. (Liu 2006)

Positioning

China Life commits itself to an excellent life insurance provider. From customers' point of view, due to the extensive expenses on advertising, China Life is a well-known insurance brand in China. Additionally, participating actively in charity and volunteer activities, China Life is viewed as liable, responsible and trustful company. Moreover, since China Life is a state-owned company, people have faith in its future development.

Products

China Life sells both individual life insurance and group life insurance. In addition, under the individual life insurance, there are six types of life insurance products available, such as (Products Centre 2012):

- 1) **Investment insurance** offer basic life insurance functions but also allow customers to share the dividends of China Life.
- 2) **Health insurance** compensate customers' loss caused by health issues.
- 3) **Juvenile insurance** give the right to people whom younger than 18 to enjoy financial support for education, and marriages, etc.
- 4) **Endowment insurance** are designed for elder people, to maintain their life quality even after retirements.
- 5) **Term insurance** are most suitable for people with low income. It helps customers to ease the consequences of death, and disability.
- 6) **Accident insurance** offer financial support when the insurant suffers from death, disability, or illness that caused by accidents.

Moreover, China Life offers group life insurance to the company's employees for matters, such as health and medical cares, breeding children, loans, and construction works risk avoidance, etc.

According to the level of risk coverage, products offered by China Life can be categorized in two main categories:

- 1) **Investment-type products**, which provider mostly dividends and function as a financial investment, such as Hong Tai Endowment Plan, Hong Rui Endowment Plan.

- 2) **Risk-type products**, which focus on giving risk protection support rather than financial investment, for instances, Qian Xi Wealth Management Plan, Hong Xin Plan, Kongning Term Critical Illness Plan, Kangning Whole Life Critical Illness Plan.

Based on execution time of products, the products provided by China Life can be categorized as

- 1) **Short-term insurance** refers to products that have an execution time less than one year, including short-term accident insurance and health insurance, to both individuals and groups. For this kind of insurance, customers can benefit from financial support by reimbursement of medical expenses, or compensation of death and disability caused by accidents.
- 2) **Long-term insurance** on the contrary have an execution time more than one year, includes whole life insurance, which covers the whole length of a policyholder's life.

Moreover, according to the money return policy, life insurance can be categorized into two groups

- 1) **Participating insurance:** customers are entitled to dividends of the company base on the profit gained in the financial year.
- 2) **Non-participating insurance:** contrary to the participants, customers are guaranteed for a fix term payment after its death, and the amount will not be influenced by the company's operations.

Place

Products are delivered to customers by three major platforms: 1) field offices and agents that are comprised of direct sales representatives; 2) internet and 3) bancassurance intermediaries that refer to the cooperated insurance selling banks and other similar financial institutions (Bancassurance 2012). Bancassurance

enables China Life to reap the benefits of sharing customer resources and cross-selling (China Life Insurance Company Limited Announces 2007 Annual Results 2007)

For China Life, at the end of 2007, there are more than 15,500 field offices and over 638,000 exclusive agents. The company has over 13,000 direct sales representatives, and over 18,000 customer service managers. Additionally, there were in total 90,000 bancassurance intermediaries, which include outlets of commercial bank branches, post savings, and cooperative saving institutions.

Moreover, in August 2011, China Life established its online purchasing platform in nationwide. Since then, customers are able to access products more convenient at www.e-chinalife.com. (e-chinalife.com 2012)

Promotion

In order to stimulate its sales, China Life combines its marketing strategy and channel strategy together to enlarge the market demand, and improve its sales channel accessibility. For example, China Life plans events in order to make customers get familiar with China Life, supervises sales outcomes to build good relationship among team members, and motivates sales agents to encourage sales activities. (Appendix 6)

Price

China Life offers different prices for different products. Normally, investment type insurance are designed for people who have extra money for investment, therefore trend to have a high return profit rate, as well as payment.

Health insurance are a basic type of insurance, therefore the price level trends to be in middle level. They are suitable for most of the middle-income level population in China.

Specific insurance, such as accident insurance, are designed for people who have a low-income, and prefer lightening damages result from death or disability.

Overall, prices are different for different insurance products. Moreover, each insurance product has different payment terms, and in general, payment terms of most products can be flexible. Customers can choose to pay monthly, or yearly.

4.3 China Life Shifang

China Life Insurance Company Ltd in Shifang (China Life Shifang for later use) is the county-level branch of China Life in Shifang areas. China Life Shifang has more than 400 full-time employees, who work in six departments including 1) sales department, 2) claims department, 3) bancassurance department, 4) training department, 5) recruiting and education department, 6) and after sales service department. The direct sales persons in Shifang are categorized into three parts: around 100 people are working in city areas, over 250 people are working in field offices in rural areas and nearly 50 people are working for the group sales team.

Shifang is a county-level city under the municipal administration of Deyang, with an area of 863 km², and a population of 430,000 in 14 towns in 2006. (Profile of Shifang 2010)

Benefiting from rich natural resources deposits, Shifang has been named as the “Township of the Chinese Mineral Water,” the “City of Phosphorite” and the “Township of the Chinese Cigar” (Shifang 2012). In 2006, the county produced 2.593 billion of cigars, ranked the highest in the whole country (Township of The Chinese Cigar 2007). Its GDP was 27.7 billion RMB in 2007. Moreover, it has been consecutively selected as the second place of “Ten Top Counties” of Sichuan Province from 1995 to 2007.

Shifang is regarded as a favoured travel place in Sichuan. However, in 2008, Shifang was attacked by an earthquake, causing a loss of around hundreds billions RMB, and destroying buildings and streets, especially in mountain areas, where high-income citizens located (Shifang Lost Hunderds of Billion RMB in Earthquake 2008).

TABLE 3. Shifang overview.

<u>2006 overview:</u>				
<i>Administration:</i> county-level city under the municipal administration of Deyang,				
<i>Area:</i> 863 km ² ,				
<i>Population:</i> 430,000				
<i>Township:</i> 14 towns				
<i>Names and Titles:</i>				
“Township of the Chinese Mineral Water,”				
“City of Phosphorite”				
“Township of the Chinese Cigar”				
“Ten Top Counties” of Sichuan Province				
<i>Economy:</i>				
Cigar production: 2.593 billion (Ranked the highest in the whole country) (2006)				
GDP: 27.7 billion RMB (2007)				
Average annual incomes for urban areas: 17,300 RMB (2010)				
Average annual net incomes for rural areas: 7324 RMB(2010)				
-----: over 8000 RMB (2011)				

Rural population income (RMB) (approx. annual income)				
	<i>Salary incomes</i>	<i>Family incomes</i>	<i>Financial investment incomes</i>	<i>Transfer incomes</i>
<i>2011</i>	3356	4456	240	794
<i>2010</i>	2624	3727	225	748
<i>Increase rate</i>	27.9%,	19.6%	0.7%	6.2%

In 2011, for Shifang, the average annual net incomes for rural areas were over 8000 RMB, increasing 1523 RMB from last year, at a rate of 20.8%. Furthermore, among the average incomes, salary incomes were 3356 RMB, increasing 732 RMB from last year, at a rate of 27.9%. Family incomes were 4456 RMB, increasing 729 RMB, at a rate of 19.6%. Financial investment incomes were 240 RMB, increasing 15

RMB, at a rate of 0.7%. In addition, transfer incomes were 794 RMB, increasing 46 RMB, at a rate of 6.2%. (The Average Incomes in Rural Areas 2012) (Table 3)

On the other hand, average annual incomes for urban areas have already reached 17,300 RMB, in 2010, increasing 16.6% from last year, at a rate of 16.6%, while only 7324 RMB for rural populations at that same time (Disposable Income in Shifang 2011).

Nevertheless, according to the questionnaires results (Appendix 8), incomes in rural areas heavily depend on the location of the village. For some villages, rural average incomes were even higher than incomes of urban areas, mostly from the nature resources exploiting. Additionally, a low-level employee in Shifang urban areas receives average incomes even less than 7000 per year. Thus, the income levels in rural areas and urban areas in Shifang depend on the location.

In conclusion, Shifang is a relative developed city in Sichuan Province, due to its extensive nature resources deposits. The most valuable industry in Shifang is Cigar production that can rank at the top in the whole country. The income in Shifang is hugely depends on the location. Still, in general, urban incomes are much higher than in rural areas. In other words, there is an extreme disparity between the rich and the poor. Moreover, Shifang is below the average annual income in China. (Table 1)

4.3.1 Business model in Shifang

Micro insurance in rural areas sold via field offices

Realizing that rural areas are always huge potential markets in China, China life launched the pilot program to offer its own special micro insurance services that tailored for rural people with low income. (How China Life Endeavours to Develop Microinsurance 2008.) In addition, China Life Shifang is implementing this program as a county branch in Shifang, where pointed by the government as a trial place for the micro insurance policy.

1) Tailor-made products

Considering the specialities in rural areas, China Life introduced the products with low premiums, protection oriented and easy understandable terms for the low-income people in rural areas. China Life dedicates to sell the products that needed by peasants as daily necessities and that reimburses well in case of risks.

2) Enhanced sales promotion

Staff are required to report assessment daily, weekly, and monthly to attain the present targets, pushing the interactions between staff and customers. Externally, China Life spends many efforts on advertising through village radio stations, production promotion seminars, cultural and entertainment programs and on-site claims settlement. Thus, the company hugely improves the public recognition of its insurance products.

3) Credible and convenient services

China Life believes that stringent management, credible operation and outstanding services are the most important measures taken to ensure the healthy development of micro insurance. Rules concerning business operations, financial managements and outlet managements are well established. Credit assessment systems and supervision mechanism are set up for agents. Underwriting and claims settlements are simplified for customers to renew conveniently. Various needs are satisfied under different coverage concerning accident, pension and medical. Furthermore, people with high reputation in the village normally selected as the representative to responsible for the customers in that village, to deliver the service personally including insurance application, renewal premiums collections and claims benefits delivery to create a new service system that “outlets covered all towns, agents covered all villages and service delivered all households”.

At the meantime, maintain mainstream products sales in urban areas

In addition to micro insurance in Shifang, China Life Shifang, as a branch that guided by the China Life, offers also the mainstream products that listed in the company's product portfolio.

In conclusion, in Shifang, China Life is adopting two business models. First, supported by the government, China Life Shifang entered rural markets via its field offices in rural areas. Additionally, as a normal branch in Shifang, China Life Shifang provides mainstream products listed in the company's product portfolio.

4.4 Strategy evaluation

According to the interview results (Appendix 7), mainstream products are still hugely needed by both urban and rural people in Shifang. Micro insurance that target at low-income populations have not hugely increased the total sales as expected. The sales of micro insurance in rural areas for low-income population are still low due to following reasons:

1. Low life awareness
2. Low satisfaction for limited protection functions

The interviewees believe that it is because of the incorrect assessment of resources requirements in Shifang that hinders the sales in China Life Shifang, even though the company has already reached its sales goal last year. The company should also notice the needs of more protection functions rather than low prices, in order to satisfy some high-income rural populations in Shifang.

In conclusion, even though the sales of micro insurance for low-income populations in Shifang have increased, however, mainstream insurance products are still favoured by a huge part of the population. Current strategy ignores the needs of high functional insurance products for some rural population who have higher income level.

5 NEW STRATEGY AND IMPLEMENTATION PLANS

5.1 Strategy formulation

According to the internal analysis for China Life, it is easy to see that the biggest problem exists in China Life is the unified mass marketing strategy which ignores the different demands of different customers.

However, the unified marketing strategy enables the unified management of the China Life Group company ensuring the strong brand image of China Life, for example, reliable and authorized. Moreover, the mass marketing ensures the full coverage of the potential market.

In order to both benefit from the unified mass strategy, and satisfy the various needs, the possible solution would be:

Adopting the unified management system and business policy in all branches, meanwhile, implementing different marketing plan in each branch.

For example, each branch should do its own marketing research to define the needs in its own market, and report it to the head office that in charge of the administration of China Life Company Limited, in order to help the head office to design the suitable insurance products to sell in certain areas.

On the other hand, even though sales of micro insurance in Shifang is rather low, the huge opportunities of implementing micro insurance in rural areas in China still can be seen.

Moreover, since rural areas for micro insurance that target at low income populations are still fresh. Therefore, potential market share is expected to be large.

Nevertheless, the low life insurance awareness is always one of the biggest obstacles for selling life insurance products

In order to expand the micro insurance market, China Life should focus on improving the public awareness of insurance, and establish strong brand images in rural areas.

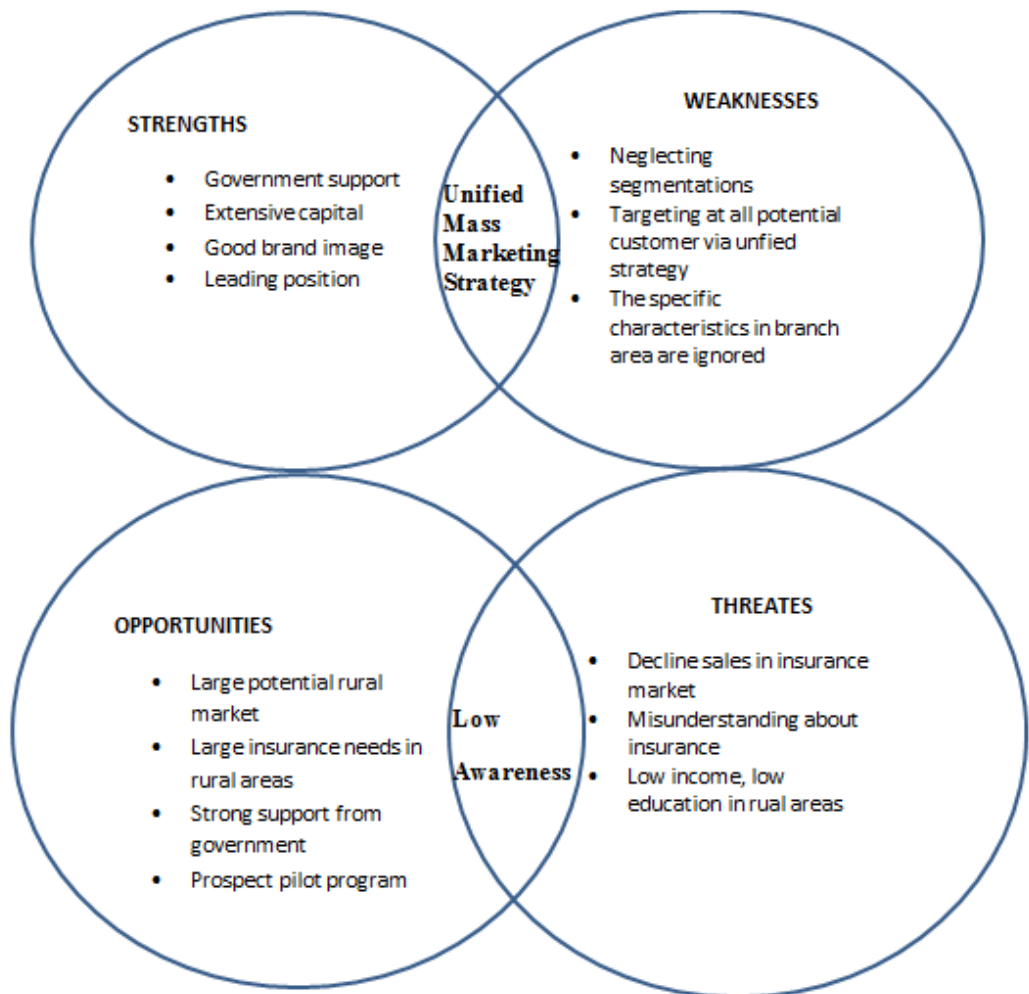


FIGURE 11. SWOT matrix for China Life Shifang.

In conclusion, internally, the China Life has a unified mass marketing strategy that, on the one hand, improves the management system, on the other hand, decreases the customers' satisfactions. Externally, the low awareness about life insurance products exhibits a fresh market to China Life. However, at the meantime, low awareness also impedes the sales in rural areas. (Figure 11)

5.2 Strategy decision

Objective: In order to grow to be the world-class life insurance in China, China Life aims to increase its market share, especially in rural areas.

In order to do so, there are several possible strategies including

1. Sell mainstream products in urban areas.

Advantages:

- Focus on high profit areas, where people have higher income
- Benefit from the well-established sales networks, and the convenient communication networks
- High insurance awareness, and brand images
- High repeat purchase rate

Disadvantages:

- Ignores the orders from government
- Escape from its responsibility as the state-owned insurance company
- Leaving the rural market behind means loss a huge potential market
- Risking losing the leader position in rural markets

2. Sell mainstream products in rural areas

Advantages:

- Strengthen the unified management in the county branch via adopting the same product portfolio
- Benefit from the China Life's extensive product portfolio
- Easy process for company to manage

Disadvantages:

- Limited demand for mainstream products
- Low market share for low income populations

3. Sell both mainstream and micro insurance products in rural areas

Advantages:

- Benefit from government support
- Good images, and a strong brand name
- Huge potential market
- Strengthen leadership
- Gain more sales

Disadvantages:

- Intensive capital investment in public life education needed
- Difficulties in communication and transport in rural areas
- Low awareness about life insurance hinders the sales process
- Take a long time to gain customers
- Low repeat purchases

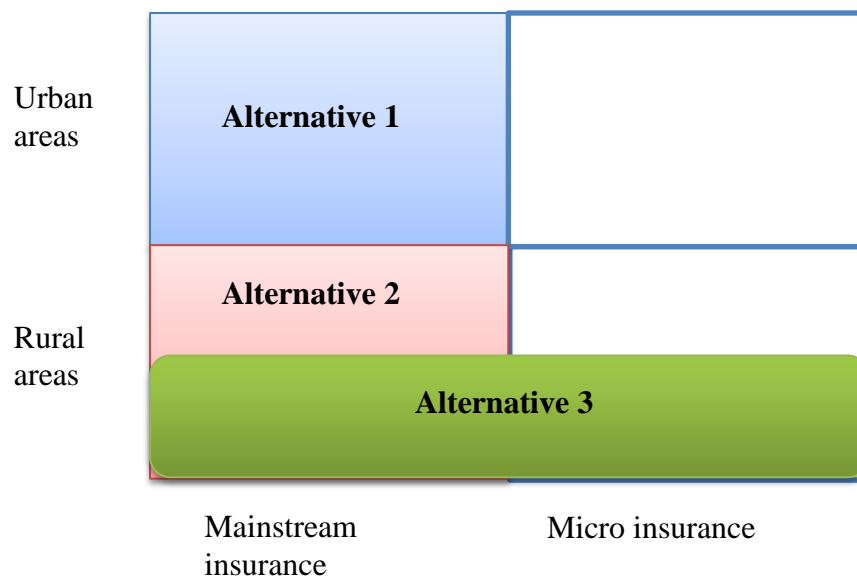


FIGURE 12. Alternatives for developing rural markets.

As shown in figure 12, alternative 1 wholly focuses on urban areas, and leaves rural areas behinds. The second alternative covers only around half of the rural areas, while alternatives 3 covering the most rural areas.

In order to choose the best strategy for China Life Shifang, the company should consider several factors.

Firstly, as a state-owned company, it must obey and support orders from the government, and take the responsibility as a Chinese company. Secondly, in order to maintain China Life's leadership, and achieve China Life's goal of becoming the world-class life insurance provider, China Life Shifang, the county branch of China Life, should emphasize its work on expanding market share. Thirdly, China Life spends a big amount of time and money investment to build its brand image, therefore, China Life cannot afford to lose its health image easily. It is because of its strong image that makes China Life the leader, and gain China Life the largest market share. Fourthly, factors, such as time consuming, accessibility to the market, and capital investment should also be considered, even though not as important as the first three factors. Still, the company should consider if it is worth investing on the new market as a profit making organization.

TABLE 4. Decision making matrix.

Benefit: 5- High; 3-Medium; 1-Low

Factors	Alternative 1	Alternative 2	Alternative 3
Government (5)	$5*1=5$	$5*3=15$	$5*5=25$
Responsibility (4)	$4*1=4$	$4*3=12$	$4*5=20$
Market share (4)	$4*2=8$	$4*2=8$	$4*5=20$
Brand image(4)	$4*2=8$	$4*2=8$	$4*5=20$
Time (3)	$3*4=12$	$3*3=9$	$3*1=3$
Accessibility (3)	$3*4=12$	$3*2=6$	$3*2=6$
Capital need (2)	$2*5=10$	$2*4=8$	$2*1=2$
<u>Total</u>	<u>59</u>	<u>66</u>	<u>96</u>

Based on the decision-making matrix, Alternative 3 serves best to achieve the company's objectives in light of government influences, responsibility fulfilment, market share enlargement, brand image protection, time consuming, market accessibility, and capital investment. (Table 4)

Recommendation

In conclusion, the author proposes to:

- ✓ **Sell both mainstream and micro insurance products in rural areas**

In this case, China Life Shifang should focus on selling products that can satisfy different needs.

In conclusion, in order to become a world-class life insurance provider and maintain the leadership in China, China Life Shifang should sell not only micro

insurance products but also mainstream products in order to satisfy customers' needs.

5.3 New marketing strategy

As analysed before, mass marketing strategy adopted in China Life ignores the difference among different customers, and thus, targets all of them without demand-oriented products. In order to satisfy the difference needs of customers, China Life Shifang should begin first with understanding its customer needs.

Prior to deciding the products to sell, the first thing to do is to understand the customers in rural areas in Shifang. Therefore, the STP process should be adopted for the company to define the target group to approach.

Segmentation

According to findings summarized from life insurance customer research questionnaire (Appendix 8), the needs of different kinds of life insurance vary associating with the age. Thus, the potential customers can be clarified into Table 5.

TABLE 5. Life insurance preferred by different age of population. (Based on questionnaire)

Age range	Portion	Income level	Preferred products
Group1: 18-30	10%	Low	Term insurance; Accident insurance
Group 2: 30-50	65%	High	Investment insurance; Juvenile insurance
Group 3 Over 50	25%	Medium	Endowment insurance

Therefore, the customers can be divided into three groups based on age. The first group consists of, mostly, the young generation who are found out to have the lowest insurance awareness among all population. Furthermore, for this group, the income is also the lowest compare with others.

The second segmentation is people in their middle age, normally has a large size family, including their children and their parents. They are the main supports of the family, therefore, trend to plan for the uncertainty avoidance for the family, and, in general, have a high insurance awareness.

The third group consists of people over 50, who are going to retire or retired already. Most of them receive income from their pension. Therefore, they are not as rich as the middle-aged group, and not as poor as the young generation. Some of them benefit from the insurance purchased by their employer, and some of them in order to live a high quality live after their retirement prefer endowment insurance. Moreover, as mentioned in social analyses, elder population has already become the largest age group in China.

Targeting

China Life has sold life insurance to the customers in general for a long time. Therefore, it is possible for China Life to target at all of the segmentations. However, in order to satisfied their customer better, China Life Shifang should notice the different needs toward life insurance products.

Nevertheless, considering the limited resources, China Life should satisfy the second group in first prior. After that, the people from group 3 who have relative higher purchase powers and bigger demands should be highly considered. Finally, group 1 that consists of, mostly, the young generation should be targeted.

Positioning

Based on analyses, the middle age populations consider mostly about their children, and investment. They have the highest purchase powers in the society. Therefore, China Life should present them the high functional products for children, with participating policy, which allows them benefit from the dividends as part of its

investment. For example, risk type insurance for children associating with participating policy.

The elder group considers mostly about their retirement lives, and prefers products that provide them with financial support after their retirement. Mostly, participating policy is the main condition they ask for. Since they are going to quit from their job soon, they would prefer low investment with a relatively middle return. Moreover, functional products such as health insurance are considered as well. In conclusion, elder people search for products with health insurance function and participating policy in a relative middle price.

The younger generation are the low-income group among the target groups. For them, labour forces are most important sources of their income. Thus, they would mostly like to insure for their working ability, and thus, trend to prefer accident insurance that offer living resources in case of being disability, or term insurance, which trend to be cheap.

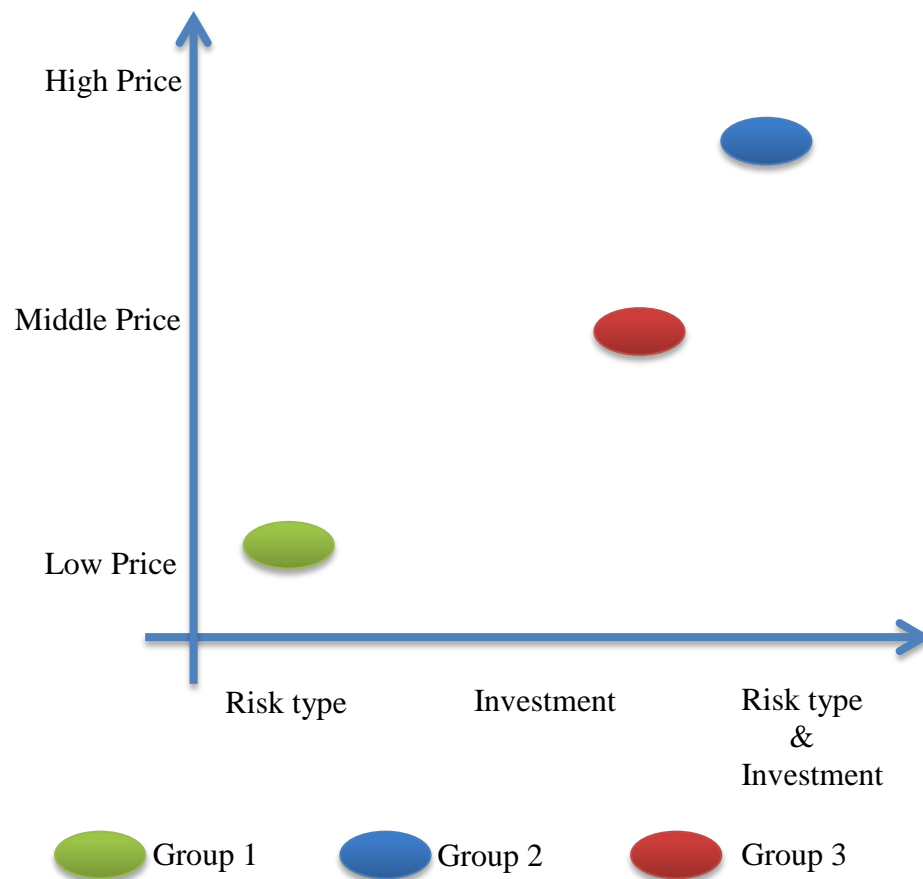


FIGURE 13. Positioning for target groups.

In general, people who have a higher income level tend to invest in life insurance products, however, people who have lower incomes consider more about risk protection functions. (Figure 13)

Since segmentation groups are hugely different from each other, therefore different marketing strategy should be adopted.

Middle-age group

The middle age group, the main customers for life insurance companies, has the highest life awareness and the highest purchase power. Moreover, since most of

them are working at this stage. They are exposure to the media quite often than others.

According to their preferences, in order to access them, the right products should be the combination products of investment and risk-type for children.

According to the questionnaires results (Appendix 8), the most favoured purchase approach for them is bancassurance. Almost everyone in the middle-aged group has at least one bank account. Additionally, direct sales persons are also welcomed by the middle age group to help them understand the terms of life insurance.

Functions and risk coverage levels are the most important factors for the middle-age group. A few people in middle age group consider the price as the most important purchasing factor. However, in general, middle age people are affordable for a relative high ratio of insurance payment.

Exposing quite often to the mass media, group 2 is also the easiest group to be approached. Each of them watching TV, and pay highly attention to the political and financial news. Even though most of them have radios, however, only one-fifth of them would regularly listen to radios. Additionally, another popular information tool for them is internet, to which two thirds of middle age people access every day.

Elder group

The elder group has a relative middle purchase power. Furthermore, since China has been one of the most aging countries in the world, elder people is the largest age group in China.

Facing retirement soon in their late years, many of elder people are planning for a better live after retirement. Therefore, life insurance designed for pensioners are the most suitable products for them. The most favoured insurance products are endowment life insurance products that offer the basic protections considering healthcare, and at the same time, combine with participating policy that enables insurant to gain dividends.

According to the questionnaires, most of the elder people prefer to have direct sales person to help them with purchasing decision, and terms of life insurance.

For elder population, price is considered as important as the risk protection level of a life insurance product. Low-income people among elder population tend to choose price over risk coverage. Still, a slightly bigger portion of elder population weight functions over than risks, since their children are willing to support them in purchasing insurance, as a way to light the burden on the children's shoulders.

TV is the most convenient and wide used method for them to absorb information. Moreover, most people from the elder group are used to spending hours to read newspapers. Internet is used by some of elder people, however, only a small part of them are able to use the internet over 5 hours per day. Moreover, the elder age group also frequently reaches to radios, the most widely used media in China, especially in rural areas.

Young generation

The young generation, based on the survey, have the lowest insurance awareness among all the research objects. They are the poorest group compared with other two groups. Some of young people are still financially supported by their parents. Moreover, since they are still young, they do not worry about illness, instead, they worry most about accidents.

Therefore, young people prefer life insurance at low price with protection after becoming disabled or dead.

Young people are flexible considering purchase approach. Almost every method is suitable for them; however, the most highly selected method is a direct sales person.

The internet is widely used among the young people. 98% of young people use the internet more than 5 hours per day. In addition, most of them watch TV longer than 2 hours per day. Moreover, for the young generation, reading magazines is also another important way to absorb information.

TABLE 6. Marketing strategy for the three segmentations.

<i>Target order</i>	<i>Group</i>	<i>Product</i>	<i>Place</i>	<i>Price</i>	<i>Promotion</i>
1	Group 2: Middle-aged	High investment, and functions (Children products favoured)	Bancasurances Direct sales person	High and Middle price level	Newspaper, internet, TV and radio
2	Group 3: Elder group	Endowment products with participating policy	Direct sales person	Relatively high and middle price level	Newspaper, TV and radio Internet (low)
3	Group 1: Young generation	Disable and death coverage products	All, especially direct sales persons	Low price	Magazines, Internet, and TV

In conclusion, accessing different segmentations should be based on the characteristics of each group. In general, middle-aged customers are able to afford a higher price, and look for high protection products with investment policy, especially for their children. The elder group has a relatively more purchasing power, and search for products with retirement financial support. Young people spend less money on life insurance. In addition, the awareness about life insurance is low, and the worry about death and disability is high among young generation. Thus, they prefer products that offer financial support in case of their disability or death.

5.4 Implementation plans

Besides the weaknesses of the current marketing strategy, China Life also faces the threat of low insurance awareness in rural areas. In order to improve the efficiency

of expanding the rural market, the author suggests the company continues its successful promotion plan and human resources plan while adopting the new marketing strategy in order to improve life insurance awareness among the rural population.

5.4.1 Promotional plan

Solving the issues of low awareness in rural areas should largely rely on promotion. The current promotion plan in China Life is quite good. It is the main reason why China Life is well known in China. Therefore, the same promotion strategy will still be adopted.

Moreover, in order to access the mass population, mass media should be adopted to attract the population's attention. However, considering the high expenses of using mass media, the company needs to adopt media efficiently in different occasions and time, in order to maximize the promotion effects of media.

TABLE 7. Promotion for different occasions.

<i>Media</i>	<i>Forms</i>	<i>When to use</i>	<i>Effects</i>
TV	Short presentation of company slogan, and image in popular middle age group interested channels	All the time	Brand recognition
TV	Participate in annual economic celebration ceremonies	Annually	Brand image and recognition
Newspaper	Report its attendance at charity activities and society contributions on main newspapers	Whenever needed	Brand recognition, and brand image, reputation
Radio	Life insurance knowledge lectures in economic radio channels, emphasizing on new coming	When launch new products	Improve life insurance awareness in rural areas, generate

	products, and best sell products		sales
Internet	Company profile, online, all kind of information on its own websites, and on the most popular websites in China	All the times	Brand recognition, generate online sales

In conclusion, in order to promote life insurance products in more wide range, China Life should consider utilizing mass media, such as TV, Radio, and Internet, etc. In addition, considering the costs and efficiency of promotion, the best is to adopt the different media according to different purposes and different occasions. (Table 7)

5.4.2 Human resources management plan

Most people prefer buying insurance products from sales persons. (Appendix 8) However, the quality of direct sales persons highly relies on his or her own personal training and education. Therefore, in order to build effective and efficient direct sales channels, training and education of sales persons are extremely important.

According to the current human resources training plan, the career path in China Life is the path of education and training.

First of all, candidates are required to have an education certification from Junior College, University, MBA, or China Life E-learning College. Candidates are recruited based on exams and interviews. The qualified recruits will be admitted to the company for further education. Moreover, employees are not qualified to sell company's products until passing an Agent Qualification. In addition, people who aim at promotion must learn more subjects, for example, professional and ethical standards, need-based marketing, prospects identification, and telemarketing and client services, etc.

To a team manager in China Life, the person must receive education about career training, management skills, agent recruitment skills, meeting skills, and full event management, and holds a CIAM (Chartered Insurance Agency Manager) certification.

Career path	New Recruit	Agent	Team manager
Levels	<ul style="list-style-type: none"> • Career orientation, exam prep course, on-duty training, assisted prospecting, continuous training, etc. 	<ul style="list-style-type: none"> • Professional and ethical standards • Need-based marketing • Prospects identification • Telemarketing and client service 	<ul style="list-style-type: none"> • Career training • Management skills • Agent recruitment skills • Meeting skills • Full event management
Qualification exam	<ul style="list-style-type: none"> • Agent Qualification Exam 	<ul style="list-style-type: none"> • Financial advisor exam • Designation exam 	<ul style="list-style-type: none"> • CIAM
Educational requirement	Junior College, University, MBA (affiliated with Peking University and Insurance Career College), China Life E-learning College		

FIGURE 14. Solid education and training in China Life. (Sales Management and Agent Training and Motivation 2006)

Moreover, in order to improve the overall skills of employees, China Life introduced structured programs that are conducted in each branch to teach subjects including policy marketing, business management, financial management and teaching methods each year.

In addition, the company launched its “Jin Ding Project” in order to establish an outstanding high sales team. In “Jin Ding” projects, sales experiences of excellent sales representatives will be shared, discussed and studied. Furthermore, for CIAMs, they have a right to apply for the opportunities for overseas training programs.



FIGURE 15. Compressive training system. (Sales Management and Agent Training and Motivation 2006)

Additionally, motivation sales teams are also other big issues for improving its sales. The company therefore divides salaries into two parts: commission, and incentives. Well-performing staff are able to receive compensation from FYC (First Year Commission), renewal commission, and awards, etc.

In conclusion, China Life educates and trains its direct sales representatives, sales agent and sales managers in order to build an outstanding sales team. Moreover, the company is adopting an incentives policy to encourage high sales.

6 CONCLUSION

In conclusion, in this thesis, the author adopted strategic management to analyse the external and internal factors, formulate the new strategy and design the implementation plan for the case company to achieve its goal.

Firstly, the author explained the external factors that affect the life insurance industry in China from political, legislative, economic, social, technological, and environmental aspects. Moreover, the author analysed the main players to define the competition situation in China's life insurance market. From those analyses, the author found out that rural micro insurance is a good opportunity for insurance providers to enter rural markets. However, in the meantime, people living in rural areas earn low income, and have poor healthcare. Therefore, entering the rural market will be a big challenge.

Secondly, the author analysed the internal factors of the company, including its core competencies, current marketing strategy, and business model in Shifang. Overall, the internal analyses demonstrate that the weakness of the case company is the unified mass marketing that ignores the needs of some customers.

Thirdly, based on the company's mission and goal, the author suggests the case company, China Life Shifang, enter the rural market with mainstream and micro insurance products that satisfy the needs of specific segmentations.

Additionally, according to the new marketing strategy, the author came up with the implementation plans that display the tactical actions of China Life in order to raise the low awareness about life insurance in rural areas, and the quality of its direct sales persons.

In this thesis, the author divided the entire market into three main segmentations according to the results of questionnaires that were conducted in Shifang rural areas. The results are simply analysed, without any standard processes. In fact, the needs of different people are various not only due to age, but also other factors. Therefore, the author suggests making more detailed and accurate segmentation based on accurate and scientific methods.

7 SUMMARY

In light of the external and internal analyses, the most important facts for China Life in this thesis are:

1. In spite of the rapid economic growth in China, rural issues, such as the weakness of the social security system, are becoming one of the emergent issues that impede the sustainable development in China. As a state-owned life insurance company in China, China Life launched a pilot program to sell tailored micro life insurance products in rural areas in order to solve those issues.
2. China Life as the leader in China's life insurance has a unified management system and business policy. On the one hand, the unified management helps the company to build a strong and reliable brand image. On the other hand, the unified marketing strategy ignores the needs of different customers, thus, hampers sales in rural areas. Moreover, the low awareness about life insurance in rural areas is still an essential threat for selling life insurance.
3. In light of all the external and internal analyses, in order to access the rural markets, and maintain the leadership in China's life insurance market, the author proposes that China Life should sell both mainstream life insurance products and micro life insurance products based on different customers' needs.
4. Furthermore, in order to improve the life insurance awareness and improve the quality of the sales forces, the current promotional plan and human resources plans should be continued.

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APPENDICES

APPENDIX 1. Provisions on the Administration of Insurance Companies. (China Insurance Regulatory Commission 2009.)

Order of China Insurance Regulatory Commission (No.1 (2009) Brack)

Chapter II Formulation of Corporate Institutions

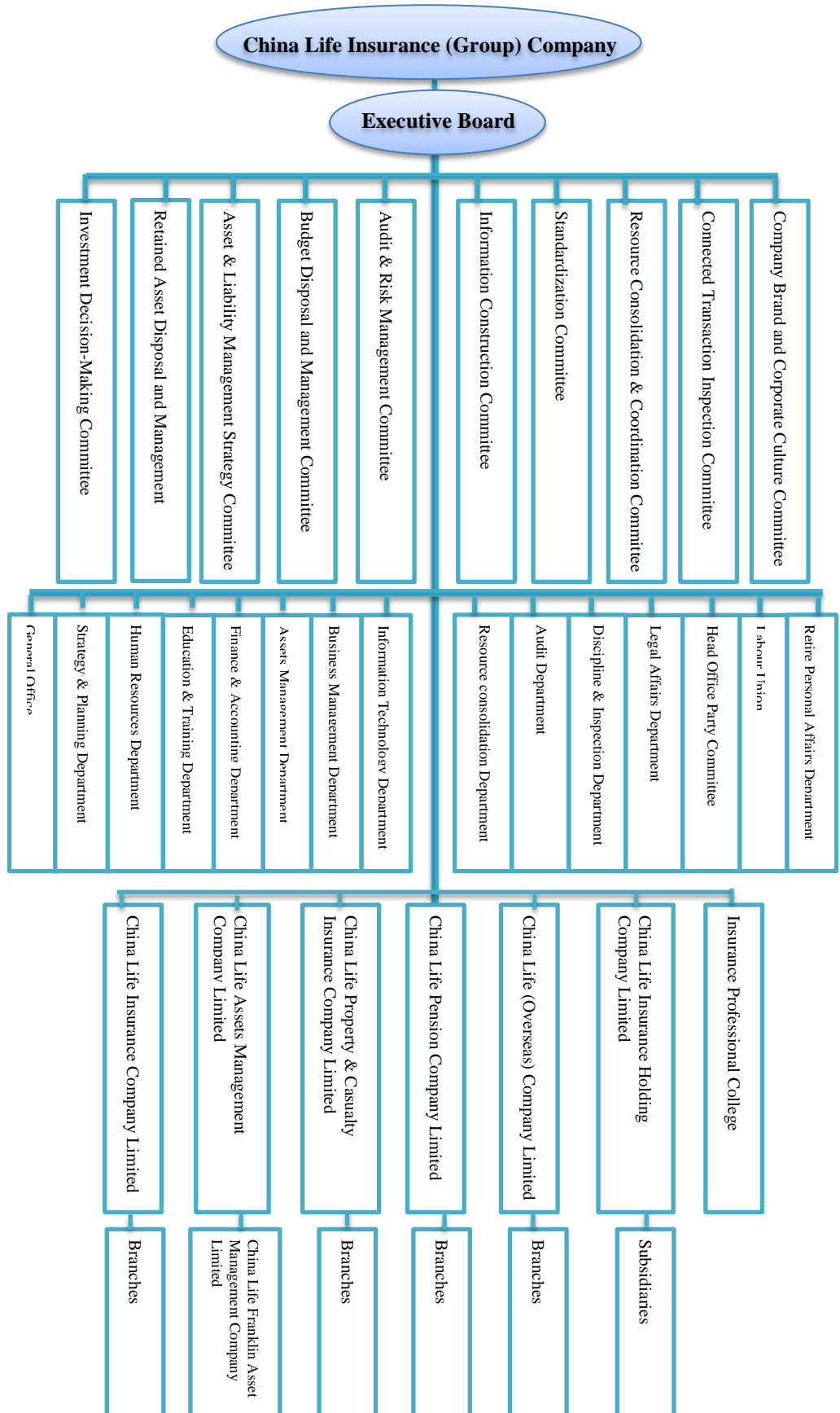
Article 6: Insurance companies shall be formed under the principle of:

1. abiding by laws, and administrative regulations; and
2. doing good to the fair competition and healthy development of the insurance sector.

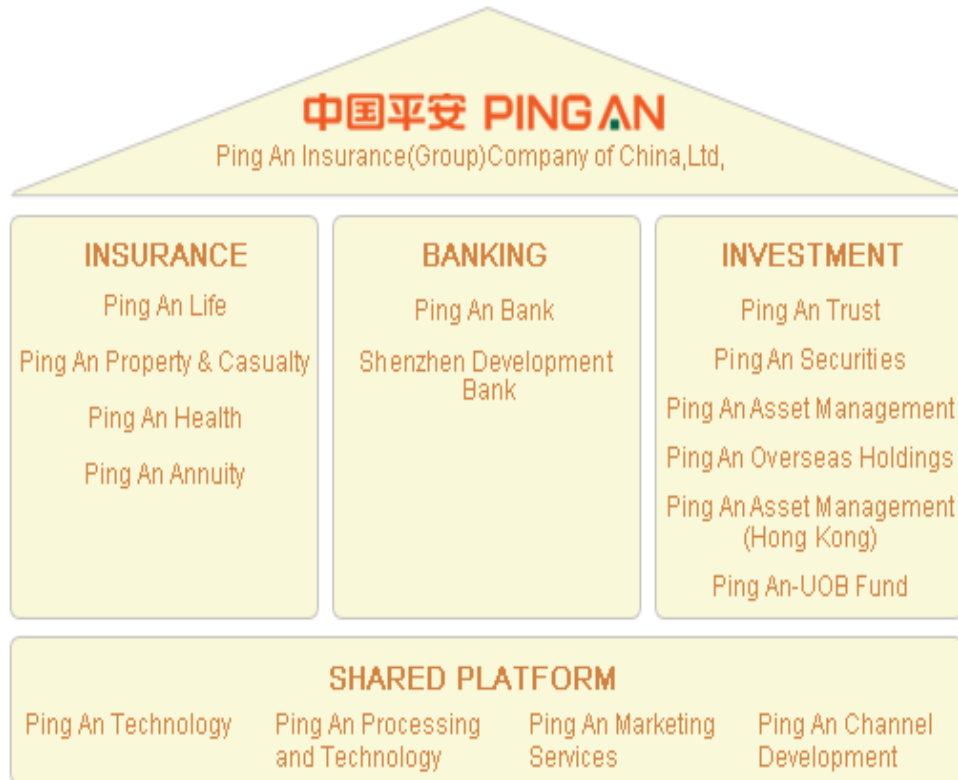
Article 7: To form an insurance company, an application for formation preparation shall be filed with the CIRC, and the following conditions shall be met:

1. having investors that satisfy the conditions specified by laws, administrative regulations and the CIRC provisions, and having a reasonable equity structure;
2. having the draft bylaws described in the Insurance Law and the Company Law;
3. the investors have promised to make financial contribution or buy shares, the registered capital is not less than 200 million Yuan, and the registered capital is paid-in monetary capital;
4. having specific development plans, business strategies, institutional framework and risk control system;
5. its president and general manger to be meet the competence requirements of the CIRC;
6. the person in charge of the formation preparation group has been approved by investors; and
7. other conditions set out by CIRC.

APPENDIX 2. Organization chart for China Life Insurance (Group) Insurance.
(Subsidiaries & Services)



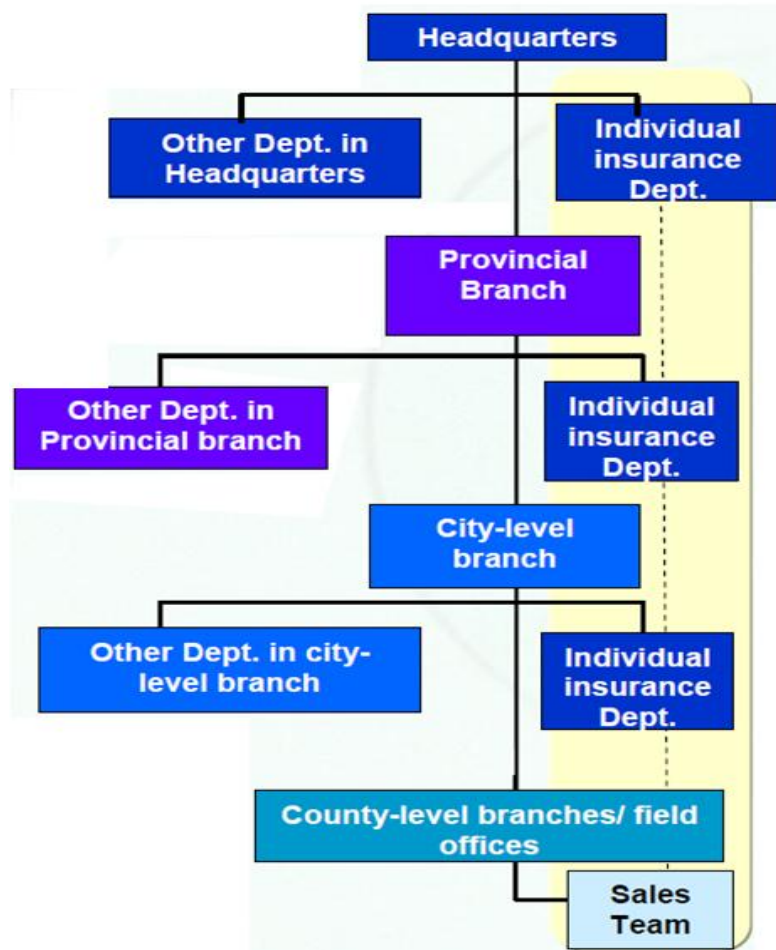
APPENDIX 3. Business structure of Ping An Insurance (Group) Company of China, Ltd. (Ping An.com 2012)



APPENDIX 4. China Pacific Insurance group structure. (China Pacific Insurance Company 2012)



APPENDIX 5. Designated sales channels at all levels. (Sales Management and Agent Training and Motivation 2006)



APPENDIX 6. Combining strategies to drive growth (Sales Management and Agent Training and Motivation 2006).

<i>Strategy combination</i>	<i>Key initiatives</i>	<i>Examples</i>
Marketing Strategy Demand-driven	Plan promotional events	<ul style="list-style-type: none"> □ Launch “Affinity with China Life” promotional plan □ Plan “insurance in neighborhoods” related activities □ Plan for China Life “Client Date”
Channel strategy Sales access	Organize team bonding activities	<ul style="list-style-type: none"> □ Olympic-related incentive plans □ Company-wide video agent morning briefing □ Annual summit for sales over-performers
	Enhance long-term motivation plans	<ul style="list-style-type: none"> □ Stock appreciation rights for star agents □ Reward program combined with agent pension products □ Medical insurance to sales team

APPENDIX 7. Current market strategy evaluation. (Adopt figure 5)

Interview objects: Direct sales persons **Interviewee approach:** Group discussions

Interview date: 3rd April 2012

Interview topics:

1. Please introduce your company and your responsibilities.
2. How do you think about your company's operation?
3. Please use the process map above to define the problem in your company:

Starting Question: Do you think your company has improved its sales successful this year?

Results: *Incorrect assessment of resources requirements:*

In general, sales for mainstream products and micro insurance products are both slightly increased. However, it is due to the improving insurance awareness among the rich people. People in Shifang still prefer mainstream products. Only low-income population prefers micro insurance, however, at the meantime, they are complaining about the low protection functions offered by micro insurance. In Shifang, mainstream products still holds a large market compared to micro insurance products. In addition, low-income people, instead of buying micro insurance, prefer not to buy any insurance products.

APPENDIX 8. Potential customers research in Shifang (Questionnaire, and results).

Target place: Rural areas in Shifang

Research time: April 2012

Research sample: 50 people

LIFE INSURANCE CUSTOMER RESEARCH

The questionnaire is conducted to find the affecting factors in life insurance purchases. Please circle the most suitable description for each topic, specify your situation if none of them is fit for you, and fulfil the requirements of short answers.

Notice: you are allowed to choose more than one option.

1. How old are you?
 - a. 18-29
 - b. 30-50
 - c. Over 50

2. Where do you live?

Address:

3. How is your average monthly income?
 - a. Below 10,000
 - b. 10,000-50,000
 - c. 50,000-10,000
 - d. 10,000-20,000
 - e. Over 2000

4. How much you would like to spend on life insurance?

(Legal requirement: under 20%)

 - a. Below 5%
 - b. 5%-10%

- c. 10%-15%
- d. 15%-20%

5. Have you ever bought any life insurance?

- a. Yes
- b. No

5.1 - If yes, how do you think about life insurance?

- a. Useful and I want to have more, or recommend to my friends.
- b. Useful, but I cannot afford any more.
- c. Useful and I think I have enough, and I do not want any more.
- d. Not important, but I buy it because I have extra money.
- e. Not useful, I will not buy it even I have extra money.
- f. Not useful, I cancelled, or I want to cancel soon.
- g. Others, please specify:

5.2 - If no, Why?

- a. I do not think it will be useful for me.
- b. I cannot afford it.
- c. I do not know where to buy.
- d. I have not heard about it before.
- e. Others, please specify:

6. What kind of insurance defines your needs, and what functions you like the most?

- a. Investment insurance, to gain dividends.
- b. Health insurance, gain financial support when face health issues.
- c. Juvenile insurance, save money for children's education and future arrangement.
- d. Endowment insurance, to keep life quality after retirement.
- e. Term insurance, gain compensation for death, and disability.
- f. Accident insurance, gain financial support to get over accident.
- g. Others, please specify:

Functions:

7. Which method you prefer for buying life insurance, and why?
 - a. Online
 - b. Bank, and post offices
 - c. Field office and sales agents
 - d. Direct sales representative
 - e. Other, please specify:

Why:

8. How do you normally gain information?
 - a. TV
 - b. Radio
 - c. Internet
 - d. Newspapers
 - e. Others, please specify:

How many hours:

9. What are the factors you consider for buying life insurance, and which one is the most important one?
 - a. Price
 - b. Risk coverage and functions
 - c. Profit return
 - d. Others, please specify:

Most important:

Main Findings:

Customers are hugely influenced by two factors: age and income level.

Nevertheless, since the income level is positively related to age, therefore, the author summarizes here the findings for different age groups:

Age range	18-30	30-50	Over 50
Purchased or willing to	10%	65%	25%
Income level	Low	High	Medium
Preferred products	Term insurance; Accident insurance	Investment insurance; Juvenile insurance	Endowment insurance
Functions preferred	Disability and death compensation	Children and investment	Retirement financial support
Favoured purchase approach	All	Bancassurance Direct sales persons	Direct sales persons
Information sources	Magazines, Internet and TV	Newspaper, magazines internet, TV and radio	Newspaper, TV and radio