

International Business & Accounting and Finance

Master Thesis No 2000:43

How to Establish Successfully in the Chinese Insurance Market

- A Case Study of the Gerling Insurance Group

Jin Ba & Yanxin Teng

ACKNOWLEDGEMENTS

This is a master thesis for twenty points, which concludes our one and a half years of study at the School of Economics and Commercial Law at Gothenburg University, Sweden.

This thesis is a combination of our theoretical studies and our past work experiences in Beijing. Because of lack of sufficient financial support it has been made without well-needed fieldwork in China by using empiric research methods only.

The reader of this thesis might therefore at some point perceive its content as to much emphasizing on editorial issues rather than on demonstrating the authors' ability to methodically analyze facts and figures. To the extent that this might be the case the authors want at this point to express their apologies for their shortcomings. However, the quality of any academic or scientific work of this character will – before everything else – always depend on the availability and quality of information made accessible and assessable.

Bearing this in mind, the reader will find it easier to give the authors credit for extracting, condensing and extrapolating the scarce and rudimentary information on a subject that at this time is still hiding between still unfermented and amorphous regulatory structures in China.

We would like to give our special thanks to the following people, without whom our studies and this thesis would not have been possible.

Professor Hans Jansson and Professor Claes Alvstam at the School of Economics and Commercial Law, who have given us constructive supervision and valuable comments during this work.

Dr. Karl Malvenius, Managing Director of DELTA Resursmanagement AB, Dr. Yang Yang, who have generously devoted their time to listen to our problems, motivated us when we were in need of it, and provided assistance overcoming hardships.

And last but not least, we owe most of our thanks to our families and friends, who have supported us with their love and passion.

Thank you very much!

Pleasant Reading!

Yanxin Teng Jin Ba

Gothenburg, Dec. 2000

ABSTRACT

China is today one of the fast developing economies and most attractive market in the world. Besides its large consumer group, long history and colourful culture, it is presently in a transforming process from a centrally planned economy to a market economy. Since China launched its “open door” policy in 1978, a series of reforms has taken place in both political and economic fields opening up the country gradually to the outside world. Great emphases were placed on encouraging and attracting foreign investment by building up a friendly investment environment. Nowadays, China is offering opportunities for foreign insurers to develop business in the country. Many multinational insurance companies are on their way to entering the Chinese insurance market.

The purpose of this thesis is trying to provide these foreign insurance companies with a general understanding of the business environment in China and recommending how they can establish successfully in the country. In order to be objective and practical, we have chosen Gerling, a multinational insurance company as our case company.

With the purpose of giving Gerling a basics picture of China’s business environment, we started our thesis with the analysis of the macro environment by focusing on the political, economic, social and technical environment. Then we continued with the organisational field, which includes government, financial market, labour market, China’s social insurance system and commercial insurance industry. Special emphasis has been put on the development and structure as well as the future of China’s commercial insurance industry. Based on the above-mentioned analysis, we proposed market penetration strategies for Gerling to establish in the Chinese insurance market.

Key words: China, business environment, insurance market, Gerling

Table of Contents

CHAPTER 1 INTRODUCTION	1
1.1 BACKGROUND	1
1.2 RESEARCH AREA ANALYSIS	3
1.3 PROBLEM DEFINITION.....	4
1.4 PURPOSE	6
1.5 DELIMITATION	7
1.6 THE CASE COMPANY: GERLING.....	7
1.6.1 <i>Presentation of Gerling</i>	8
1.6.2 <i>Gerling in China</i>	8
1.7 DISPOSITION	9
CHAPTER 2 THEORETICAL FRAMEWORK	11
2.1 THE INSTITUTIONAL NETWORK THEORY	11
2.1.1 <i>Political and Legal Environment</i>	12
2.1.2 <i>Economic Environment</i>	13
2.1.3 <i>Social and Cultural Environment</i>	13
2.1.4 <i>Technological Environment</i>	13
2.1.5 <i>Government</i>	14
2.1.6 <i>Financial Markets</i>	14
2.1.7 <i>Labor Markets</i>	14
2.1.8 <i>Four-stage Analysis</i>	15
2.2 PRODUCT/SERVICE MARKET ANALYSIS	16
2.2.1 <i>Competitors</i>	17
2.2.2 <i>Customers</i>	18
2.2.3 <i>Intermediaries</i>	18
2.3 COMPANY INTERNAL ENVIRONMENT ANALYSIS	18
2.4 THE MNC-GOVERNMENT NETWORK STRATEGY	20
2.4.1 <i>Main Objectives</i>	21
2.4.2 <i>Mapping of Government Network</i>	21
2.4.3 <i>Strategic Capability Profiles</i>	22
2.4.4 <i>Network Strategy</i>	22
CHAPTER 3 METHODOLOGY	24
3.1 RESEARCH STRATEGY.....	24
3.1.1 <i>The Case Study Strategy</i>	24
3.1.2 <i>Choosing the Case Company</i>	25
3.1.3 <i>Case Study Design</i>	26
3.2 RESEARCH METHOD.....	26
3.3 RESEARCH APPROACH.....	27
3.4 DATA COLLECTIONS	28
3.4.1 <i>Extensive Collection of Secondary Data</i>	28
3.4.2 <i>Limited Primary Data</i>	29
3.5 QUALITY OF THE RESEARCH	30
3.5.1 <i>Validity</i>	30
3.5.2 <i>Reliability</i>	32
3.6 POSSIBLE SOURCES OF ERRORS.....	33
3.7 METHODOLOGY TABLE	34
CHAPTER 4 THE CHINESE MACRO ENVIRONMENT	35
4.1 POLITICAL AND LEGAL ENVIRONMENT.....	35
4.1.1 <i>Party and Government</i>	35
4.1.2 <i>Administrative Divisions</i>	37
4.1.3 <i>Centralisation vs. Decentralisation</i>	37
4.1.3 <i>Corruption</i>	38

4.1.4 Legal System.....	38
4.1.2 Analysis of the Political and Legal Environment.....	39
4.2 ECONOMIC ENVIRONMENT.....	40
4.2.1 General Economic Development.....	40
4.2.2 Regional Development.....	41
4.2.3 Income Distribution.....	42
4.2.3.1 Income Structure.....	42
4.2.3.2 Regional Income.....	43
4.2.3.3 Personal Income.....	45
4.2.4 Foreign Trade and Investment.....	46
4.2.5 Unemployment.....	47
4.2.6 Summary of Economic Environment Factors.....	47
4.3 SOCIAL & CULTURAL ENVIRONMENT.....	48
4.3.1 Cultural Background & Factors.....	48
4.3.2 Business Network.....	49
4.3.3 Analysis of Social and Cultural Environment.....	49
4.4 TECHNOLOGICAL ENVIRONMENT.....	50
4.4.1 An Overview of the Technological Environment.....	50
4.4.2 Analysis of the Technological Environment.....	51
CHAPTER 5 THE CHINESE INSURANCE MARKET.....	52
5.1 GOVERNMENT.....	52
5.1.1 Regulatory Authority.....	52
5.1.2 Policies on Life Insurance Sector.....	53
5.1.2.1 Establishment of a life insurance company.....	53
5.1.2.2 Separation of business.....	53
5.1.2.3 Investment.....	54
5.1.2.4 Opening-up Policies.....	54
5.1.3 Analysis of the Government.....	55
5.2 FINANCIAL MARKET.....	56
5.2.1 Banking.....	56
5.2.2 Security Market.....	57
5.2.3 Conversion and Transfer.....	58
5.2.4 Analysis of the Financial Market.....	59
5.3 LABOR MARKET.....	59
5.4 CHINESE SOCIAL INSURANCE SYSTEM.....	60
5.4.1 The Traditional Chinese Social Insurance System.....	60
5.4.2 Driving Forces for Social Insurance Reform.....	61
5.4.3 The New Social Insurance System.....	61
5.4.4 Analysis of the New Social Insurance System.....	63
5.5 THE COMMERCIAL INSURANCE MARKET IN CHINA (PRODUCT/SERVICE MARKET).....	64
5.5.1 Review of the Chinese Commercial Insurance Market.....	64
5.5.3 Main Actors in the Life Insurance Sector.....	66
5.5.4 Analysis of the Chinese Commercial Insurance Market.....	75
5.6 PROSPECTS OF THE CHINESE INSURANCE MARKET.....	78
CHAPTER 6 THE INTERNAL ENVIRONMENT OF THE GERLING GROUP.....	81
6.1 GOALS AND VALUES.....	81
6.1.1 Goals.....	81
6.1.2 Values.....	82
6.2 RESOURCES.....	83
6.2.1 Assessment of Tangible Resources.....	83
6.2.2 Assessment of Intangible Resources.....	84
6.2.3 Summary of Gerling's Resources analysis.....	85
6.3 ORGANIZATIONAL CAPABILITIES.....	86
6.3.1 Assessment of Gerling's Organizational Capabilities.....	86
6.3.2 Summary of Gerling's Organizational Capabilities analysis.....	87
CHAPTER 7 MARKET ENTRY STRATEGIES FOR GERLING.....	91

7.1 NETWORK STRATEGY TOWARDS THE GOVERNMENT	91
7.1.1 Mapping of the MNC-Government Network.....	92
7.1.2 Main Objectives.....	93
7.1.3 Strategic Capability Profiles.....	95
7.1.4 Network Strategy.....	96
7.1.4.2 Competitive Strategies.....	100
7.2 ENTRY MODE	102
7.2.1 Joint Ventures.....	102
7.2.2 Partner Selection	102
7.3 RECOMMEND LOCATIONS.....	104
CHAPTER 8 CONCLUSION AND RECOMMENDATIONS	107
8.1 GENERAL CONCLUSIONS.....	107
8.1.1 Research Problem one, the Analysis of Macro Business.....	108
Environment.....	108
8.1.1.1 Political/Legal Environment.....	109
8.1.1.2 Economic Environment.....	109
8.1.1.3 Social/Culture Environment.....	110
8.1.1.4 Technological Environment.....	110
8.1.2 Research Problem two, the Analysis of Insurance Industry.....	111
8.1.3 Research Problem three, the Analysis of Internal Environment.....	112
8.1.3.1 Opportunities.....	113
8.1.3.2 Challenge.....	113
8.1.4 Main Problem: Strategies.....	114
8.2 RECOMMENDATIONS.....	115
8.3 FINAL REMARKS.....	116
BIBLIOGRAPHY	118
APPENDIX.....	124
1. QUESTIONNAIRE.....	124
2. FOREIGN INSURERS WITH CHINESE LICENSES (BRANCHES OR JOINT VENTURES).....	125
3. GERLING HIGHLIGHTS 1996-1999.....	125
4. GERLING'S ORGANISATION CHART	126
5. BRIEF INTRODUCTION OF GUANGZHOU, SHANGHAI AND CHONGQING	127
6. CHINA'S FINANCIAL SERVICES INDUSTRY.....	129
7. INITIAL TIME SCHEDULE.....	132

List of Figure

FIGURE 1.1 PROBLEM DEFINITION	5
FIGURE 1.2 DISPOSITION OF THE THESIS.....	10
FIGURE 2.1 INSTITUTIONS MODEL	20
FIGURE 2.2 THE FOUR STAGES OF INSTITUTIONAL ANALYSIS	23
FIGURE 2.3 INDUSTRY ANALYSIS MODEL.....	23
FIGURE 2.4 COMPANY INTERNAL ENVIRONMENT ANALYSIS MODEL	26
FIGURE 2.5 THE MNC-GOVERNMENT NETWORK STRATEGY	28
FIGURE 3.1 BASIC TYPES OF DESIGNS FOR CASE STUDIES	33
FIGURE 4.1 CHINA'S POLITICAL SYSTEM	43
FIGURE 4.2 CHINA'S GDP GROWTH RATE, 1984-1999	
FIGURE 4.3 CHINA'S INFLATION RATE, 1984-1999	47
FIGURE 4.4 INCOME STRUCTURE.....	49
FIGURE 4.5 REGIONAL INCOME COMPARISON.....	51
FIGURE 4.6 AVERAGE INCOME OF ENTERPRISES AT YEAR 1999	52
FIGURE 4.7 FOREIGN DIRECT INVESTMENTS IN CHINA	53
FIGURE 5.1 THE NEW CHINESE PENSION SYSTEM	61
FIGURE 5.2 THE NEW CHINESE SOCIAL HEALTHCARE SYSTEM	62
FIGURE 5.3 PREMIUM INCOME 1994-1999.....	64
FIGURE 5.4 MARKET SHARES OF LIFE INSURERS, 1999.....	66
FIGURE 5.5 THE BASIC SEGMENTATION: CUSTOMER AND PRODUCT CHARACTERISTICS	72
FIGURE 5.6 DISTRIBUTION CHANNELS OF LIFE INSURANCE COMPANIES	74
FIGURE 6.1 GERLING'S FINANCIAL PERFORMANCE	83
FIGURE 7.1 REGULATION MATRIX IN CHINA.....	92
FIGURE 7.2 LINKAGES AND LEVELS	99
FIGURE 7.3 PROS AND CONS OF A JOINT VENTURE.....	102
FIGURE 7.4 LOCATING IN CHINA.....	106

List of Tables

TABLE 4.1 THE PERCENTAGE OF CHINA'S GDP GENERATED BY EAST AND WEST REGIONS.....	48
TABLE 4.2 THE RANK OF PROVINCES, 1999.....	51
TABLE 4.3 CONSUMPTION PRICE INDEX, 2000	51
TABLE 5.1 AN OPENING-UP SCHEDULE OF CHINA'S LIFE INSURANCE SECTOR.....	79

Chapter 1 Introduction

With the purpose of giving a general framework of our thesis we are going to make an introduction in the first chapter. We will start with the research background of the thesis, and then continue with the research area – the Chinese insurance industry. Further more, we will specify our research problems, the purpose of the thesis, as well as our delimitation. At last the case company and the structure of our thesis will be presented.

1.1 Background

China has experienced significant growth during the last decade, due in large part to the continued implementation of economic reforms starting some 21 years ago, but China still faces large challenges in reforming its public administration, state-owned enterprises, a weak banking system and a transparency lacking insurance industry. As more and more state-owned enterprises during the past years went bankrupt, the unemployment rate rose to calculated 20%, as opposed to the official figures given of 3.1%¹. The lack of proper insurance as safety net and a high unemployment rate has increased the latent danger for social turmoil and potential crisis.

Despite all that it is important not to overlook all positive aspects of the economic reforms. They have been responsible for many improvements of the socio-economic conditions from which hundreds of millions of people across the country have benefited by now. There is much else which is good: access to basic services has improved considerably in recent years and life expectancy has risen from 68 years in 1982 to well above 70 in 2000².

The Chinese government has shown so far a clear desire to improve its image to the rest of the world. It is well aware of the importance of attracting foreign capital to China and improving its investment climate. The general trend in China at present is the decentralisation of decision-making and of the legal interpretation.

¹ <http://www.tao.ca/~freedom/FIN/china4.html>

² The Chinese Government Report 2000

An outstanding feature of the Chinese trade regime is, however, that not all existing rules and laws have been published or translated. Some laws are derived internally, which means that they are not officially accessible. Many internal regulations are not published at all. There have also been plenty of local variations, not consequently interpreted.

Past and recent history has left its marks in Chinese culture and influences everyday life and the present development of the market situation. Confucius, who 5000 years ago set up an hierarchical order for the Chinese society, would certainly have disapproved of the Culture Revolution initiated by Mao Tse-Tung in the early sixties. The latter had not only a disastrous impact on the Chinese economy itself, it also broke up human relations and left people with a deep distrust of everything and everyone. Not fully recovered from this stroke, the Western business culture nowadays meets Chinese business culture in that it puts more emphasis on “Guanxi” and “face”. Lack of personal trust, low information transparency and availability, as well as reciprocity within social and business relations as the norm, are the reasons behind the importance of interpersonal relationships in the Chinese business culture of today.

As China has the world’s largest population and its oldest culture, it will be impossible for other countries to ignore its massive and imposing presence. China can be expected to play a huge role as a new global trade partner and in adopting, changing and shaping business patterns. Therefore, more and more multinational companies (MNCs) look for opportunities to promote their business there. As a result, market penetration has been one of the most challenging strategic activities for these MNCs already operating in multi-environments throughout the world.

However, one should be made aware of the fact that China is not only a market with huge potential but also with a complicated investment environment. Even though great improvements have taken place during the past 21 years, the overall market situation cannot yet be considered mature and liberalised. There are for instance still many visible and invisible entry barriers in the country disturbing foreign investors’ market penetration and business operations. In

order to achieve success in China, many MNCs are looking for suitable ways to deal with the country's particular business environment.

1.2 Research Area Analysis

Characterised by its large potential and high growth rate the insurance industry has been one of the most dynamic sectors, which is playing an increasingly important role in China's new-regulated market economy. During the past several years the sector has witnessed rapid development with premium payments rising by over 40 per cent annually³. For obvious reasons it is also believed that the industry, especially the life insurance sector, will continue to develop rapidly in line with the deepening reform of China's economic system. As a result, this prosperous sector attracts both domestic and foreign investors seeking opportunities to establish and promote insurance business in the market.

Recently, foreign investments in the insurance industry have been encouraged, though with many limitations. At this time it is indeed a great opportunity for foreign insurance companies getting into the market. Today, 14 insurance companies from all over the world have been approved to operate business in China, while more than 200 foreign insurance companies have already established representative offices there⁴. All of these companies have had a very high ambition to get a big share of this large insurance cake. However, their market penetration processes were not always as smooth as they had expected. Without knowing and understanding the distinctive investment environment in China, they met many problems on the way to their goals.

Consequently to the recent progress achieved with China's WTO membership, the opening up of China's financial market to greater foreign competition will bring new factors and challenges into the picture. Foreign insurance companies can expect to face not only a more positive, but also an even more complex market situation.

³ China Daily, Insurance Sector Booms, 19990118

⁴ CIRC, 200005

1.3 Problem Definition

Since the Chinese insurance industry is in its emerging stage and can be considered to be in its infancy shoes, not so many, if any, academic studies have been carried out covering this field, nor does any empirical study one can fall back on seem to exist. Particularly, very little information and material was found to be available for foreign insurance companies seeking for references for their strategy making.

Generally speaking, four main reasons led to this situation:

- *Firstly*, the Chinese insurance industry is developing in a fast changing environment, making it very difficult for foreign insurance companies to find valuable and updated information resources.
- *Secondly*, the Chinese insurance market has been opened to foreign players just for several years, thus very few studies were focused on foreign insurance companies.
- *Thirdly*, language is a main barrier for foreign insurers to access the market information. In China, most of the data resources of the insurance industry – newspapers, magazines, books and websites are in Chinese. Only very little information is translated into English or other languages.
- *Fourthly*, it is always difficult for foreign companies to study those factors with strong “Chinese characteristics” such as culture, value, customs, and so on.

Taking the above background into consideration, we find that it is most essential to study the macro- and micro- business environment in China from a foreign insurance company's point of view. This is to be followed by extracting a conclusion on what kind of suitable strategies can be recommended for how a foreign insurance company could successfully enter the market. Therefore, we decided to define the main problem of our thesis as:

“How can foreign insurers successfully enter the Chinese insurance market?”

As the main problem is a very general and broad topic, we further divided it into three detailed research problem segments. (Figure 1.1)

FIGURE 1.1 PROBLEM DEFINITION

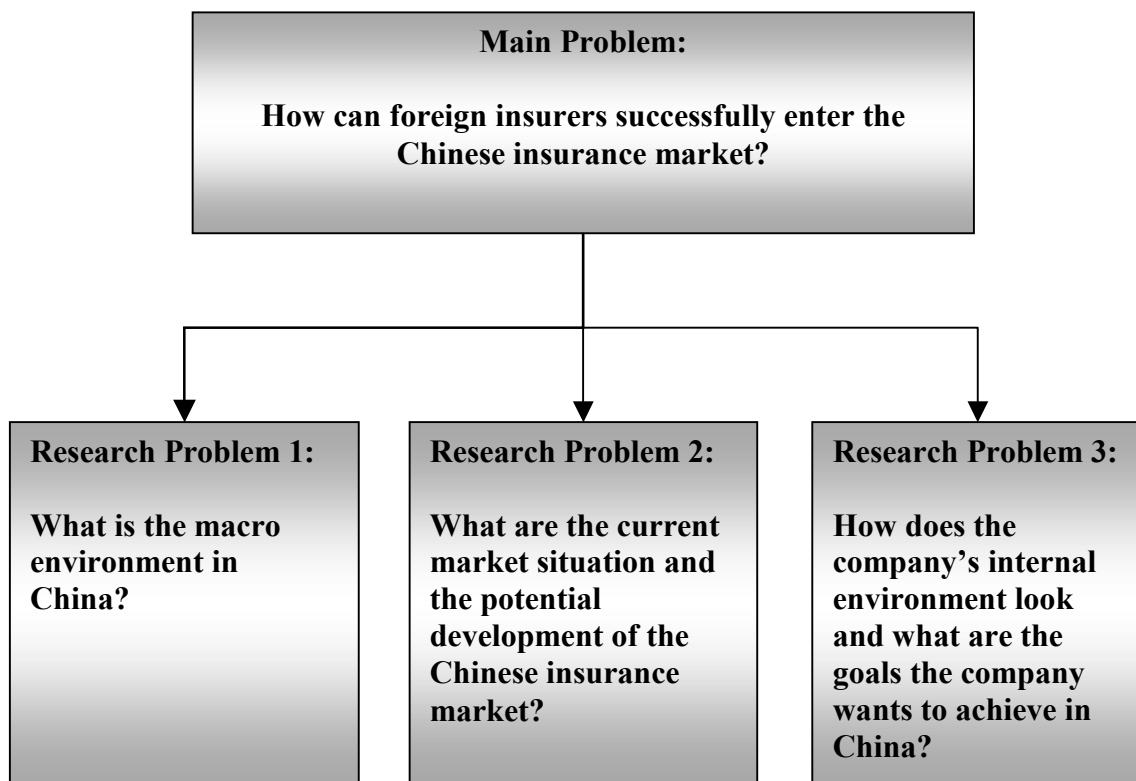


Figure 1.1 Problem definition
Source: own

- In *research problem 1*, we are going to present and analyse the macro-environment in China, which consists of all factors and forces influencing the company's abilities to establish successfully in the target market. We believe that a good knowledge of the country's macro-environment is the key for MNCs adopting suitable strategies toward the market. In this part, we will study in detail China's political situation, economic development, legal system, technological environment as well as other relative factors affecting MNCs' establishment in the country.

- In *research problem 2*, we are going to study the Chinese insurance industry, especially focusing on the life insurance sector. Since the industry is the microenvironment in which foreign insurers intend to operate their business, institutions in this sector have closer connections and greater influences on these companies. We will analyse the industry's development, evaluate the current market situation, as well as predict the industry's prospects. By studying the above factors, we will be able to find out opportunities and threats in the market and conclude if it is worthwhile to invest in the industry.
- We believe that it is very important for a company to have a clear understanding of its internal environment when it enters a new market so that the company can make full use of its advantages and avoid its disadvantages. Therefore, in *research problem 3* we will analyse the case company's (Gerling) internal environment by focusing on the company's goals, values, resources as well as organisational capabilities in order to figure out the company's strength and weakness in the market.

With all the above analysis in mind, we will try to build appropriate market penetration strategies for the case company towards the Chinese insurance market.

1.4 Purpose

The main purpose of our thesis is to evaluate the business environment in China and to identify a route that demonstrates how foreign insurance companies can successfully penetrate the market. We aim to explore, describe, explain and possibly to predict the most important institutions in the Chinese business environment. Also, a case study of the Gerling Group will be conducted in order to present a good example of foreign insurance companies intending to do business in the market.

1.5 Delimitation

- The Chinese insurance industry can be generally divided into three sectors: life insurance, non-life insurance and reinsurance. The sector we are going to study is only the life insurance one. Non-life insurance and reinsurance are not included in this thesis. The reason for this choice is that life insurance is the sector with the largest market potential and highest growth rate in China's insurance market. In addition to that life insurance is also our case company's core business.
- As we aim to provide general strategies for foreign insurance companies entering the market, we will try to avoid going into detailed technical questions of the insurance industry, such as premium rate calculation.
- China is a very large country with various regional differences. Therefore we will only take important facts such as economic development and government policies in different regions into consideration.
- The Chinese insurance industry, which is in a fast changing process, is greatly influenced by government policies. The implementation of upcoming new laws and/or regulations could lead to market restructuring and strategy adjustment. We can only base our predictions and forecasts on the existing legal and regulatory framework.

1.6 The Case Company: Gerling

We are going to use case study as the research method of our thesis. The case company we have chosen – Gerling - is a typical representative of one of the multinational insurance companies aiming to penetrate the Chinese insurance market.

1.6.1 Presentation of Gerling ⁵

With its headquarters in Cologne, Germany, Gerling is a multinational insurance company represented in more than thirty countries on all five continents of the world. The company's history can be traced back to 1904, when Robert Gerling, the company's founder, established the "Bureau für Versicherungswesen Gerling GmbH & Co. KG" in Cologne. During the past 96 years, the company went through a shifting and demanding time – including the death of Robert Gerling, World War II, financial crises, reorganizations etc. Thanks to its initiative and innovation, the company not only survived all difficulties, but also gradually gained its leading role in the industry. Until 1998, the company has enhanced its market position with a premium income of DM 16.5 billion (US\$ 7.43 billion) and more than 10 thousand employees around the world.

Today, Gerling is the only insurance company in the world of this size, which is a family enterprise. Rolf Gerling, the founder's grandson, is the majority shareholder and chairman of the supervisory board.

As a market leader, Gerling provides various insurance products and service including life insurance, property insurance, and reinsurance as well as consulting service. Life insurance accounts for about 25 percent of Gerling's total business.

Gerling has substantially strengthened its hand in worldwide insurance business and demonstrated that it is truly a global player. The proportion of premium volume generated outside Germany was 53.5 per cent in 1999.

1.6.2 Gerling in China

Although Gerling's traditional markets are Europe and North America, the Company is also active in developing new markets in other countries and regions. In China, Gerling is present in both Hong Kong and Mainland China.

⁵ Gerling Annual Report 1999

Gerling General Asia Ltd. (Hong Kong) acts as subsidiary for Gerling (Germany) as well as headquarters for the whole Asian market. Since the return of Hong Kong in 1997, it has much more opportunities to cooperate in various business matters with the Mainland China market.

In 1995, Gerling established its representative office in Beijing. The main functions of this office are to get knowledge of the market, apply for a business license from the Chinese government, as well as to coordinate Gerling's business activities between Mainland China and other countries. In order to give good impressions to the Chinese authorities, the office is very active in contributing to the development of the Chinese insurance industry.

1.7 Disposition

We structure our thesis into eight chapters (Figure 1.2).

In the *first* chapter, we will describe the general background and research area of the thesis, identify our research problems as well as introduce the case company.

In chapter *two*, the theoretical framework of the thesis will be presented.

In chapter *three* we will discuss the methods that we are going to use to solve our research problems. Then we will study the Chinese macro environment in chapter *four*.

We will describe and analyze the microenvironment – the Chinese insurance industry and the internal environment of the case company in chapter *five* and *six*.

Market penetration strategies for the case company will be discussed in chapter *seven*.

Finally, we will make our conclusions and recommendations in chapter *eight*.

FIGURE 1.2 DISPOSITION OF THE THESIS

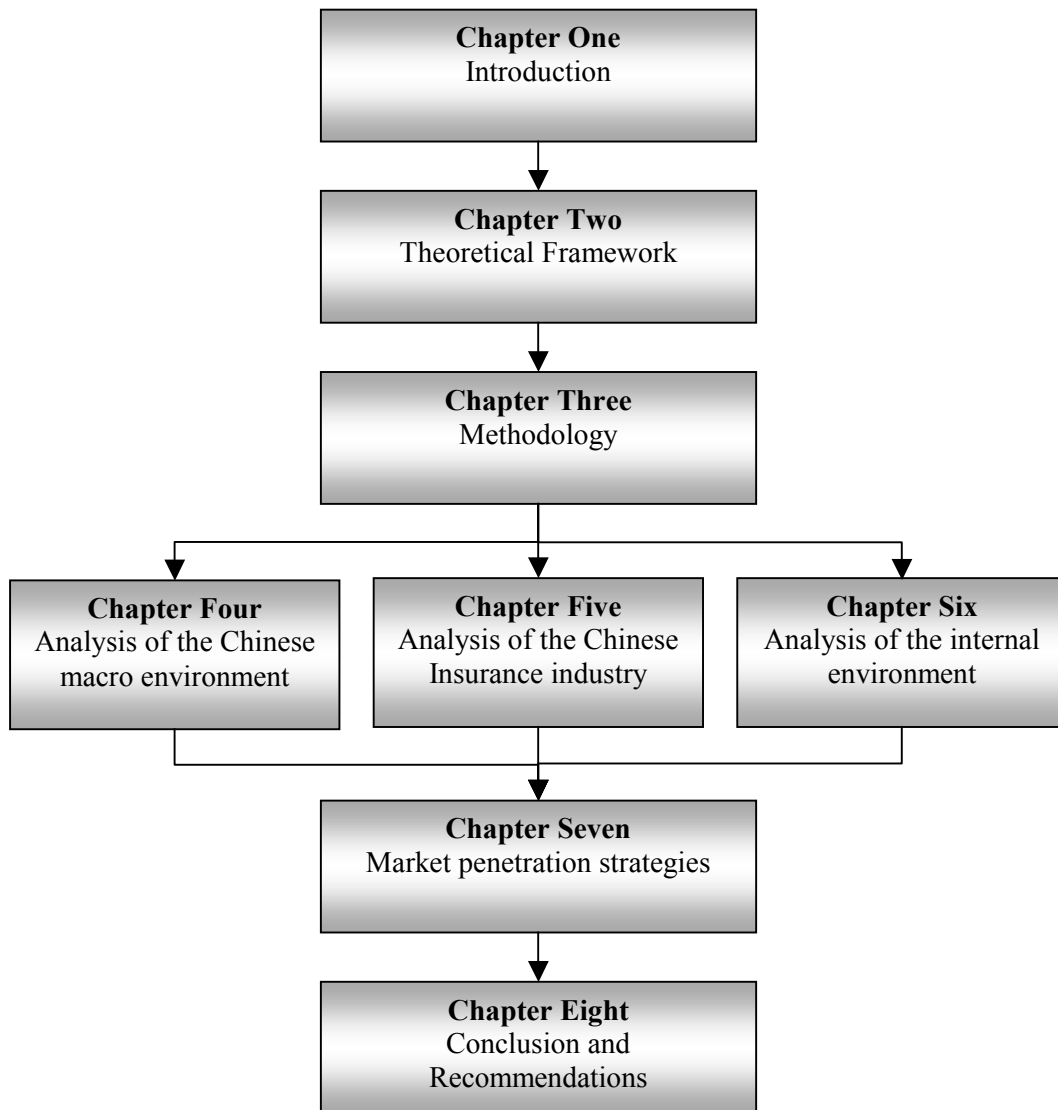


Figure 1.2 Disposition of the thesis
Source: own

Chapter 2 Theoretical Framework

In this chapter theories which are used as the conceptual framework of the thesis are presented. We will start with a description of Jansson's Institutional Network Theory, which principally is used to analyze the business environment in China. In addition to that, also Zairi's and Grant's theories, which we are going to apply to analyze industry and company internal environments, will be introduced. This is followed by a presentation of Jansson's network strategy theory, which we are going to use in chapter 7 to identify the market penetration strategies for Gerling.

2.1 The Institutional Network Theory⁶

The survival and development of an enterprise depends on various actors and factors in its business environment. For multinational companies (MNCs) intending to set up their business in emerging markets, it is doubtless a mandatory task to analyze the business environment of the assigned country, as they might not only find great opportunities there, but also big challenges. With shrinking differences in their technical and functional skills it is a must for companies today also to understand and to be able to adapt to the external institutional set-up and to assimilate new given circumstances.

The Institutional Network Theory created and developed by Hans Jansson is a theory for analyzing MNCs' business environments and identifying proper market penetration strategies. As it is the main purpose of this thesis to study the Chinese business environment from a foreign insurance company's point of view, the Institutional Network Theory is the most suitable conceptual framework one can apply.

The actors and factors in MNC's business environment are referred to by Jansson as institutions. The external set-up of these institutions is separated into two main fields, the societal and organizational fields. In the societal fields, the company does not participate directly and the influence runs one-way, from the institutions to the company. In the organizational fields, the company

participates directly and there are two-way interactions between the institutions and the company. In this thesis, we are going to use an outside-in perspective to analyze the Chinese business environment. Starting with a presentation of China’s macro environment we shall then analyze the Chinese insurance market and focus lastly on Gerlings internal environment. The main institutions in China's business environment are shown in Figure 2.1.

FIGURE 2.1 THE NETWORK INSTITUTIONS MODEL

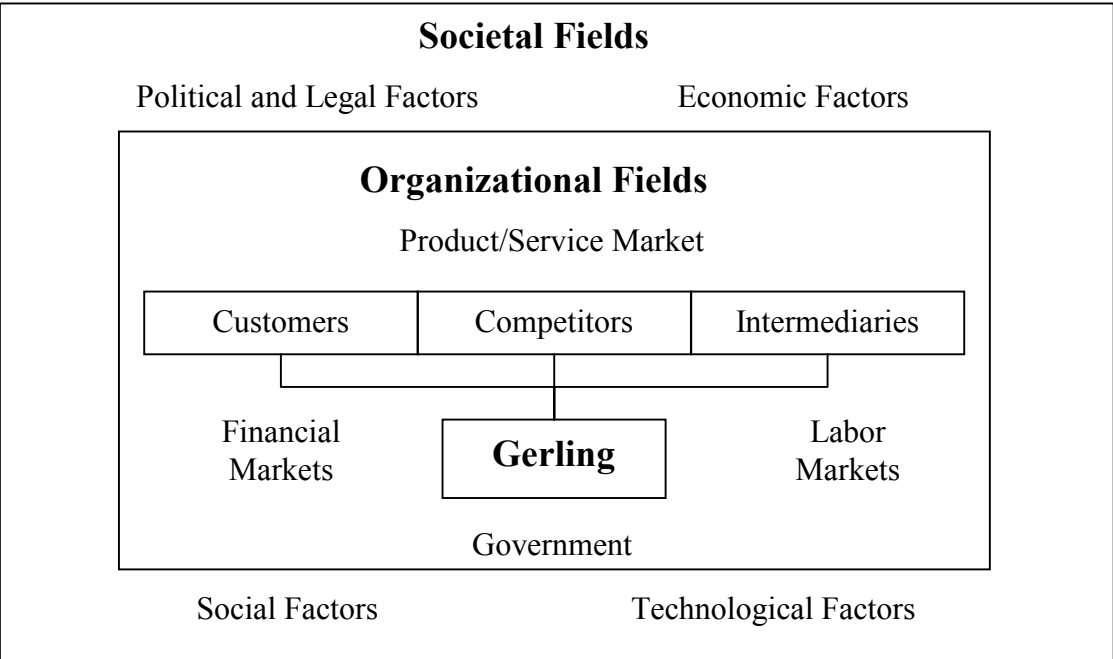


Figure 2.1 The Network Institutions Model (Source: Jansson 1999), modified

2.1.1 Political and Legal Environment

Political factors, such as the characteristics of a government, as well the political system usually impacts on MNCs' business. The government consists of ministries and authorities, which have adopted common frames of references and ways of acting. Since China has a market economy and a socialist political system at the same time, the government ministries and authorities are highly involved in business operations. Therefore, it is imperative for foreign investors to give priority to studying China's political environment.

⁶ Jansson, 1999

Legal environments are quite different from one market to another. Each government usually intends to ensure fair business practices and protect customers' interests with various laws and regulations. Hence the legal and regulatory issues strongly affect an MNC's strategic marketing process. In China, it is important to be aware of the distinction between formal and informal rules. Formal rules include political and judicial rules, economic rules and contracts. Informal rules are broadly viewed to include codes of conduct, norms of behavior and conventions.

2.1.2 Economic Environment

Economic forces usually affect an MNC with their influence on market potential and market actualization. Also the economic environment determines a country's prosperity and consumers' purchasing power. Both factors are considerably influencing an MNC's business for the market it is in. Therefore, MNCs have to be able to understand and interpret the meaning behind economic figures and alter their business strategies accordingly. Economic factors may include the stability of the economy, exchange rates, currency control regulations, the developing trend of the economy, inflation rates, and unemployment rates, just to mention some of them.

2.1.3 Social and Cultural Environment

The social environment consists of demographics, life-styles, and social values. The changes in population characteristics and the emergence of new life-styles might provide MNC's with great business opportunities. The cultural environment is composed of institutions that influence society's basic values, perceptions, preferences and behavior. Marketers must be aware of variations in cultural influences across societies within the markets served by the company⁷.

2.1.4 Technological Environment

The technology environment is perhaps the most dramatic force to shape the future of the company. New technologies may create new markets and

⁷ Philip Kotler, Principles of Marketing, 1996

opportunities. The insurance industry lives and thrives because of its continuously updated and attractive insurance products, as well as the best service items. In other words, we can say that insurance industry lives on its insurance technology.

2.1.5 Government

Since China is a socialist country the government is in many aspects highly involved in the economy⁸. The Chinese government authorities have strong decision-making and administrative power over the insurance industry as well as all other institutions. Therefore, the government is the foremost important institution for MNCs to have knowledge about. Emphasis in this sector will be given to the role of the Chinese authorities regulating the insurance market, as well as to their presently adopted policies towards business operation and market liberalization.

2.1.6 Financial Markets

The insurance industry has in recent years become an important and vital sector of China's financial market. It has tight interconnections with two other important sectors: the banking and security market, from which insurance companies generate profits by way of investment. In addition, the issues of monetary conversion and transfer regulations are of importance for an MNC to look into, since they will fundamentally impact on the company's fund flow and investment strategy.

2.1.7 Labor Markets

Access to suitable labor force is another basic economic factor. It influences MNCs mainly in terms of operation costs and the firms' ability to provide quality products and service to customers. MNCs have to have highest possible knowledge and understanding of the regulations and procedures governing the

⁸ Sociology.ucdavis.edu/classes/soc145a/politics_chn.html

hiring, managing and dismissing of Chinese labor force because the local laws may require different levels and degrees of local employment.

2.1.8 Four-stage Analysis

In the process of institutional analysis, we will follow the four stages shown in Figure 2.2. First of all, we will identify the most relevant and important institutions in the business environment, which influence foreign insurance companies' operation in the market. Second, the institutions identified will be described and ascertained facts will be translated into institutional language. In the third stage, the interdependence of the identified institutions and their

FIGURE 2.2 THE FOUR STAGES OF INSTITUTIONAL ANALYSIS

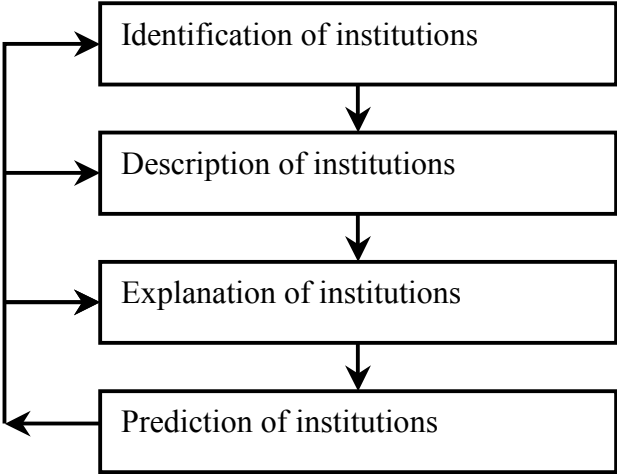
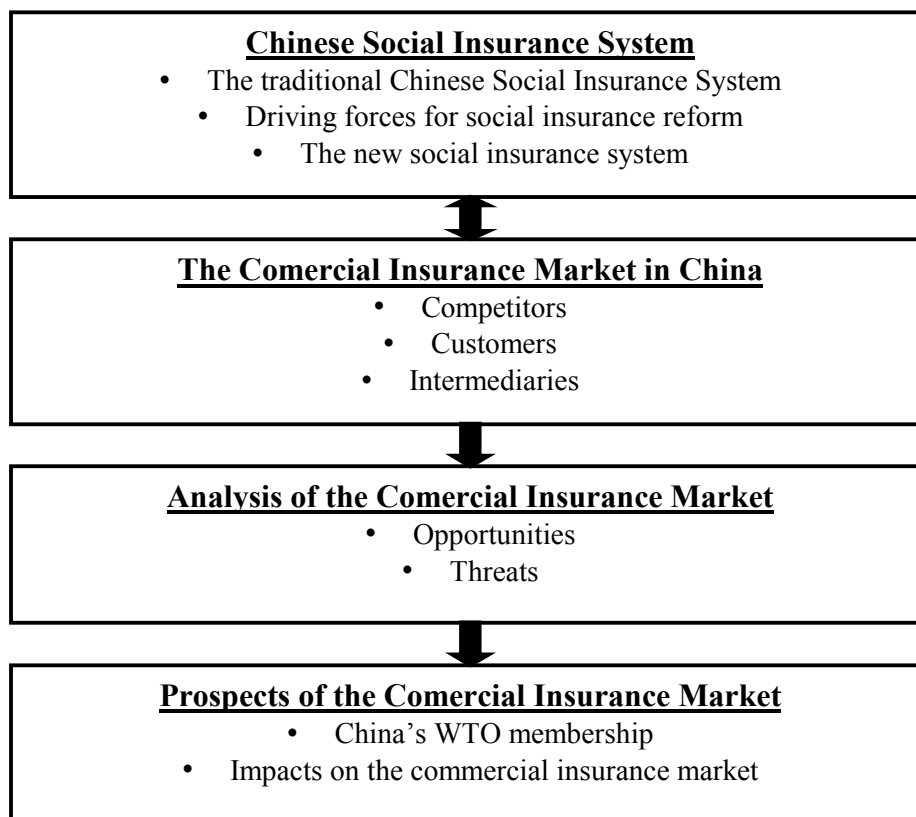


Figure 2.2 The Four Stages of Institutional Analysis (Source: Jansson 1999)

influence on each other and on the MNC is studied. Finally, we will predict, if possible, the development and future of these institutions. In the macro-environmental sector, we will only focus and elaborate on details established in the identification, description and explanation stages. This is because we aim to evaluate the current situation of the Chinese macro environment.

2.2 Product/Service Market Analysis

FIGURE 2.3 THE INDUSTRY ANALYSIS MODEL



(Source: own)

Combining various existing market analysis theories with factors that we think are of importance, we have permitted ourselves to develop our own model for a product/service market analysis (Figure 2.3). The main reason for this was to provide the reader with a more transparent and clear picture of the Chinese insurance market, as well as to help foreign insurance companies to better understand the business logic in this fast-changing insurance environment.

In the following paragraphs, we would like to present theories used in sector two: - The Commercial Insurance Market in China.

According to Grant, the core of firms' business environments is formed by its relationships with customers, suppliers, and competitors. This is the firm's industry environment⁹. The specific actors that are important to study differ from

⁹ Grant, 1998

one market to another. In this thesis, competitors, customers and intermediaries are picked up as the main actors in the product/service market.

2.2.1 Competitors

A Chinese proverb says: ‘You will always be successful if you fully understand yourself and your competitors’¹⁰. The ability to generate profit from value-creating activity depends on the intensity of competition among the firms that vie for the same value-creating opportunities. Hence, a firm must understand competition¹¹. In this thesis a benchmarking approach is used in the competitor analysis.

There are different methods of benchmarking depending on the industry a company is in, the opportunities it faces, the goals it has and the resources it has access to. According to Zairi, a company can follow four main steps in a benchmarking process. The first and most important step is to identify the main competitors in the market. In highly concentrated industries, the competitive environment of a company depends critically on the behavior of a few rivals¹². The second step is to acquire useful data about what the competitors' goals are, what resources and capabilities they have, what strategies they adopt, and so on. With all the information gathered, the company would be able to identify important gaps and predict the future performance of its competitors. The next step is to develop action plans and then put them into practice. Finally the company should adapt and adjust its strategies to the specific market environment.¹³ Many international companies practice benchmarking ideas to penetrate foreign markets and maintain their presence in those markets, in which they already are present. With a benchmarking approach companies can measure their products, services and business practices against the toughest competitors and those companies recognized as industry leaders¹⁴. It is a continuous learning process, which helps companies to structure strategic plans and reach targets. In

¹⁰ A Collection of Chinese Sayings

¹¹ Grant, 1998

¹² Ibid.

¹³ Zairi M, 1996

¹⁴ Ibid.

this thesis, we identified three main potential competitors of Gerling in the Chinese insurance market.

2.2.2 Customers

To make profit, a firm must create value for customers. Hence, the firm must understand potential customers and provide satisfying products and services for them. Grant argued that segment decisions are essential choices about products and customers, hence segmentation variables relate to the characteristics of the products or characteristics of customers¹⁵. In this thesis, we aim to identify the main potential customers of Gerling in the Chinese insurance market, to present their characteristics, and to analyze their preferences on insurance products/services.

2.2.3 Intermediaries

Intermediaries are companies that help other companies promote, sell and distribute their goods/services to final consumers. In the manufacturing industry, intermediaries include wholesalers and retailers who frequently have enough power to dictate terms, or even to shut out manufacturers of large markets¹⁶. In the insurance industry, intermediaries include agents and brokers, who represent insurers' and customers' interests respectively¹⁷. Since both, agent and broker systems, recently were introduced into the Chinese insurance market, we will just give a short description of how the insurance intermediary system works in the market.

2.3 Company Internal Environment Analysis¹⁸

In the sector of Gerling's internal environment analysis we combined Grant's resource and capability analysis theory with the SWOT analysis theory (Figure 2.4). According to Grant there are strong relationships between a firm's goals,

¹⁵ Grant, 1998

¹⁶ Kotler, 1994

¹⁷ www.china-insurance.com

¹⁸ Grant, 1998

values, resources and capabilities. Whether a firm can achieve its goals depends to large extent on its abilities to deploy its resources and capabilities within its external business environment.

FIGURE 2.4 COMPANY INTERNAL ENVIRONMENT ANALYSIS MODEL

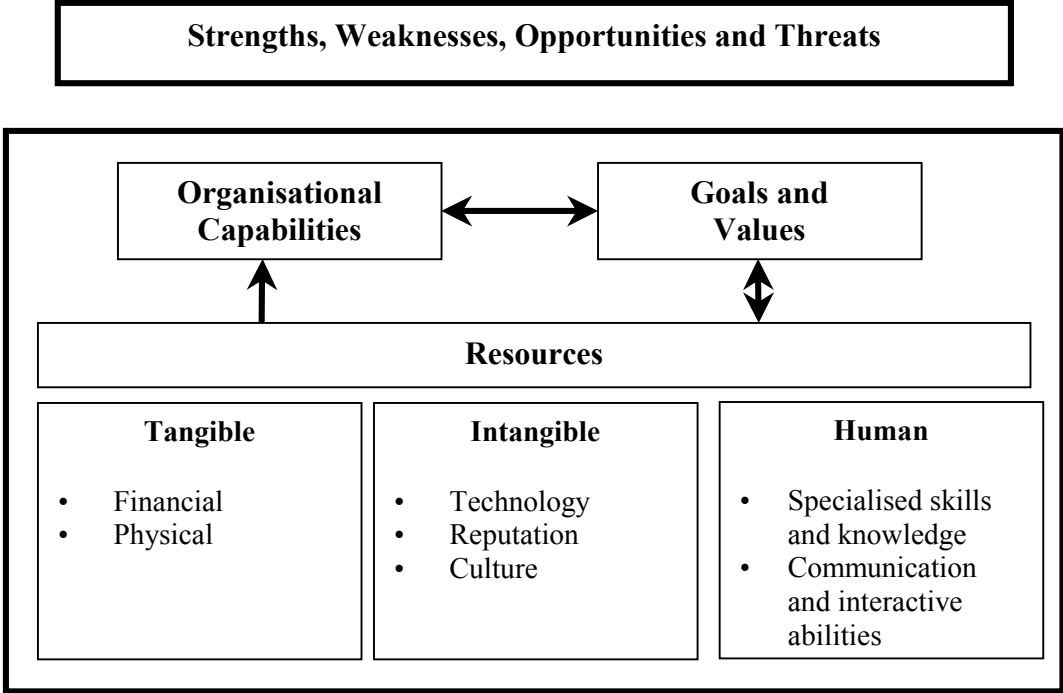


Figure 2.4 Company internal environment analysis model (Source: Grant 1998, combined)

Resources can be divided into tangible, intangible and human resources. Tangible resources are the easiest to identify and evaluate; for instance financial and physical assets are identified and valued in the firms' financial statements. Intangible resources remain largely invisible in relation to a company's financial statements. These resources, which include a company's technology, reputation and culture, are difficult to evaluate. Human resources are the productive services human beings offer the firm in terms of their skills, knowledge, as well as to their reasoning and decision-making abilities. In addition, this resource is often referred to as to communication and interactive abilities within the company, as well as motivation among employees.

Resources are not normally productive on their own. Most productive tasks require that resources collaborate closely together within teams. This is named organizational capabilities, which refers to a firm's capacity for undertaking a

particular productive activity. For example, a firm's capacity in financial management, market research and sales promotion.

It is always difficult to determine what the strengths, weaknesses, opportunities and threats are, because most companies do business in fast-changing environments. However the SWOT analysis can still help a company to get a general picture of what it can consider as advantages and what it has to improve in order to achieve its goals.

2.4 The MNC-government Network Strategy¹⁹

Network strategy refers to how the MNC acts towards the government network, which is determined by both, the ability of the company and the circumstances prevailing in the host country (Figure 2.5). MNCs intending to do business in China have to get permits from the Chinese government. However, the granting of permits does not happen by itself, since decision processes of the government network are very complex and with a high discretion for individual decision-makers. Therefore, the MNCs should focus on government-related institutions.

¹⁹ Jansson, 1999

FIGURE 2.5 THE MNC-GOVERNMENT NETWORK STRATEGY

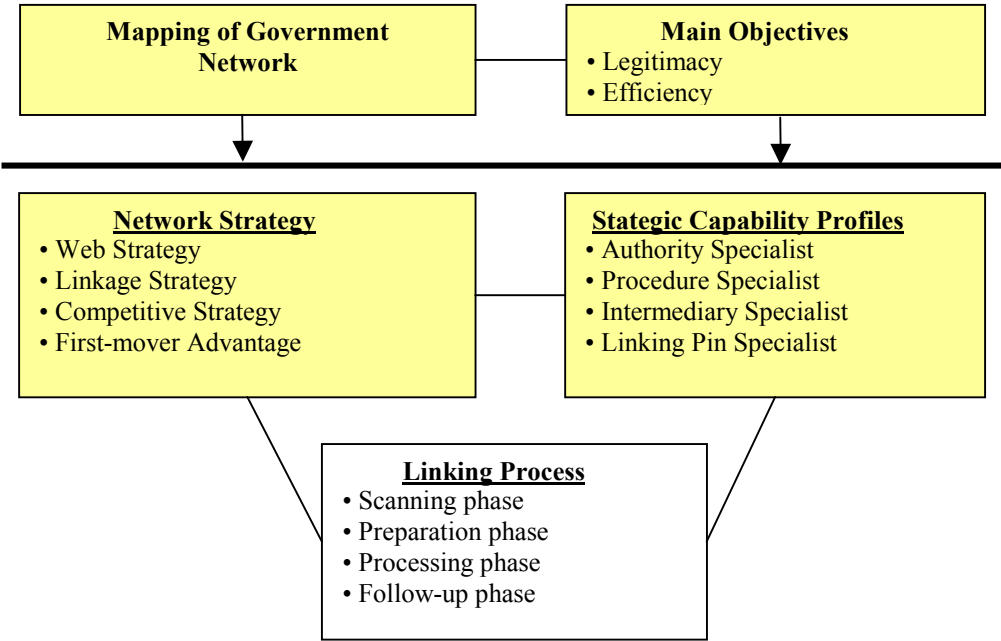


Figure 2.5 The MNC-government network strategy (source: Jansson, 1999)

2.4.1 Main Objectives

The main reason why MNCs establish contacts with government is to gain business legitimacy. By getting licenses, for example, legitimacy is achieved. Another important objective is to increase its efficiency or its competitive position in the market; an objective which indirectly also could be achieved through the government. These two basic objectives are related to each other. By gaining legitimacy from the government MNCs are in a better competitive position to gain various types of favors, for instance favorable tax rates. As this happens, they (the MNCs) also could further improve legitimacy with the government.

2.4.2 Mapping of Government Network

Mapping of government network is a process of identifying the most influential decision-making and administrative authorities in the government network, understanding their roles and functions, as well as studying the sometimes complex relationships among them.

2.4.3 Strategic Capability Profiles

The strategic capability profiles illustrate a company's ability to handle various government network linkages for certain types of licenses. Four main network capability profiles have been developed each describing the specific resources or assets of a company for a certain strategy. The main feature of the authority specialist's capacity profile is to get a license directly oriented towards specific needs of the MNC. Procedures specialist's activities are concentrated on the procedure, where there is a common need for a rational and consistent handling of licenses. In some instances license contacts are handled by an external organization, such as a trade association, or with administrative or political organizations. In such cases, MNCs are classified as intermediary network specialists.

2.4.4 Network Strategy

The web strategy concerns diagonal linkages between the government network and other networks, mainly the product/service network. Such a diagonal web strategy needs to be based on how to match these two organization fields that is how to relate the matching principles of efficiency and legitimacy to each other.

The linkage strategy refers to how MNCs act within the MNC-government network, where it is mainly a matter of combining the two main types of linkages in the network: the exchange of resources and social exchanges.

Competitive strategy is more directly related to competition with other MNCs. To get a competitive edge, an MNC has to create different products/services from those of its competitors. These linkages are directed by government, but should be packaged so that competitive advantages are achieved.

An essential part of the strategy is to find the best mix and sequence of linkages over time with the ultimate aim of finding the right combination of the two main objectives: legitimacy and efficiency. One way is to transform the competitive situation from a situation with many parties, to a situation with few parties. In

this situation the amount of actual competitors is gradually reduced. The latter gains first-mover advantages.

Chapter 3 Methodology

The purpose of this chapter is to present the methods and approaches used in this research. It will give readers reference as to how the research was carried out and why certain applied methods were chosen. The topics of the referenced research strategy, method and approach, as well as the addressed data collection are also included in this chapter. Finally, we will evaluate this research with some thoughts about the validity and reliability of the research.

3.1 Research Strategy

As stated in chapter 1, the main purpose of this research is to analyse the Chinese insurance market from a foreign insurance company's point of view and to propose proper market penetration strategies. This can also be considered as the starting point of our discussion of methodology.

There are five basic research strategies: experiment, survey, archival analysis, history and case study. Each strategy has its advantages and disadvantages, but the most important criteria in choosing research strategy are: the type of research questions posed, the extent of control an investigator has over actual behavioural events and the degree of focus on contemporary, as opposed to historical events²⁰.

3.1.1 The Case Study Strategy

Case studies are suitable to use when “how” or “why” questions are posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life contexts²¹. In addition, case study is a research strategy used to gain an in depth understanding of the situation. A main characteristic, which distinguishes case study from other research strategies, is that case studies are intensive descriptions and analyses of a single unit or bound system²².

²⁰ Yin, 1994

²¹ Ibid.

²² Merriam, 1998

However, the case study strategy can meet a number of concerns. First of all, a case study lacks rigorous research. This means that the researcher has biased views, which may effect the findings and conclusions. Second, a case study does not provide enough material to make scientific generalisations. The third concern is that case studies take a lot of time²³.

The main problem of this thesis is a "how" question - "how can foreign insurers successfully enter the Chinese insurance market". In order to answer this question, one has to get a deeper understanding of the Chinese macro environment and for the Chinese insurance market. This market is in a fast-developing process, permitting us only to take current phenomena, which we have little control over, into consideration. Therefore, we chose the case study method as the research strategy of this work.

3.1.2 Choosing the Case Company

Having worked for foreign insurance companies in China for more than four years, Ms Teng has great interest and some basic knowledge of the market. As China opened its insurance market to foreign competition just a few years ago, not so much research has been conducted in this sector. Hence, we think it would be interesting to analyse the market from a foreign insurer's point of view. In addition, our eighteen-month study in the Master's program at GU enables us to see this market from a completely new angle of approach.

When Teng was working in Beijing, she got to know that Gerling, a multinational insurance company headquartered in Germany, indicated intentions to enter the Chinese insurance market. In the autumn 2000, we took a first personal contact with the head office of Gerling in Cologne, Germany, from which we got some general information about the company. Through Gerling's international department, we established contacts with Gerling's representative office Beijing, China. The Chief Representative of the office, Mr. Carl-Ludwig Doerwald, shared our interests to scrutinise the problem and suggested that we visit China in order to carry out in-depth research. However, because of lack of

sufficient funding and support we were not in a position to conduct the research on site in China. As a result, this work has been done, without well-needed fieldwork in China, by using empirical research methods only.

3.1.3 Case Study Design

According to Yin, a research design is the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions. It is a plan that guides the researcher in how to follow the investigation, including the process of collecting and analysing data, as well as interpreting different situations²⁴. There are mainly four types of research design for case studies (Figure 3.1). The single case design includes only one case study and is appropriate when the case represents a critical test of existing theory. The multiple case design is, on the other hand, when the same study contains more than one single case.²⁵ Since we only studied one single company, we used a single case design.

FIGURE 2.1 BASIC TYPES OF DESIGNS FOR CASE STUDIES

	Single Case Design	Multiple Case Design
Holistic-Single Unit of Analysis	TYPE 1	TYPE 3
Embedded-Multiple Units of Analysis	TYPE 2	TYPE 4

Figure 2.1 Basic types of designs for case studies (Source: Yin, 1994)

3.2 Research Method

Two kinds of methods are available for a researcher to conduct a case study: qualitative method and quantitative method. Both of them can be used in a research in order to get a better understanding of certain problems. While

²³ Yin, 1994

²⁴ Ibid.

qualitative methods could be defined as techniques of personal understanding, common sense and introspection, quantitative methods could be considered as the techniques used for counting, scaling and abstract reasoning. Also, a case study can use both qualitative and quantitative methods, which complement rather than replace each other²⁶.

According to Marriam, the qualitative method is used when the researcher wants to have a total perspective, or when a lot of information about a few units is needed. One purpose of this thesis is to get a general picture of the business environment and the insurance market in China. Extensive information about these two sectors has been collected. Therefore, the qualitative method was the most appropriate for our case study. By using the qualitative method, we were able to collect in-depth data about the specific areas, which makes it easier for the readers to understand the logic in the market. This would have not been possible with a quantitative study.

3.3 Research Approach

There are three research approaches, which can be used in a case study: inductive, deductive and abductive. In studies with the inductive approach, the researchers have no existing theories to rely on. Instead, they aim to create their own theories from the identified phenomena in the reality. On the contrary, the deductive approach is to exam in the existing theories. By conducting a deductive study, the researchers look for information and phenomena that fit the specific theories.

The abductive approach is a combination of both inductive and deductive. It is appropriate for studies, with which the researchers intend to gain a deeper understanding about a phenomenon. With the aim to get insight knowledge of the Chinese insurance market, we carried out this research with an abductive approach. Our empirical finding is that many foreign insurance companies meet problems in the process of entering the Chinese market. With this phenomenon

²⁵ Yin, 1994.

²⁶ Cook, T. and Reichardt, C. 1979

in mind we found the most suitable theories - Jansson's institutional network theory and MNC-government network theory - that can be applied to this research. During the research we were also able to refine and adjust the theories according to the reality in the market, for example, proposed strategies in setting up joint ventures as well as strategic locations in the market.

3.4 Data Collections

Data can be basically divided into two categories: primary data and secondary data. Primary data is the information collected for the first time with the purpose to address a specific case. It can be obtained through several techniques, such as observations, interviews and surveys²⁷. Although primary data collection is usually more costly and time-consuming, it is necessary in order to find answers to the specific questions.

Secondary data on the other hand is the information that already exists. It is previously collected for purposes, which don't have any particular connection to the case study in question. Such information could be found in books, articles, Internet sources, statistics, etc.²⁸. Normally, the secondary data collection is done at the earlier part of the information collection, with the purpose of obtaining a general understanding of the research areas.

3.4.1 Extensive Collection of Secondary Data

The secondary information used in the current case study consists mainly of background material about the macro investment environment of China, especially on economy, culture, political/legal and technology environment, which is discussed in chapter 4; the development of Chinese Insurance Market and the present and the future general situation of the development of the insurance industry in China and the internal environmental analysis of Gerling in chapter 6, which is respectively from the Chinese publications & articles on the insurance field, the relevant websites, as well as the annual report and Gerling's internal publications.

²⁷ Kinnear, T. & Taylor, J. 1996

²⁸ Ibid.

3.4.2 Limited Primary Data

The reader of this thesis might perceive its content as too much emphasising on editorial issues rather than on demonstrating the authors' ability to methodically analyse facts and figures. The main reason for that is the availability and quality of primary data. As native Chinese with four years working experience in the local insurance industry, we certainly can draw on our knowledge about China and its insurance market. However, good academic research requires not only general background knowledge but also in-depth data about specific areas, which can only be obtained through primary data collection.

Primary data for this research was collected mainly through interviews. Interviews can be made through personal contact, telephone or mail²⁹. Since we were not able to go back to China to collect information, we conducted telephone interviews and on-line interviews. The purpose of these interviews is to have concise and deeper information concerning specific questions, for example, what the characteristics of different customer segments in Shanghai and Guangzhou are. The following is a list of these interviews including the name of respondents, the companies they work for and the main subject of the interviews.

- Ms. Zhang Xin, China Pacific Insurance Co., Ltd., Shanghai, characteristics of customers and products in the Shanghai insurance market.
- Ms. Kang Weili, Ping An China Insurance Co., Ltd., Guangzhou, characteristics of customers and products in the Shanghai insurance market.
- Mr. Cao Xinmin, New China Life insurance Co., Ltd., Beijing, main customers of life insurance companies and salary standards of life insurance agents.
- Mr. David Liu, AON China, the Chinese government's policies on liberalising the insurance market.
- Ms. Ellen Ye, AON China, foreign insurance companies' market penetration process into China.

²⁹ Lekvall, P. and Wahlbin, 1993

- Ms. Wu Xiaomei, CGU Beijing Representative Office, foreign insurance companies' market penetration process into China.

An interview can be structured, non-structured or semi-structured. While a structured interview poses all the respondents with the same questions, a non-structured interview is more flexible and the questions can be formulated and adapted during the interview. A semi-structured interview consists of a number of suggested questions from the researcher, which can be adapted accordingly in the process of interview³⁰. As we have basic knowledge of the subject, we used semi-structured interviews. This enabled us to get more than expected information from different respondents.

The respondents we have chosen are those who have both rich market experience and are in positions to detect latest changes in the specific areas. These interviews made it possible for us to interact with the respondents directly and also enriched our knowledge of the subjects in question.

3.5 Quality of the Research

Validity and reliability are two main instruments for a researcher to judge the quality of his or her research. Validity measures if the research is in accordance with the reality. Validity can be divided into construct validity, internal validity and external validity. Reliability, on the other hand, concerns the consistency and accuracy of the results. Research with good reliability is free from random errors. This means the same results would be found if the research repeated.

3.5.1 Validity

3.5.1.1 Construct Validity

Construct validity concerns establishing correct theoretical constructs for the concepts being studied³¹. We believe that this thesis is a piece of work with high

³⁰ Merriam, 1998

³¹ Yin, R. 1994

construct validity. The whole research was mainly based on Jansson's Institutional Network Theory. Also, we have tried to combine different existing theories according to the reality of the Chinese market in order to get the most valuable findings out of this work.

There is an outside-in logical connection among the four main parts of this thesis. The macro environment part consists of the most important factors a foreign investor has to take into consideration in order to evaluate the market potential. The institutions included in the microenvironment sector are those factors a foreign insurer has to deeply understand in order to compete in the market. The company internal environment analysis would help the case company (Gerling) to have a better perspective of its advantages and disadvantages towards the Chinese market. Only with analysis of the three environments were we able to propose operational strategies for the case company.

3.5.1.2 Internal Validity

Internal validity measures how well the research findings match reality. According to Merriam, internal validity can be improved in the following ways: using multiple sources, checking with respondents if the data and interpretations collected from interviews are the right ones, observing a phenomenon over a long period, asking colleagues to comment on findings, and so on.

With the aim of producing a thesis with high internal validity, we tried to collect information from both multiple and reliable sources. At the end of the interviews we also reconfirmed with the respondents about the content we talked about to ensure that we got their information correctly. In addition, we got comments from professors, classmates and families on the findings of this thesis.

3.5.1.3 External Validity

External validity is a measure of whether the research's results can be generalized. Although generalisation is not automatic, it can happen through testing the theory several times.³²

We believe that it is possible to generalize this study for other multinational insurance companies in similar circumstances. We have identified the most important institutions in the market that each foreign insurance company has to take into consideration in order to do business in China. In addition, we gave an extensive description of these institutions and ran an in-depth analysis of the Chinese insurance market. Therefore, we believe that the findings of this work are applicable to other foreign insurance companies intending to enter the Chinese insurance market, too.

3.5.2 Reliability

We consider the macro environment part as rather reliable. Since China has been one of the most attractive markets in the world, a large amount of research concerning the Chinese macro environment has been carried out previously. Consequently, we were able to find extensive secondary data, which is easy to check and compare against other sources.

The lack of primary information as well as the characteristics of the Chinese insurance industry might somehow decrease the reliability of the microenvironment part. We realized that the primary data collected in this research was not only limited but also might have been influenced by the respondents' biases. In addition, since the Chinese insurance industry is in a fast-developing process, the data that is reliable now might be invalid at a later point in time. Hence somewhat different results might be found by another researcher conducting the same case study as we did at some time in the future.

Concerning the internal environment analysis, we admit that due to the limitation of time and available resources, we were just able to analyze a few

aspects of the case company - Gerling, which is a multinational company operating business all over the world.

We think the reliability in the strategy part is quite high because it is not only based on Jansson's MNC-Government Network Strategy theory, but also on the working experience in different foreign insurance companies, which have faced a similar situation as Gerling does. However, the risk of subjective judgements can't be neglected.

3.6 Possible Sources of Errors

Errors in a case study may occur in each step of the research process. We therefore would like to address some potential sources of errors in the following paragraphs.

First of all we would like to point out that some parts of the thesis were produced within a rather short time. Hence it is possible that we were influenced by factors such as nervousness and stress, which might cause various errors.

Second, although we tried to collect secondary data from reliable sources, the data might still contain some errors. Because we, as researchers, have no control over the original information collected.

Third, primary data is also a source of potential errors, because the respondents interviewed might be influenced by personal factors and the circumstances they were in at the time we interviewed them.

Last but not least, much information collected in this research was in Chinese, hence errors might occur when it was translated into English.

³² Yin, R. 1994

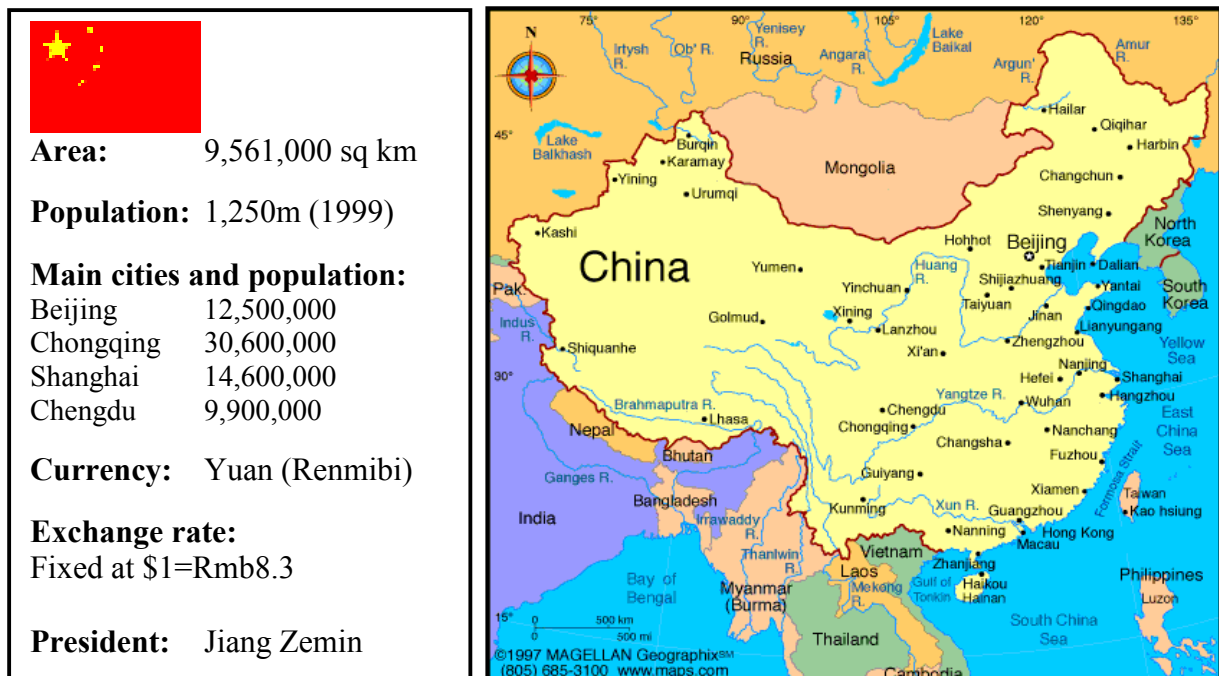
3.7 Methodology Table

Research Strategy	Case Study
The Case Company	Gerling
Case Study Design	A Single Case Design
Research Method	Qualitative
Research Approach	Abductive
Data Collection	
<i>Secondary Data</i>	Extensive
<i>Primary Data</i>	Limited
Validity	
<i>Constructive Validity</i>	High
<i>Internal Validity</i>	High
<i>External Validity</i>	High
<i>Reliability</i>	Medium
Potential Errors	Time Limitation Secondary Data Primary Data Translation Mistakes

Chapter 4 The Chinese Macro Environment

In the past decades, China has become one of the most fast-growing markets in the world. Attracted by its huge market potential many MNCs are planning to operate business in the country. In this chapter, the main factors in the Chinese macro environment that these MNCs have to take into consideration are presented. These factors include political & legal environment, economic environment, social & cultural environment, as well as technological environment (PEST).

China Profile



Source: <http://www.infoplease.com/ipa/A0107411.html> and Financial Times, 20001113

4.1 Political and Legal Environment

4.1.1 Party and Government

As China is a socialist country, only one party - the Chinese Communist Party (CCP) - leads the political system. Jiang Zeming is the current General Secretary of the CCP as well as China's President. In theory, the National Party Congress (NPC) is the highest organ of party power, but real power lies in the Political Bureau of the CCP Central Committee and the Standing Committee of Political

Bureau. The National People's Congress is highest body of state power in China, which is entitled to approve CCP's policies and programs. The State Council, China's cabinet, is the highest executive organ of state power as well as the highest organ of state administration. The key members of the State Council also hold positions in important party organs.

The party and government are not separate units, as it seems in figure 4.1. They are in fact interrelated, because the important positions in the government are held by those key members of the party. The most tangible link between the party and government is that they share the control of the People's Liberation Army (PLA).

FIGURE 4.1 CHINA'S POLITICAL SYSTEM

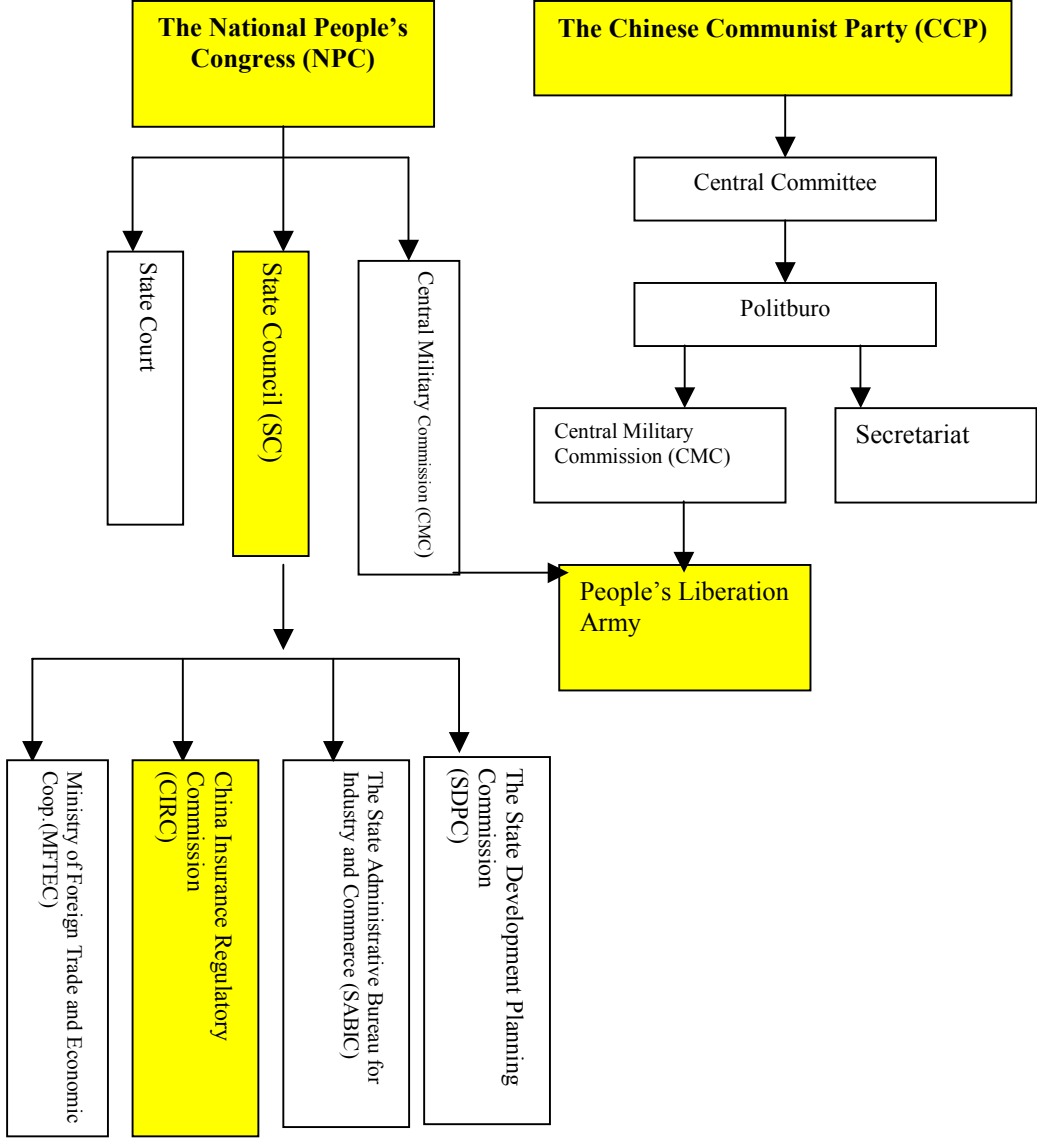


Figure 4.1 China's Political System (Source: own)

4.1.2 Administrative Divisions

China's administrative system is divided into three levels. The provincial level consists of provinces, autonomous regions, and centrally governed special municipalities. The middle level consists of autonomous prefectures, counties, autonomous counties, cities, and municipal districts. The basic level comprises townships, and villages.

4.1.3 Centralisation vs. Decentralisation

China was a traditional centralised country. The CCP and the Central Government had absolute control on the country's administrative affairs. However with the great progress achieved in the economic reform, decentralisation of China's political power has been an unavoidable trend.

Political processes started in 1982 were guided by both the CCP and the Central Government, both of which stressed the principle of democratic centralism. Under this principle, representative organs of both party and state are elected by lower bodies and they in turn elect their administrative arms at corresponding levels. Within representative and executive bodies minority must abide by decisions of majority; lower bodies obey orders of higher level organs³³.

Although there has been considerable reform of China's political system, it is far less true than what has been reported by the country's official media. The fact remains that the (CCP) still dominates the entire political apparatus, and its leaders make all major policy decisions. Party members hold most senior government positions at all levels of administration. Ultimate authority rests with the 22 members of the CCP Politburo and, in particular, its seven-member Standing Committee. However, the extent of the Central Government control was limited by the sheer volume of economic activity. Furthermore, the concept of government supervision of the economy had changed--at least in the minds of the advocates of reform--from one of direct but stifling state control to one of indirect guidance of a more dynamic economy. At the same time the Central Government has gradually transferred its administrative power to the specific

³³ <http://www.washingtonpost.com/wp-srv/inatl/longterm/china/background.htm>

ministries, provinces and cities. As a result, many provincial and local governments - especially those in fast-growing coastal regions - actively adapt central government policy decisions to suit local needs³⁴.

4.1.3 Corruption

It very difficult to measure the overall level of corruption in China, but the decentralisation has by all account increased corruption significantly. Corruption had by the mid-1990s reached such an extent that it was seriously eroding the basis of legitimacy of the political system. Since government officials at all levels can use their power to affect economic outcomes and have considerable discretion available in doing so. For example, the officials could get money or other form of bribes by granting licenses and loans, allowing tax breaks and providing access to needed electricity, water, telephones, etc. Although the CCP has made repeated efforts since the mid-1980s to clean up corruption, but none of these efforts has made a serious dent in the amount of corrupt activities³⁵.

4.1.4 Legal System

Since the establishment of the People's Republic of China in 1949, China has set up an organic, comprehensive legal framework, which consists of various laws and regulations. Therefore, China has today a comparatively well functioning legal system. The Central Government also has expressed its ambition to further accelerate reforms in China's legal system. Especially, a considerable amount of laws and regulations were issued to protect the interests of private entrepreneurs, new emerging middle class as well as foreign investors. However the completion of China's legal system never matches the economic development in the country. The current legal system is facing the challenge of not being able to judge the new problems emerging from the market economy, thus one still could find a certain degree of blanket and discontinuity in the country's legal system³⁶.

Concerning foreign investment, there are a bunch of laws and regulations at both national and local level. Some newly issued laws, such as foreign investment

³⁴ <http://www.tradeport.org/ts/countries/china/political.html>

³⁵ K. Liebemal, Governing China, 1995

law, company law, foreign contract law etc., play increasingly important roles in increasing China's foreign trade and attracting foreign investment. The Insurance Law of China was promulgated in May 1995 and affected in October 1995³⁷, which was the first real attempt by China to regulate the expanding insurance industry. Under this law, an insurance company is allowed to be established either as a stock company with limited liability, or a solely state-owned enterprise. Since 1996, the State Council started to grant foreign insurers business licenses to operate business in the Chinese insurance market.

The enforcement of China's laws and regulations cannot be determined as effective and strict. Officially, the Supreme People's Court and local courts have the judicial powers, but both the national and local governments have great influence on judicature. Also, governments have the power to issue and enforce regulations. Therefore, China's laws and regulations are enforced by two interdependent parties – governments and courts. This causes power overlapping and blanks in the legal system. In addition, the serious corruption makes the situation even worse. *Guanxi* (relationship), which has infiltrated into each corner of the Chinese society, can somehow overstep laws and rules in the country.

4.1.2 Analysis of the Political and Legal Environment

Despite the fact that China has achieved considerable results in its economic reform, it remains a socialist country with centralised administrative controls. It is obvious that the successes of economic reforms to date have been weakened by the socialist political system. Thus, the question of how long the socialist political system and market economy can work together remains to be seen. If the interests of the Communist Party and the entire nation continue to diverge there will be social instability and the existence of the Party itself will be threatened. If the Party can gradually accept democratic reforms, the Party would be able to continue in power indefinitely. Therefore, one can believe that a fundamental reform in China's political system will happen sooner or later.

³⁶ http://www.photius.com/wfb/wfb1999/china/china_geography.html

³⁷ http://www.moftec.gov.cn/moftec_cn/zcjs/jrwh/0630.html

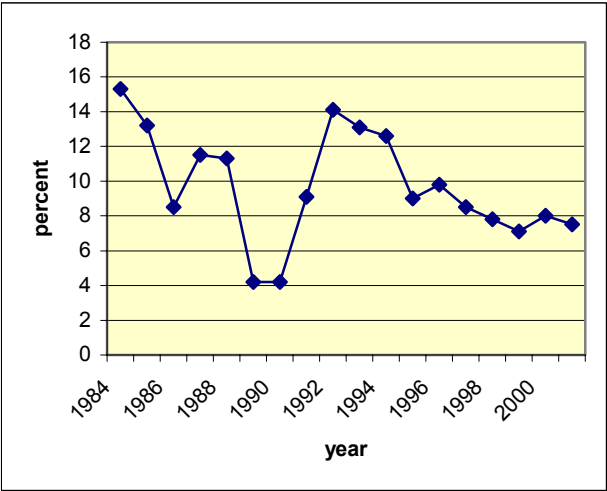
China's economic development has created a substantially new distribution of wealth, skills and attitudes in the country's population as well as foreign investors. Therefore, the legal system must make important accommodations beyond those already in place to maintain social stability in view of these developments. One essential issue is to increase the efficiency in the enforcement of laws and regulations as well as to realise the concept of “everyone is equal in front of the rules”.

4.2 Economic environment

4.2.1 General Economic Development

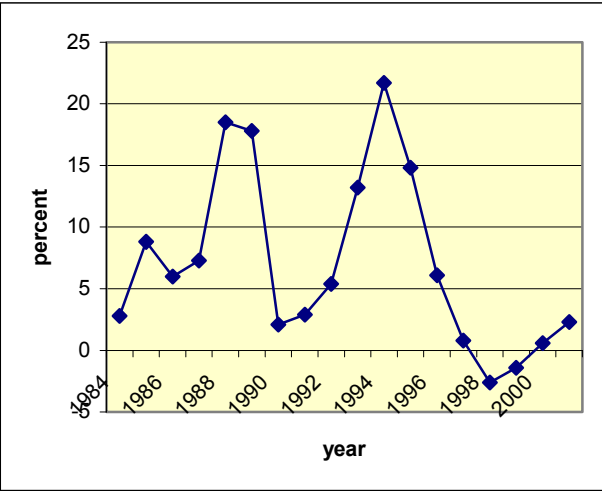
Considerable success has been achieved in China’s economic reform since 1979. From 1979 to 1998, GDP increased by 9.6 % annually and inflation decreased from 21.7 % in 1994 to nearly zero in 1998³⁸. In 1999, China ranked the seventh strongest economy in the world. Meanwhile, Chinese Government has successfully strengthened macro-economy and kept inflation well under control through various administrative and economic means. According to a forecast from the Economist Intelligence Unit (EIU), the GDP of the country will reach \$1,168 billion and the inflation will be 2.3% in 2001³⁹. (Figures 4.2 & 4.3 show the details).

FIGURE 4.2 CHINA’S GDP GROWTH RATE, 1984-1999



Source: China Statistical Yearbook, 1999, Financial Times, 13th of Nov. 2000

FIGURE 4.3 CHINA’S INFLATION RATE, 1984-1999



Source: China Statistic Yearbook, 1999; Financial Times, 13th of Nov. 2000

³⁸ China state statistical bureau: China statistical year book 1996; A statistical survey of China, 1998.

³⁹ Financial Times, 13th of Nov.,2000

4.2.2 Regional Development

However, China remains a developing country with a per capita GNP less than US\$ 700. Around 50 million people in the country are still living in poverty. Particularly there is a large gap in economy between the coastal east and the inland west.⁴⁰

The coastal area here mainly refers to the regions from Dalian to Hainan island. It includes many important cities such as Tianjin, Qingda, Shanghai, Xiamen, Shenzhen etc. The rest of areas are the west-central region. Granted many favourable policies by the Central Government, the coastal area is most attractive for foreign investors. Between 1985 and 1995, more than 88 percent of China's foreign investment was allocated to the South-East Coast of China⁴¹. Consequently, disparities between the east and the west have increased dramatically. In 1978 the difference of annual income per person between the two regions was 70 Yuan (about US\$ 8.75), while in 1997 this difference increased to 2000 Yuan (about US\$ 300). Table 4.1 shows the percentage of GDP contributed by the Coastal and Western regions from 1980 to 1998.⁴²

Table 4.1 The Percentage of China's GDP Generated by East and West Regions

Year	Percentage of China's GDP Generated in:	
	Coastal Region	West and Central Region
1980	52.50	47.50
1986	52.17	47.83
1989	53.11	46.89
1992	54.90	45.10
1993	56.55	43.45
1994	57.39	42.61
1996	59.12	40.88
1998	53.99	46.01

Source: The Future of China's Economy by Weiming Zhang and Hongjie Zhang.

⁴⁰ www.chinatoday.com/homepage

⁴¹ People's Daily, 1997/04/03

⁴² Stephen Hills Belton, Belton M. Fleisher

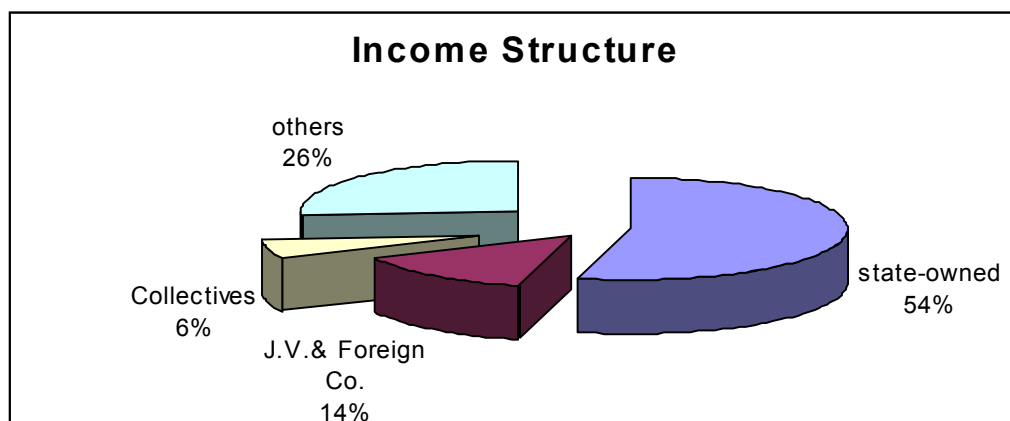
4.2.3 Income Distribution

Since insurance products belong to the newly born service industry in China, most Chinese people have not been aware of the importance of it. In other words, the insurance products are still not an important part in the current Chinese people's life, compared with the needs for basic food, drink and accommodation. In addition, according to Chinese traditional culture characteristics, Chinese would rather save the extra money for next generation, than to spend them on unessential services. This is especially true for the old generation. Hence, we have to say that for many Chinese, insurance products are still a kind of luxury service due to their characteristics such as investment for protecting the future life. This indicates that the insurance markets mainly depend on their potential customers' income level, consumption level and personal choice. Thus, in order to gain favour from Chinese insurance market, it is important to gain the favour of Chinese people.

4.2.3.1 Income Structure

The income structure is important information to Gerling because it decides the income level (i.e. high income or low income), and meanwhile Gerling's potential customers are decided by their income level. According to National bureau of statistics of China, the approximate income structure of the big cities such as, Shanghai, Beijing and Guangzhou is shown in the following figure 4.4.

FIGURE 4.4 INCOME STRUCTURE



Source: National Statistical Bureau.

Based on the above figure, the income from state-owned companies was 54%, and from collective's enterprises 6%. Usually, state-owned companies and collective enterprises help their employees to buy social insurance because of the lower income, which normally is between 200~2000Yuan. That means it is quite difficult to find potential customers for Gerling from these two types of enterprises. The income from joint ventures and foreign enterprises occupied 14% and rest of income is from other enterprises, private owners, for instance. That means there is maybe at least 20%(14%+>6% from other enterprises) of income belonging to high income class (i.e. Gerling should concentrate on these 20% income receivers or more since they are Gerling's potential customers). Meanwhile, another reason is that most of foreign enterprises, J.V. and private enterprises usually don't buy insurance for their employees.

4.2.3.2 *Regional Income*

In this sub section, our analysis will mainly focus on the four cities of Guangdong and Shanghai, Beijing and Chongqing. According to the figure (shown in table 4.2 & 4.3) provided by China national statistic bureau and Shanghai statistic bureau⁴³, we can see Shanghai was in first place for per capita GDP, which is based on the population and GDP, in the whole country last year and the monthly average income from Jan.- Sep. for the year 2000 is 1,169 Yuan. Beijing, Guangdong was placed third and fifth, respectively. Again, in accordance with China national statistics bureau, the index of regional income (shown in Figure 4.5) of five big cities: Beijing, Tianjin, Shanghai, Chongqing and Guangzhou. Among the total, Guangzhou was in first place with 16063Yuan as average annual regional income. Shanghai and Beijing were located in the second and third place with 13884Yuan and 13500Yuan, respectively. Obviously, according to the above simple analysis, Gerling can more easily find out which province or city is their best choice.

Table 4.2 The rank of provinces, 1999

Provinces Ranked By:	Population(10 thousand)	GDP (0.1billion)	Per Capita GDP (10 thousand)
First	Sichuan (8493)	Guangdong (7919)	Shanghai (3.08)
Second	Henan (9315)	Jiangsu (7199)	Tianjin
Third	Sahndong (8838)	Shandong (7162)	Beijing (1.98)
Fourth	Jiangsu (7182)	Zhejiang (4987)	Heilongjiang
Fifth	Guangdong (6868)	Sichuan (4581)	Guangdong (1.16)

Source: www.stats-sh.gov.cn & www.stats.gov.cn

Table 4.3 Consumption Price index, 2000

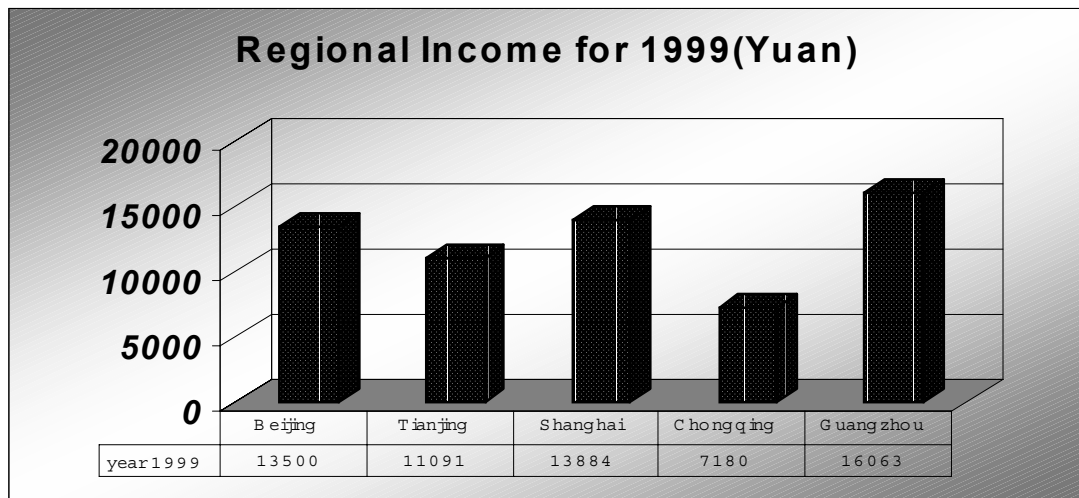
Provinces Ranked By:	Consumption Price Index (1999=100)
First	Guangzhou
Second	Beijing
Third	Tianjin
Fourth	Chongqing

Source: www.stats-sh.gov.cn

From table 4.2, we recognize that the per capita GDP of Shanghai is in first place based on the population and GDP condition. And the consumption price index of Guangzhou is in first place. This illustrated that the consumption price index of Guangzhou is continuously increased in the last two-year period(i.e. the consumption level of Guangzhounese is getting higher and higher today). Although people living in Shanghai created more money than people in Guangdong, they spent less. People living in Guangzhou would like to spend more money than they can create because of their high consumption level. In other words, to convince Shanghainese to buy insurance will be more difficult than Guangdongnese.

⁴³ <http://www.stats-sh.gov.cn>

FIGURE 4.5 REGIONAL INCOME COMPARISON



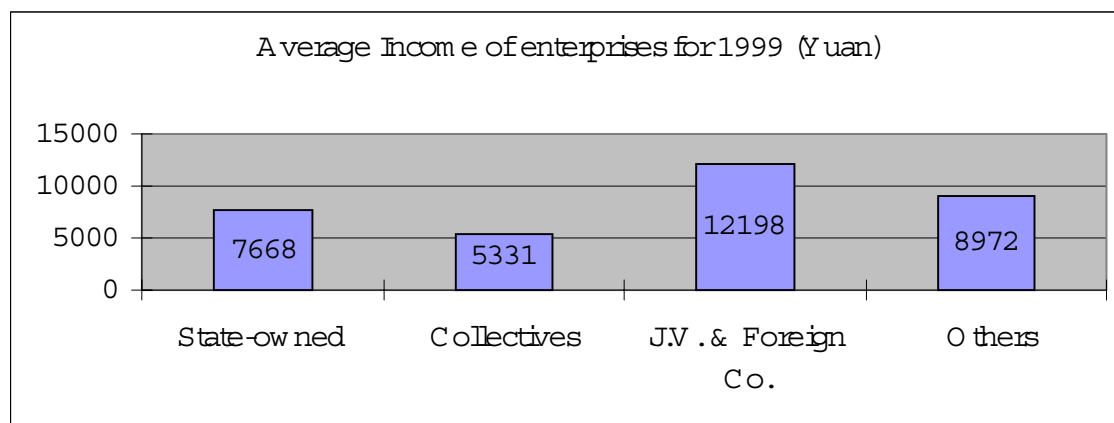
Source: China Statistic Bureau, 1999

4.2.3.3 Personal Income

The average income level of different enterprises and units is shown in figure 4.6 (from the index in the 1999 yearbook of China national statistic bureau). The highest earning sectors were entrepreneurs, 47% of whom earned more than 4,000 RMB per month, and joint venture or foreign company managers, 45% of whom earned more than 4,000 RMB a month. A small but significant 7% of entrepreneurs earned more than 15,000 RMB a month.⁴⁴ People working in these kinds of enterprises have high-income level but low future secure life and work. Therefore, they could be the most possible customers for Gerling. On the contrary, the lowest income sectors, such as state-owned factory workers, schoolteachers, and normal employees of state-owned companies, have different income levels from 200 to 2000Yuan. Lower income receivers usually have social medical insurance from the working companies or factories.

⁴⁴ Far Eastern Economic Review, Nov.26, 1998

FIGURE 4.6 AVERAGE INCOME OF ENTERPRISES FOR 1999



Source: Yearbook of China national statistic bureau, 1999

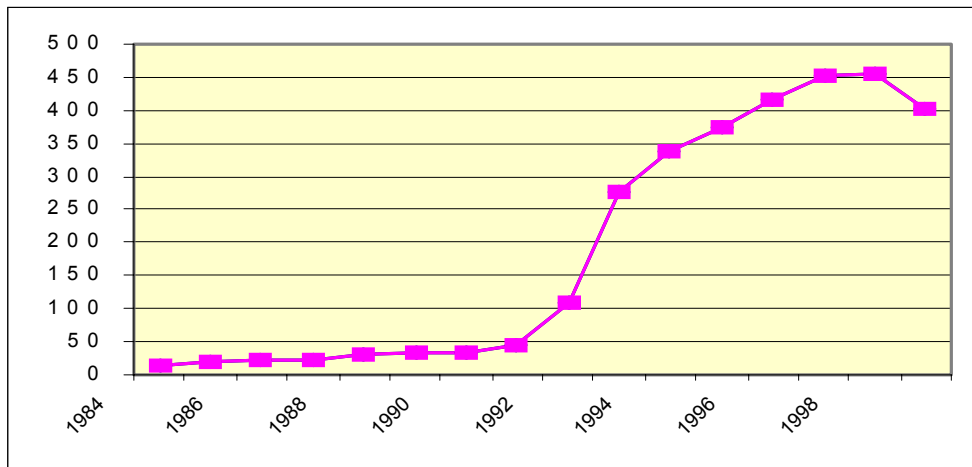
4.2.4 Foreign Trade and Investment

This section will provide some reference to Gerling on the situation of foreign investment and trade in China. It can give Gerling security and confidence when it decides to enter the Chinese market. In 1999, the gross value of exports and imports amounted to US\$360.7 billion, ranking the ninth among the world's trading nations and regions in the new list published by the WTO⁴⁵.

Up to 1999, China authorized the 300,000 foreign-invested ventures operating in China. Some 300 of the 500 largest multinational corporations in the world have invested in China⁴⁶. Absorption of foreign capital has become an indispensable component part of China's opening policy.

⁴⁵ www.moftec.gov.cn

FIGURE 4.7 FOREIGN DIRECT INVESTMENTS IN CHINA



Source: <http://www.moftec.gov.cn/moftec>

4.2.5 Unemployment

The discussion in this section is about the issue that the unemployment has become more and more of a serious social problem in today's China, which may provide more customers for Gerling. Because more and more people will buy life insurance in order to protect their future uncertainties on employment. According to the Chinese government's rule, state or collective enterprises were never allowed to lay off a large amount of workers in the past in order to maintain political stability. But it has happened in the recent years, especially in Northeast China, due to the location of a number of State-owned Military factories. According to the official report, China's urban unemployment rate was 3.1 percent, and the total unemployment reached 16 million by the end of 1999.⁴⁷ A large portion of surplus agricultural labour is moving into cities looking for jobs, which makes it more difficult for job hunting in urban areas.

4.2.6 Summary of Economic Environment Factors

China's economy is in a fundamental restructuring process, which at the same time causes enormous social turmoil. However, compared with other reforming

⁴⁶ www.chinatoday.com

⁴⁷ <http://www.future-china.org/fcn/papers/1999011801.htm>

countries, such as Russia, China performs well with its high GDP growth rate and low inflation. If the political situation remains stable, Chinese economy is expected to reach a growth rate of 6-7% annually in next ten years (2001-2010)⁴⁸ Together with the rapid development of non-state sectors, the inflows of foreign investment will be the main back up power of such economic growth. Therefore, China has an attractive economic environment for Gerling.

However, China also has to face the challenges emerging in the economy, such as, how to maintain a strong trend of foreign investment; how to balance wealth distribution between the rich and poor; how to increase efficiency in agricultural sectors and so on. Moreover, the increasing unemployment will be one of the most serious problems for the Chinese government.

4.3 Social & Cultural Environment

In order to make Gerling feel at ease when doing business with Chinese customers, in this section, we present the general picture of Chinese social and cultural factors from the following perspectives: Cultural background and factors, Business network.

4.3.1 Cultural Background & Factors

China is a country that has very rich cultural background, her culture was mainly influenced by the follow philosophies: Confucianism, Buddhism, Taoism, and Maoist. Confucianism is the foundation of the Chinese society and reflected in its social organisation, norms and values. Maoist influence has vital effects during the Cultural Revolution. But today, less and less people are influenced by above philosophies, especially new generation. Young people concentrate their energy on making more money and enjoying it, not bound by any philosophies.

A central concept of the Chinese society and family life is ‘face’. Face, in one sense, can be compared to western moral of what is right or wrong, good or bad, but face is a much more integrated and important part for every Chinese – it is

⁴⁸ The estimation is based on China Statistical Bureau, china statistical yearbook 1999.

stressed and pointed out on all occasions.⁴⁹ At Gerling, it is better to understand more Chinese cultural factors so that they can do business in China smoothly.

4.3.2 Business Network

The Cultural Revolution seriously influenced the Chinese civilization, and brought the trust between the people to the lowest point. Business relationships often start with social relationships in China, whereupon communication and business exchanges could follow. Social relation has a high significance for foreign companies, both to obtain important information and to influence Chinese decision-makers. If the company has a good relationship—‘Guanxi’ with the ‘right’ persons, it is seen as a big advantage. ‘Guanxi’ is a key concept for understanding social behavior in China, especially the linkage between interpersonal relations and the attainment of desirable resources. ‘Guanxi’ entails a strong obligation to do favors for another person, i.e. by providing some kind of scarce resource. Usually, the resources used for exchange between the persons may include money, goods, and information, status and services of different kinds. Sometimes Guanxi often goes beyond the business relationship between two parties.

4.3.3 Analysis of Social and Cultural Environment

Even though the Chinese culture has gradually changed in recent years due to the country’s open door policy, it is still totally different from that of other countries in terms of values, traditions and customs. On one hand, the cultural disparities can be considered as an entry barrier for Gerling establishing business in the Chinese market because the Company has to modify its corporate culture in accordance with the Chinese culture. On the other hand, combination of Gerling’s corporate culture and the Chinese culture can also promote the Company’s business in the market.

⁴⁹ Lundin.

4.4 Technological Environment

Since the technological environment is the infrastructure of the better development of the insurance industry, the general picture of Chinese technological environment seems also very important for Gerling.

4.4.1 An Overview of the Technological Environment

Nowadays technological environment in China has been greatly improved. The government authorities began to put more efforts into encouraging technological innovation and high-tech education. More investments were put into modifying technological infrastructures and enhancing basic research and development capabilities. Meanwhile, more and more Chinese technicians have been sent to U.S.A., Europe and other developed countries to learn the advanced technologies from the foreigners. Moreover, joint venture projects between China and MNCs lead to the new technology transfer that greatly enhances China's technological capabilities, therefore some MNCs are afraid of the future technology competition from China.

In Chinese insurance market, the technological environment has become better and better, comparing with that before. The development of technological environment was indicated by the following aspects.

- First, with the gradually maturation of the Chinese insurance market, more and more free lectures and training courses have been hosted by the insurance companies. That means in recent decades the basic insurance consciousness and knowledge of Chinese has been improved a lot.
- Secondly, in order to increase the insurance consciousness, more and more media/public organizations have begun to promote the insurance commercials. People can easily get insurance knowledge and the latest information and development orientation of world insurance industry from Internet, insurance brochures, board of commerce, TV programs etc.
- In addition, more and more foreign insurance experts have been invited to China in order to spread the newest insurance knowledge to Chinese people.

In summary, the insurance technological environment in China will improve to a great extent in the coming years.

4.4.2 Analysis of the Technological Environment

Even though the general technological environment has been improved in China, Gerling still could not put China at the same level as other markets, such as USA and Germany. In addition, a great technological gap exists between the southeast coastal region and the inner west. Gerling could find dramatically modified technological environments in some large cities, such as Beijing, Shanghai, Guangzhou and Chongqing, but it could not get an on-line computer or even use the word 'insurance' in some small towns in the western China. Such discrepancies will greatly influence the Company's business location and distribution in China and services to their employees.

Chapter 5 The Chinese Insurance Market

In this chapter Jansson's Institutional Network Theory is used to study institutions in the organizational field: government, financial market, product/service market, as well as the labor market. Emphasis will be put on the product/service market in which the Chinese commercial insurance industry is investigated. In order to give the reader a clearer picture and better understanding of the commercial insurance industry's role in China's economy of today, the present social insurance system is also given closer attention. Emphasis is also given to studying developments and structures of the commercial insurance industry, as well as prospecting its future in connection with China's WTO membership.

5.1 Government

The role of China's insurance regulates authorities and their policies in business operation and market liberalisation.

5.1.1 Regulatory Authority

Originally, China's central bank, the People's Bank of China (PBOC) was responsible for supervising the insurance industry, but its regulatory power was due to the fast development in the insurance industry in 1998 conferred to a new institution named the China Insurance Regulatory Commission (CIRC). This Commission is authorized to formulate and enforce laws and regulations, supervise insurance business operations, protect the interests of policy holders, as well as to promote the industry's development⁵⁰. Headquartered in Beijing, the CIRC also established branches at municipal and provincial levels such as in Beijing, Shanghai and Guangzhou, just to mention some.

At this point it should be stressed for the reader that the CIRC is only to be considered as the official license approver for overseas insurers. In fact, the decision-maker is the State Council of the P.R. China, which holds the highest

⁵⁰ Zhang Chun, China Insurance News, 19981009

executive and administrative power in China. License issues are not only considered to be of concern with the Chinese insurance industry but also impact on China's political and commercial relationships with its foreign trade partners. Although the CIRC is the formal key holder for issuing licenses to a company, it is the State Council, which is the principal decision-maker.

5.1.2 Policies on Life Insurance Sector

5.1.2.1 Establishment of a life insurance company

According to the Insurance Law, which took effect in 1995, an insurance company engaging in life insurance shall be established as either a stock company with limited liability or a solely state-owned enterprise. The minimum amount of registered capital required for establishing a life insurance company is RMB 200 million Yuan (US\$ 23.1 million), which shall be fully paid-up in cash or accepted monetary instruments. Upon its establishment, a life insurance company shall deposit 20 percent of its total registered capital with a bank designated by the supervision authorities as guarantee fund, which can only be used for covering debts when the company is liquidated⁵¹. Since the government only permits really qualified insurers to enter the market, it has and demands rather high expectations and requirements from a life insurance company's financial status.

Current insurance law also requires that a life insurance company shall set aside a reserve for future claims equal to the total net value determined actuarially on the total life insurance policies in force. In addition, life insurance companies are also obligated to set aside amounts into the accumulated reserve fund in accordance with other relevant state laws and administrative regulations⁵².

5.1.2.2 Separation of business

Previously, most insurance companies in the Chinese insurance market were mixed insurers dealing both with life and non-life insurance business. The CIRC

⁵¹ <http://www.chubb.com/china/laws/inslaw.htm>

⁵² Ibid.

updated regulations on life insurance business in 1998: except for three large domestic insurers (Ping An Insurance Co., Ltd., China Pacific Insurance Co., Ltd and Xin Jiang Insurance Co., Ltd.), all other insurance companies were prohibited from handling both insurance forms any longer. The reason for adopting this policy was that many insurance firms borrowed from their property business to compensate loss on their life insurance business⁵³. Such operation was found in the long run to decrease insurance companies' solvency and increase business risk.

5.1.2.3 Investment

In the past life insurance companies could only invest their premiums in bank deposits and treasury bonds. However, consecutive interest rate cuts by the central bank imposed a serious threat to the solvency of Chinese insurers who had been depending heavily on policies with high interest payments. As of October 1999, insurers were allowed to invest up to 5% of their assets in mutual funds. This ratio was raised up to 10-15% for a few insurers in 2000⁵⁴. Presently the Chinese government is considering permitting insurers, including foreign investment firms, to raise capital directly on the security markets⁵⁵, but the approval process might take years and the decision-making procedure is not yet transparent.

5.1.2.4 Opening-up Policies

All insurers who want to do business in China will need to be approved by the CIRC. According to the CIRC, property insurance firms could be wholly foreign-funded, while life insurance must take the form of joint ventures. So far, China has granted 14 licenses to foreign insurers, who are restricted to selling policies in the Guangzhou and Shanghai areas. Foreign life insurance companies are limited to dealing with individual life insurance products (accept AIA)⁵⁶. In addition to these guidelines, there are specifically stipulated principles

⁵³ Wang Ying, China Daily, 19990530

⁵⁴ Wang Ying, China Daily, 20000912

⁵⁵ James Kynge, China to ease financial regulations, Financial Times, 20000526

⁵⁶ Steven Brostoff, China May Fully Open To Life Insurers by 2005, 20001104

concerning the establishment of a joint venture life insurance company, which- however - requires further clarification.

- *The company must observe insurance laws, regulations and administrative rules.*
- *The company must be beneficial to the stability of China's insurance market and financial system.*
- *There should be reasonable distribution and fair competition*⁵⁷.

5.1.3 Analysis of the Government

The government is in itself the most important institution in the Chinese business environment. As the insurance business constitutes such an important sector in China's economy, the Chinese government is highly on the alert and involved in the market. Insurers operating in China have to be aware that the government is policy maker, market supervisor, and license approver as well as tax recipient.

Obviously the Chinese government is interested in attracting a larger foreign participation in the insurance sector, but one has most likely to expect that certain domestic interests might delay or complicate policy implementation. Local insurance companies, who are important tax revenue generators for the government could, at least in short term, be perceived as victims of admitting competing foreign insurance companies into the market. The suspicion that the government's ambition will be to protect domestic firms against foreign competition by adopting protective policies is close at hand.

Possibly more serious though is the issue of "regulatory fatigue"⁵⁸. The capacity constraints of new, inexperienced, and under staffed regulatory agencies that must deal with incomplete or inconsistent regulatory guidelines in implementing the market-opening program. The CIRC has encountered such problems. The constraints of regulatory fatigue would affect not only foreign companies, but also the insurance industry as a whole.

⁵⁷ Julia Chu, All Eyes on China, 200008

For foreign insurers, the opening of China's insurance market might remain frustratingly slow and inadequate. Neither this sentiment nor the underlying reality can be expected to change dramatically in the near future. However, there is ample reason for optimism. The Chinese government has seen the great benefits associated with the opening of the financial service sector as imperative for a long-term development. With such a perspective, foreign insurers could rely on the authorities to keep their commitments.

5.2 Financial Market

According to the CIRC, foreign insurance companies operating in China have to reinvest most of their premium incomes within China. Hence it is of utmost importance to study China's financial markets.

5.2.1 Banking

China plans to gradually dismantle the legal separation that exists between its banking, insurance and brokerage industries⁵⁹. This means there will be increased co-operation between banks and insurance companies. China's banking system is dominated by a state banking sector that generally channels funds to state-owned enterprises on the basis of public policy rather than market considerations. The four state-owned commercial banks-the Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, and the Bank of China- constitute together some 80 percent of the Chinese deposit and credit market⁶⁰. Other domestic firms must find different sources of financing, including direct investment, gray-market sales of stock, and borrowing from other firms or non-bank institutions. Foreign firms that need working capital, whether foreign exchange or local currency, may obtain short-term loans from China's State-owned commercial banks. In general, foreign investment firms can keep foreign exchange accounts in commercial banks and borrow funds from abroad, but have to register all foreign loans with the State

⁵⁸Julia Chu, *All Eyes on China*, 200008.

⁵⁹ James Kynge, *China to ease financial regulations*, *Financial Times*, 20000526

⁶⁰ *China Business Review*, November-December 1999, p.16

Administration for Foreign Exchange (SAFE), who regulates the flow of foreign exchange into and out of China together with the PBOC⁶¹.

In addition to the four state-owned banks, China has 10 shareholder banks, including Everbright Bank, Bank of Communications, China Merchants Bank, Shanghai Pudong Development Bank (SPDB), China International Trust and Investment Corp. Industrial Bank, and Minsheng Bank, as well as a group of city cooperative banks (formerly urban credit cooperatives)⁶². Several foreign banks have been allowed to operate business in Shanghai and Shenzhen. However, foreign banks might find that competing head-to-head with the big four state-owned Chinese banks in providing commercial banking services is increasingly difficult, as the latter continues to improve its professionalism and service capabilities. The Chinese banks' natural home-market advantages are also likely to become more decisive in the future.

5.2.2 Security Market

As mentioned above, the Chinese government is considering permitting insurers to raise capital directly on the security market. Many domestic insurance companies including Ping An are developing unit-linked products, which combine the insurance and securities businesses⁶³. This will further increase cooperation between the insurance and security businesses.

The development of China's security market has not kept pace with the needs of its economy, but two stock exchanges besides Hong Kong have been established in Shanghai and Shenzhen. Other regional "securities exchange centers" have experienced their ups and downs and were finally closed by the China Securities Regulatory Commission (CSRC), the watchdog of China's security market⁶⁴. Despite that, the CSRC plays a positive role in regulating the security market, its lack of experience and the need for China to adopt and to enforce international accounting standards, remain major problems.

⁶¹ Country Commercial Guide, China. US. Department of Commerce, 1999

⁶² China Business Review, November-December 1999, p.16

⁶³ James Kynge, China to ease financial regulations, Financial Times, 20000526

⁶⁴ Anthony Neob, China's domestic capital markets in the new millennium, 20000821

With over 450 licensed operators, China's securities industry is currently consolidating and rationalizing. Compared with their foreign counterparts Chinese securities companies are much weaker. The registered capital of China's largest securities firm, Shanghai-based Guotai Junan Securities, amounts to some US\$ 450 million, with assets totaling some US\$ 3.7 billion⁶⁵.

Currently, China is considering permitting insurance companies to set up wholly owned or joint venture companies to manage investment funds. Also, China may allow insurers to enter the bond and currency markets through mutual-fund companies⁶⁶. This means insurance companies and stock brokerages may be able to move into each other's areas, and foreign insurers may have access to China's securities market through joint ventures.

5.2.3 Conversion and Transfer

The issues of conversion and transfer remain to be an important consideration of foreign investors. On December 1, 1996, China announced full convertibility of its currency on the current account and instated new, more liberal regulations allowing foreign-invested firms to freely convert currencies for current account transaction. In 1998, however, China began tightening up on the scrutiny of underlying documentation to prevent rampant fraud, creating difficulties for many foreign companies to access hard currency to complete transactions. Today, the exchange rate of the Chinese Yuan against the US\$ is fixed at 1 US\$ = RMB 8.3⁶⁷. Foreign investors are free to convert currencies for trade and profit-repatriation transactions. All foreign investment enterprises are entitled to have a foreign exchange account for current account transactions, but the enterprise must first apply for permission from SAFE. Capital account transactions, which involve more complex reporting and qualification requirements, remain controlled⁶⁸.

⁶⁵ Anthony Neob, China's domestic capital markets in the new millennium, 20000821.

⁶⁶ James Kyng, Financial Times, 20000904

⁶⁷ Financial Times, China, 20001113

⁶⁸ <http://www.chinabig.com/en/srch/>

5.2.4 Analysis of the Financial Market

Again, high government involvement is characterizing China's financial market. Although China is gradually liberalizing its financial sector, the PBOC, SAFE, CSRC and other regulatory authorities keep control on the sector. Since China aims to ensure that its financial markets continue to facilitate a steady flow of private investment into reforming state and non-state enterprises, the government puts priority on upgrading the capabilities and the professionalism of its financial sector. State-owned commercial banks remain strong in the market, but shareholding commercial banks and foreign banks might little by little be able to break their dominant positions. More and more enterprises, including foreign companies are allowed to raise capital in the securities market, but the government is seen to be very cautious in the opening up process and the setting of entry standards. As to China's currency policies, it is notable that they link tightly with its economic performance and the international financial markets. The Chinese government can be expected to tighten up currency control further as long as it detects any signals of high financial risks in the market.

5.3 Labor Market⁶⁹

The present situation in China provides foreign investment enterprises with the opportunity to hire people through a local labor bureau, a job fair or to advertise in newspapers, but they have to register the employees with a labor service agency. Foreign investors can easily find a large amount of well-educated and highly motivated employees, but skilled managers are often short in supply. Especially in the insurance sector, which is a relative new field in China's high education system, shortages can be acute.

Employees are paid a salary, hourly wages, or piecework wages. In general, foreign ventures are free to pay whatever wage rates they want to above a local designated minimum wage, but the provision of subsidized services, such as

⁶⁹ Country Commercial Guide, China. US. Department of Commerce, 1999

housing and medical care, is common and compensation beyond the basic wage constitutes a large portion of a venture's labor expenses.

The Joint Venture Law and China's 1994 Labor Law require joint ventures to allow union recruitment, but don't require a joint venture actually to set up the union. China's labor law provides for the establishment of collective labor contracts to specify wage levels, working hours, working conditions, and insurance and welfare. In recent years, most coastal provinces have passed stricter regulations that require unions in foreign financed enterprises.

The ability to dismiss workers varies widely based on location, type and size of enterprises. Terminating individual workers for cause is legally possible but may require prior notification with the local union. In general, it is easier to fire a person in south China than in the north China, and in smaller enterprises than in larger ones. Large-scale layoffs, especially in north China, can cause opposition from the local government and from the workers themselves. Where workers are hired by short-term contracts or agreements, it is relatively easy to let them go at the end of the contract period.

5.4 Chinese Social Insurance System

5.4.1 The Traditional Chinese Social Insurance System

The traditional social insurance system in China is predominantly a defined-benefit, pay-as-you-go type, primarily covering the workers in state-owned enterprises (SOEs) and government employees in urban areas. Coverage is comprehensive, comprising benefits for retirement, disability, unemployment, health care, and housing. These comprehensive benefits are primarily financed and provided at the enterprise level⁷⁰. Most non-state workers in urban areas and most of the population in rural areas are not covered.

⁷⁰ China Economic News 20000509

5.4.2 Driving Forces for Social Insurance Reform

However, starting in 1997, the Chinese government has gradually reformed the pay-as-you-go system into a new social insurance system, which mainly consists of pension and healthcare. The main reason for the launch of social insurance system reforms is that the traditional system, which has been in practice in China since 1950s, does not match the development of today's economy anymore. First of all, as state-owned industries shrink and employment in state-owned industries declines, the ratio of benefit claimants to state workers is rising rapidly. Also, the profitability of SOEs has been declining, and more and more SOEs are going bankrupt. Thus, the enterprise-based system for social insurance is not sustainable. Second, China's population is ageing fast. In 1995, the dependency ratio (the ratio of the population age 65 and over to the population age 15-64) was 9.4%, but the ratio is projected to be 15.5% in 2020 and 31.2% in 2050.⁷¹ This demographic change will cause a financial imbalance in the pay-as-you-go scheme. Third, employment in non-state sectors is booming, but these workers are not covered by the traditional social safety net.

5.4.3 The New Social Insurance System

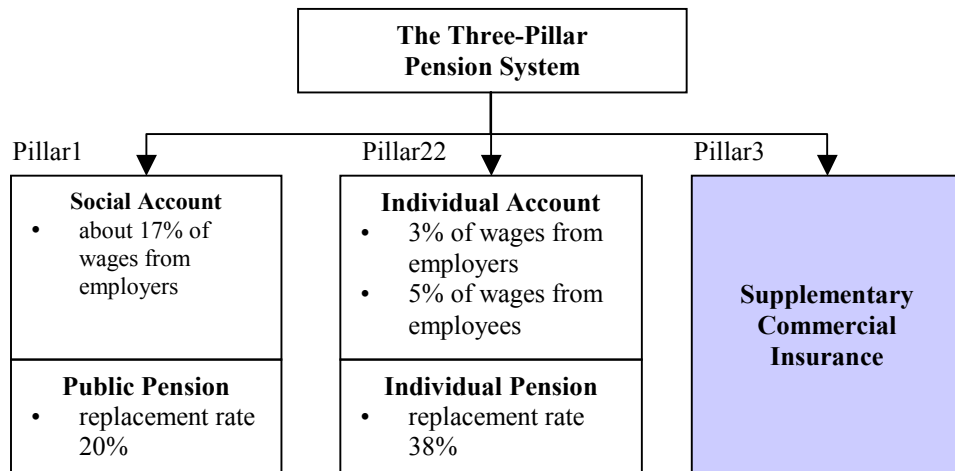
The new pension system established in 1997 is divided into three pillars: Pillar 1, a mandatory, defined-benefit "social" pension from a social account funded by a payroll tax; Pillar 2, a mandatory, defined-contribution, individual pension with individual accounts funded by contributions from employers and employees; and Pillar 3, a voluntary, supplementary pension⁷². This new system covers urban employees in various sectors.

Under this new system, employees are required to make a contribution of 5% of their wages to their individual pension account (this rate is expected to gradually increase to 8%). Employers are required to contribute about 20% of workers' wages. A small portion (about 3% of wages) of this contribution will accrue to the employees' individual accounts, and the remainder will accrue to a social

⁷¹ World Bank 1997

⁷² The State Council, Decision on Establishing a Social Pension System. Document No.26, 1997

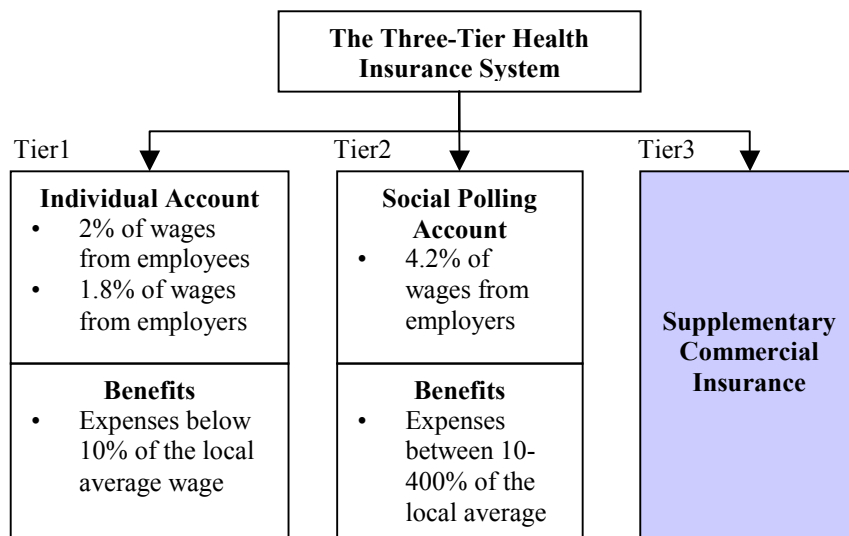
FIGURE 5.1 THE NEW CHINESE PENSION SYSTEM



Source: the Ministry of State Labor and Social Security, 1999

pension account. The social pension account will be used to pay a basic pension benefit (Pillar 1), equivalent to a replacement rate (the value of a pension as a proportion of a worker's pre-retirement wage) of approximately 20%. The payment from the individual accounts will constitute approximately another 38% (Pillar 2), so that the total replacement rate will be approximately 58%⁷³ (Figure 5.1).

FIGURE 5.2 THE NEW CHINESE SOCIAL HEALTHCARE SYSTEM



Source: the Ministry of Labor and Social Security, 1999

The new health benefit system implemented in 1999 also combines social pooling and individual accounts. This system covers all sectors and is pooled above the county level. The total contributions equal about 8% of an

⁷³ The State Council, Decision on Establishing a Social Pension System. Document No.26,1997.

employee's wages (6% from employer and 2% from the employee). The entire contribution from the employee and a small part of the contribution (about 1.8% of wages) from employer will accrue to the employee's individual health account (Tier 1), and the rest of the employer's contributions will accrue to a social health account (Tier 2). A worker's health expenses will first come from his or her individual account, when such expenses are below 10% of the local average wage. Above that amount, the social account will pay most of the expenses up to four times the local average wage. For expenses above this limit, individuals will need to buy commercial insurance (Tier 3) (Figure 5.2)⁷⁴.

5.4.4 Analysis of the New Social Insurance System

The new pension and health insurance system has many advantages. It spreads risk sharing among the enterprises thus relieving SOEs from having to provide social services and it covers a broad base of employees of enterprises of different ownership. However, one can argue that a number of concerns still remain.

First of all, with such a large percentage contribution, about 25% for pension and 8% for health insurance, labor costs for employers may increase greatly. The more employees an enterprise has the heavier financial burden it might suffer. This has been seen to cause losses in economic efficiency and unemployment.

Second, implementation of the new policies can be very costly if compliance remains low. As China is a large country, expenses for collecting, managing and distributing social insurance funds could be so high that the whole social insurance system might lose efficiency.

Third, as a large portion of pension and health benefits still depends on the pay-as-you-go scheme, most of the retired officials are still covered by the pay-as-you-go system and problems associated with the traditional system will continue to exist.

Fourth, the pension and healthcare system just provides basic social security, which might not satisfy and cover everybody's need for insurance.

⁷⁴ Song Xiaowu and Zhang Zhongjun, Solving the Problems in the Social Healthcare System, 20000509

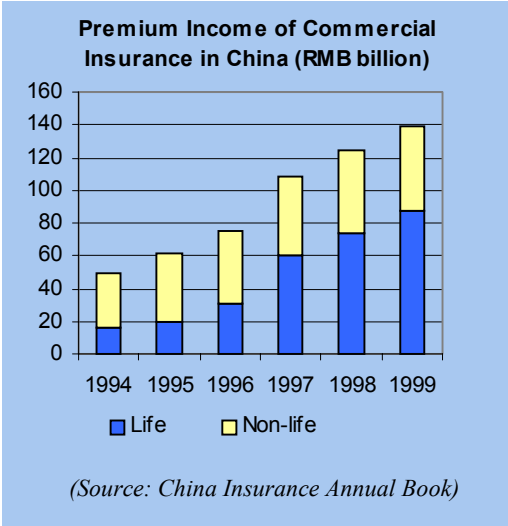
Therefore, it is not difficult to understand that these holes in Chinese social insurance system will need to be covered, which in turn will be driving forces of the development of the commercial insurance industries. In other words, as the key part of social insurance system, the development of Chinese commercial insurance market plays a decisive role for the development process of the whole insurance industry.

5.5 The Commercial Insurance Market in China (product/service market)

5.5.1 Review of the Chinese Commercial Insurance Market

In October 1949 the new China insurance industry was introduced with the establishment of the People’s Insurance Company of China (PICC), but was in 1959 due to the misleading political movements suspended for the next 20 years. However thanks to the opening-up policy the industry experienced a renaissance. From 1980 to 1999, collected insurance premiums have increased with an

FIGURE 5.3 PREMIUM INCOME 1994-1999



annual rate of 37.6 per cent, far exceeding the average 9.7 percent GNP growth rate in China. In 1980, the premium income amounted to 642 million Yuan (US\$ 77.3 million), while in 1999 this figure soared to 139.3 billion Yuan (US\$ 16.78 billion). Of this total premium income, 52.1 billion Yuan (US\$ 6.28 billion) emanated from property insurance, up nearly 3 per cent from 1998, and 87.2 billion Yuan (US\$ 10.51

billion) from life insurance, up 15 percent⁷⁵.

⁷⁵ Wang Ying, China Daily, 20000621

One of the main driving forces of such a boom is an increasing amount of entities. By the end of 1998, the number of insurance companies was 25, comprising four State-owned, nine shareholding, five joint ventures and seven branches of foreign insurance companies. Among them, 8 are at national level, while the remaining 17 are local. In terms of business, 3 entities are general companies, 11 are property insurers, 10 are life insurers and one is re-insurer. Meanwhile, China is liberalizing its insurance sector by introducing foreign competitors into the market. So far, 14 companies from eight countries have launched 12 operational entities in China. And 113 foreign insurance institutions from 17 countries have established 201 representative offices in the country⁷⁶. However, the young industry still lags behind in terms of premium income, insurance coverage, management, operational strategies and technology.

5.5.2 The Life Insurance Sector

The boost in the life insurance sector contributes greatly to the development of the whole insurance industry. The growth rate of life insurance was at one time up to 48 percent annually in the 1980s⁷⁷. The main reason for this development was life insurance companies' advantages on interest rates against banks. The returns on deposit life insurance products were much higher than bank deposit interests. Therefore, many people invested in life insurance rather than depositing money in banks. Since the consistent interest rate cuts in past three years, the growth of life insurance has slowed down. Still, life insurance is a major section in China's insurance industry, accounting for some 63 percent of the total business in 1999⁷⁸. In addition, China now has a well-established life insurance distribution network with 10 insurance companies, 4,630 insurance sales outlets, 500,000 sales people, 60,000 agents as well as 28,000 agent institutions⁷⁹.

⁷⁶ Yong Zhe, China Daily, 20000919

⁷⁷ Wang Ying, China Daily, 20000621

⁷⁸ China Insurance News, 20000328

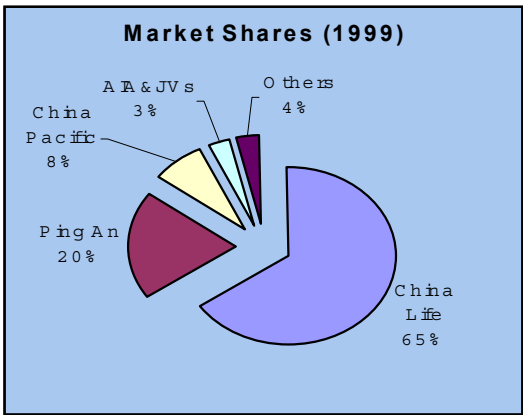
⁷⁹ Shanghai Financial News, 20000502

5.5.3 Main Actors in the Life Insurance Sector

According to Grant, the core of firms' business environments is formed by their relationships with customers, suppliers, and competitors. This is the firm's industry environment⁸⁰. In this case presentation, competitors, customers and intermediaries are picked up as the main actors in the product/service market.

5.5.3.1 Main Potential Competitors - Benchmarking

Figure 5.4 Market shares of life insurers, 1999



(Source: China Insurance News, 03/00)

The competition in the Chinese insurance market has been increasingly intense in recent years. There are around 10 major companies operating life insurance business in China. They are: China Life Insurance Company Ltd. (China Life), An), China Pacific Insurance Co., Ltd. (China Pacific), AIA, Allianz Dazhong Life Insurance Co., Manulife-Sinochem Life Insurance Co., and Pacific-Aetna Life Insurance Co. One can also find several newly created Chinese life insurance firms.

In the following paragraphs we would like to describe some of the most important life insurance companies operating businesses in the Shanghai and Guangzhou regions, where Gerling has the opportunity to enter in the near future.

- **China Life**

Objectives

China Life is the largest life insurance company in China. As the only state-owned life insurance company, China Life is a branch of the PICC Group, which was restructured from the People's Insurance Company of China in 1996. It sells

⁸⁰ Grant, 1998

to individual customers and businesses of all sizes more than 100 products in life insurance, health insurance and accident insurance. China Life's main mission is to further enhance its market leader position. It is planning to establish a joint venture with an Australian insurance company called Colonial in Shanghai. In this way China Life aims to obtain advanced knowledge in marketing, risk management and e-commerce from Colonial and to make use of this knowledge in its own insurance business. In addition, China Life aims to sharpen its brand name in the Chinese insurance market and increase the efficiency of its business network. The company's goal is to increase its total assets to RMB 150 billion Yuan (US\$ 18.29 billion) in 2001.

Resources and capabilities

As the largest life insurance company in the market, China Life is, with total assets of RMB 90 billion Yuan (US\$ 10.84 billion), financially very strong. It not only is able to finance all of its expansion and business activities, but also generates a large amount of tax for the Chinese government.

The company has established a national network with more than 3,300 outlets and around 10,000 agents. A well-established business network like this of China Life can be considered a main advantage, because it would take quite a long time for a new player to set up an equal one.

In terms of human resources, China Life has access to skilled and experienced cadres with insight into the market. With this type of human resources, China Life is able to achieve differentiation advantage by providing specific products, for instance soldier life insurance.

The key indicator of competitive advantage, according to the Boston Consulting Group, was relative market share⁸¹. China Life reported a premium income of 59.29 billion Yuan (US\$ 7.14 billion) in 1999, accounting for 68 percent of the total life insurance businesses in China⁸². The main reason for these figures was the Chinese government's favorable policies towards domestic firms, especially the state-owned *China Life*. Since the government is introducing more

⁸¹ Grant 1998, P.198

⁸² <http://www.chinalifes.com.cn>

competition into the market, China Life's leading position will be challenged. However, foreign insurers should never under-evaluate the state-owned China Life, who will remain to be one of the strongest competitors for foreign insurers in the market.

Strategies

The main strategy of China Life is to take advantage of its rich market experience and large distribution network to create cost advantage. China Life has access to the whole Chinese market through its outlets, individual agents and agent organizations. Such ability enables China Life to seize available market opportunities and increase brand awareness and loyalty among customers.

Another important strategy of China Life is to establish strong relationships between the company and the important institutions in its business environment, for example its strong relationship with the Chinese government at different levels. Such relationships help China Life gain many favorite policies from the government especially in the local markets.

- ***Ping An***

Objectives

Ping An, another leading insurer in China, was founded in May 1988 to break the monopoly held by PICC. Its main mission is to become an industry leader with a first class system, first class mechanism, first class management, first class results and a first class staff.

Resources and capabilities

Ping An's financial strength is ensured by its good business performance and the investment of its main shareholders. Its shareholders include the state-owned Industrial and Commercial Bank of China, China Merchants Holdings Co. and China Ocean Shipping Co. Moreover, the American investment banks Morgan Stanley Dean Witter and Goldman, Sachs & Co. both took passive stakes of 5 percent in 1994. With total assets of RMB 32.56 billion Yuan (US\$ 3.9 billion), Ping An ranks the second largest insurance company in China. In 1999, the

company's premium income in life insurance business was RMB 17.04 billion (US\$ 2.05 billion), accounting for 19.54 percent of the total life insurance income in China⁸³.

Ping An also has a national distribution network with 120 thousand employees working in 553 outlets. The company introduced competency mechanism throughout the whole organization. This includes competencies of its employees in terms of business performance, market knowledge, personal goals, and so on. The competency mechanism greatly improved the efficiency of the firm's distribution network.

In addition, the firm is recognized for its capability to benchmark its competitors. It successfully copied AIG's individual life insurance agent system and management norms, and further developed them according to its own internal environment.

Strategies

The strategy of Ping An is constantly focused on creating value for all stakeholders. That is to serve customers with best products and service, to provide employees with good benefits and career opportunities, to generate satisfying economic rewards for shareholders and to reciprocate beneficence to the society. The utmost aim of the company is to satisfy a wide range of customers with tailored products and services. In order to achieve this goal, Ping An is developing a homepage with e-commerce that will provide customers with various insurance products over the Internet. Customers should be able to select, compare and purchase insurance products on the homepage.

The commercial strategy aims to achieve high profit via an active portfolio management. The company seeks to establish and enhance its leading position in some chosen large cities, such as Beijing, Shanghai and Shenzhen, and then systematically expand its business to medium- and small-sized cities.

⁸³ <http://www.paic.com.cn/default.asp>

Ping An is considered to be the most dynamic local insurance company in China⁸⁴. It is the first Chinese insurance corporation to expand business to overseas markets. Ping An's presence can be noted in the United States, the United Kingdom and in Singapore. These are also the basic geographical points, which make up for the firm's international business operations.

- *AIA*⁸⁵

Objectives

Headquartered in Hong Kong, AIA is a member of AIG and the largest life insurer in Southeast Asia. The main mission of AIA is to develop China into one of its core markets. In the near future AIA aims to increase its Chinese market presence and penetration to become the first foreign insurer operating business nationwide there.

Resources and capabilities

AIA was the first foreign insurer to penetrate the Chinese insurance market and the only foreign insurer, which gained a license from the Chinese government to operate a wholly owned life insurance business in Shanghai. The company has established strategic presence in the five most important cities of China. It offers a full range of insurance coverage to businesses and individuals in Shanghai, Guangzhou, Shenzhen and Foshan. In Beijing, a representative office was established in 1980.

Compared with its Chinese competitors, AIA has great advantages with its mammoth sized global assets (US\$ 267 billion) and rich business experience. It takes pride in designing products to meet the needs of its customers and providing qualified service.

Strategies

For foreign insurance companies intending to do business in China, *AIA* remains the player to emulate. It is a good example for foreign insurers establishing successfully in China. Some foreign insurers have argued in the past that AIA's success mainly depends on the special favors granted by the Chinese

⁸⁴ <http://www.china-insurance.com>

government. However, it can be believed that AIA's success is the result of the company's adopting right strategies and hard work for more than 20 years. AIA's basic strategy "to build a long-term relationship, to help and to contribute value to China" is the key to the Chinese market⁸⁶. By investing hundreds of millions of dollars in infrastructure projects in China, the company has established a lot of goodwill and a tight relationship with the Chinese central government.

The main commercial strategy of AIA is selling life insurance policies through sales agents, who make door-to-door house calls. Though this is a standard practice in the West, it is a rather new phenomenon for the Chinese insurance market. AIA sends its professional agents to households compelling potential customers with help and protection offers. In order to make good for basic salary payments by competing insurers, the company tempts its agents with high commission remuneration. In addition, AIA launches a series of advertising campaigns to catch the attention of all its current and potential customers.

5.5.3.2 Potential Customers

Segment decisions are essentially choices about products and customers, hence segmentation variables relate to the characteristics of the product or characteristics of customers⁸⁷. In the following paragraphs, we would like to identify key segmentation variables of potential customers in the Chinese insurance market.

As foreign insurers are currently limited to dealing with individual insurance products in Shanghai and Guangzhou, Gerling potential customers should be the individual customers in these markets. The life insurance customers in these regions can be mainly divided into four segments: employees of state-owned enterprises, employees of foreign financed enterprises, self-employers and children⁸⁸. These different potential customers will be discussed in the following section.

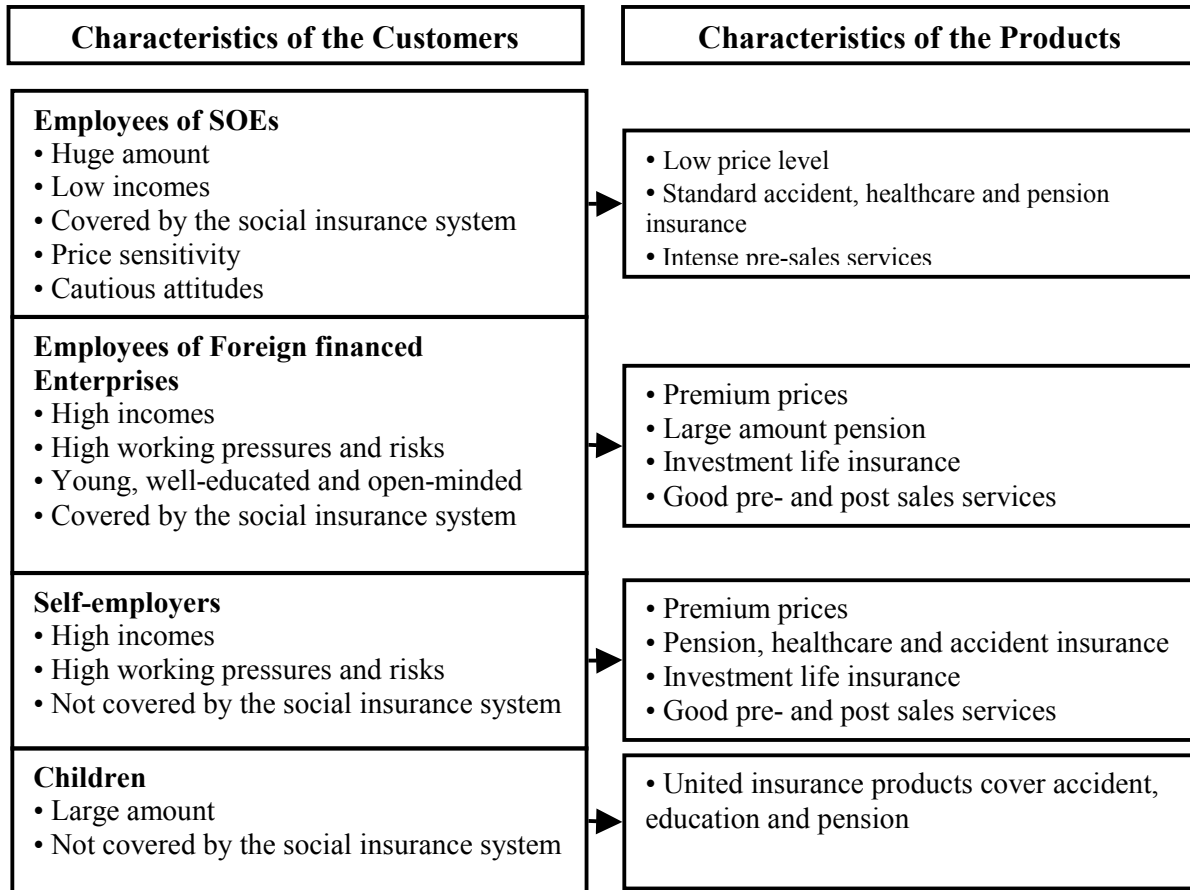
⁸⁵ http://www.aiush.com.cn/aig/e_aigcn.htm

⁸⁶ Shanghai Financial News, 19991109

⁸⁷ Grant 1998, P.87

⁸⁸ Telephone Interviews with Ms. Zhang Xin, China Pacific, Shanghai and Ms. Kang Weili, Ping An, Guangzhou, 20001212

FIGURE 5.5 THE BASIC SEGMENTATION: CUSTOMER AND PRODUCT CHARACTERISTICS



(Source: telephone interviews)

- *Employees of SOEs*

Under the old, centrally planned economy, jobs in SOEs were called "iron rice bowls", with which employees could enjoy lifetime employment and all associated welfare. Nevertheless, reforms of SOEs starting in 1992 broke the comfortable system and pushed SOEs into market competition. Many of the SOEs, which have been shrinking and were going bankrupt, were not able to afford the social security expenses for their employees⁸⁹. As a result employees of SOEs started to become anxious about the future and that life insurance was a worthwhile investment.

The total numbers of employees of SOEs in Shanghai and Guangzhou are 2.93 million and 1.96 million respectively⁹⁰. The average monthly wages of SOEs employees are around RMB 892 yuan (US\$108.7) in Shanghai and RMB 729

⁸⁹ Liang Juan, Shanghai Financial News, 20000502

⁹⁰ <http://www.stats-sh-gov.cn/sil2000/rkc/erksz.htm>

yuan in Guangzhou (US\$ 88.9)⁹¹. The SOEs employees' incomes are rather low compared with employees of other ownership. This means that they can only afford for basic insurance products with low premium rates, such as basic accident and healthcare insurance. Therefore, the main characters of these customers are price sensitivity and a cautious attitude towards product selection⁹².

- *Employees of Foreign Financed Enterprises*

Employees working for foreign financed enterprises are covered by the social welfare system. Comparatively, they have very good incomes (average monthly wages US\$ 427 in Shanghai and US\$ 381 in Guangzhou⁹³), but suffer higher working pressures and risk of unemployment. Generally speaking, they are young, well educated, open-minded and keen to use commercial insurance as an investment channel. Therefore, they are important customers of large-amount pension and various investment life insurance products⁹⁴.

- *Self-employers*

The number of self-employed has increased dramatically in recent years. In 1999, there were around 75,100 self-employed in Shanghai and 100,210 in Guangzhou⁹⁵. Self-employed are not included in the social security system. A large portion of them are people who became rich first in China. They have their own businesses or enterprises. The main insurance products these customers buy are pensions, healthcare and accident insurance. Therefore, they are target customers of many insurance companies⁹⁶.

⁹¹ <http://www.stats.gov.cn/jryw/bj1115.htm>

⁹² Telephone Interviews with Ms. Zhang Xin, China Pacific, Shanghai and Ms. Kang Weili, Ping An, Guangzhou, 20001212

⁹³ <http://www.stats.gov.cn/jryw/bj1115.htm>

⁹⁴ Telephone Interviews

⁹⁵ <http://www.stats-sh-gov.cn/sil2000/rkc/erksz.htm>

⁹⁶ Telephone Interviews with Mr. Cao Xinmin, New China Life, Beijing, 20001214

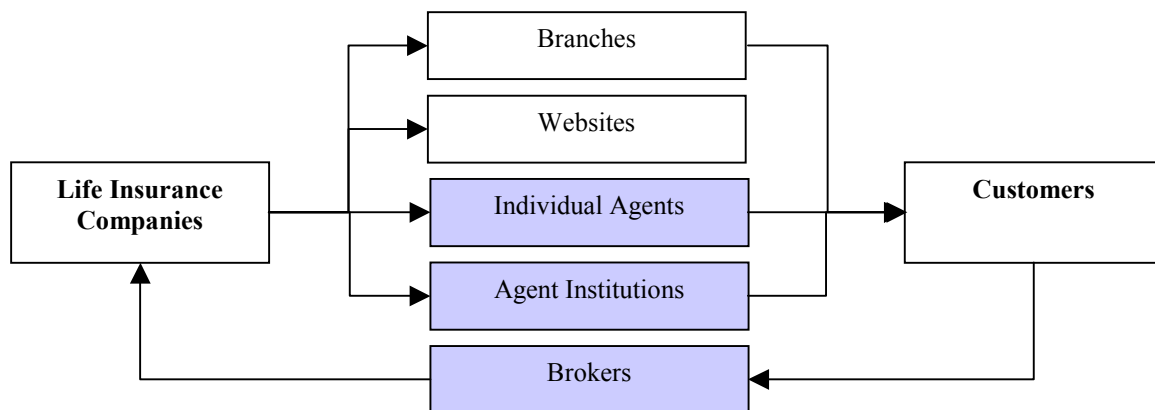
- *Children (15 years old and under)*

As a result of China's one-family-one-child policy, children, especially in large cities, usually have priorities in Chinese families. Since children are not covered by China's social security system, many life insurers have developed special products for this customer group. For example, China Pacific's children education insurance, which combines accident insurance and pension, is very successful in the Shanghai market⁹⁷.

5.5.3.3 Intermediaries

Intermediaries are important distribution channels of life insurance in China (see figure 5.6). Agents and brokers are two main types of intermediaries in the life insurance business. Agents are individuals or institutions that represent insurance companies selling insurance products in the market, while brokers represent customers looking for suitable insurance companies and products.

FIGURE 5.6 DISTRIBUTION CHANNELS OF LIFE INSURANCE COMPANIES



(Source: own)

Ever since AIG received licenses to sell to individuals in Shanghai and Guangzhou, life insurance has become a competitive, agent-driven business, executives agree. Approximately 80 percent of total life insurance premiums came from agents in 1999⁹⁸. Individual insurance agents are very active in the market, but many of them just seek high sales rather than providing satisfying

⁹⁷ Telephone Interview with Ms. Zhang Xin, China Pacific, Shanghai, 20001212

⁹⁸ China Daily, 19990910

products and service for customers. Thus agents on one hand contribute to the insurers' business performance, but on the other hand they are harming the insurance companies' reputation⁹⁹.

Officially, there were no insurance brokers existing in China before May 2000, but many representative offices of foreign insurance brokers' played brokers' roles in the market. The CIRC suspended foreign brokers illegal operations at the beginning of 2000 and at the same time approved the establishment of three domestic insurance brokers: Jiang Tai Insurance Brokerage Co., Ltd., in Beijing, Dong Da Insurance Brokerage Co., Ltd., in Shanghai and the Great Wall Insurance Brokerage Co., Ltd., in Guangzhou¹⁰⁰. From then on insurance brokers formally entered the Chinese insurance market.

5.5.4 Analysis of the Chinese Commercial Insurance Market

5.5.4.1 Opportunities

- *Demographical development*: China's 1.25 billion population provides a huge market for life insurers. It is estimated that the Chinese insurance market is currently worth US\$ 8 billion, with an expected annual growth rate of 20 percent. This means that a mere 1 percent of the market share in China would be greater than 5 percent of the U.S market¹⁰¹. As the wealth and knowledge of the Chinese are increasing, people are changing their lifestyles, but at the same time suffering more life and working pressures. Since people have more disposable income now, they have more opportunities to drive, to travel and to attend risky entertainment, such as Bungy-jump, just to mention an extravagant one. Such changes dramatically increased the occurrences of diseases and accidents. In addition, the deregulation in China's economy increases people's feelings of insecurity. Therefore, one can say that it is a golden time now for insurance companies promoting their business in the market.

⁹⁹ Telephone Interview with Ms. Zhang Xin, China Pacific, Shanghai, 20001212

¹⁰⁰ Xiao Tang, Investment New, 20000322

¹⁰¹ Julia Chun, All Eyes on China, 200008,

- *Support from the government:* The Chinese government adopts supportive policies to promote development of the insurance industry. The reason for that is the insurance contributed greatly to the economic development and social security in China. In 1998 alone, the industry paid 4.82 billion Yuan (US\$ 580.7 million) in business tax and settled claims valued at 55.59 billion Yuan (US\$ 6.7 billion), including a 3 billion Yuan (US\$ 361 million) payment to help with the reconstruction in the flood-stricken areas¹⁰². In addition, the government aims to make commercial insurance into a "pillar" of the social security system in China.
- *A huge untapped market:* One of the most obvious opportunities for foreign insurers is China's immense, largely untapped market. China has an extremely untapped insurance market compared with developed countries. Despite the fast development of the industry, China's premium income made up 1.67% of its GNP in 1999, and the per capita expenditure on premium was only 110.58 yuan, as against the world's average level of 7.3% and 430 US dollars respectively¹⁰³. It is estimated that the Chinese insurance market is currently worth US\$ 8 billion, with an expected annual growth rate of 20%¹⁰⁴. This means that foreign insurers could find many business opportunities in China, which might not exist anymore in other markets, particularly in mature economies such as the U.S.A and Germany.
- *Low cost:* An attractive aspect of the Chinese insurance market is its low operational cost. For instance, a life insurance agent's monthly basic salary is only between 500-1500 Yuan (US\$ 60.97-182.9) depending on different companies and geographic locations¹⁰⁵.
- *Risk spread:* For competitive reasons and because of the inherent risks of fluctuating regional economies, insurers have continuously to look for international partners to share their risks. Specific for China, there are possibilities for establishing symbiotic joint ventures. In addition to pursuing

¹⁰² Wang Ying, China Daily, 19990703

¹⁰³ Xu Xiao, China Insurance News, 20000427

¹⁰⁴ Ibid

¹⁰⁵ Telephone Interviews with Mr. Cao Xinmin, New China Life, Beijing, 20001214

initial public offerings on overseas stock markets, several Chinese insurers, such as Ping An Insurance Co., have expressed interest in seeking a partnership with a foreign insurer. This could provide foreign insurers with opportunities to access a new market as well as to spread their business risks.

5.5.4.2 Threats

- *Political and regulatory risks:* Although the Chinese government has established the CIRC as the insurance industry's governing body, there is no clear indication yet of how tightly the industry will be regulated. And it remains to be seen how the authorities will oversee the expansion in number of foreign investors and the relaxation of geographical boundaries. This could lead to extremely unpredictable chaos in the market, since pricing, liability estimates and other economic considerations are dependent on the central government's policies.
- *Exchange-rate risk:* Currently, as foreign currencies are not allowed in China, all business carried out in the country must be in the country's currency, which is the Ren Min Bi (RMB). This gives rise to an exchange-rate risk, a common problem facing insurers who conduct business abroad, because the RMB is only partially convertible and not completely tied to a flexible exchange system.
- *Natural catastrophes:* The majority of China's more than 1 billion residents reside close to the country's two major rivers, the Yantze (Chang Jiang) and the Huang He¹⁰⁶. These rivers historically have been the cause of multiple severe floods that affected millions of people. In addition, China is prone to earthquakes, windstorms, hail, typhoons (along the southern and eastern coast, i.e., Guangzhou) and volcanic eruptions. All these natural catastrophes might cause great economic loss for insurers.
- *Weak legislation:* Although China's legislation on insurance is improving, it remains spotty and hazardous. Including the Insurance Law published in

¹⁰⁶ The Chinese Government Report, 2000

1995, there are only a few laws and regulations ruling the Chinese insurance industry. Furthermore, the effective enforcement of central-level laws and policies at local level remains a particular concern for foreign insurers. This means China's development of a legal environment supportive to insurance development must continue in all areas of the country. Of course, these changes will take time.

- *Chaos in competition:* The heated competition among insurance companies has harmed the market environment and increased risks. For example, at the end of 1998, several insurance companies even adopted "suicide-prices" to attract customers, and caused vicious circles in the insurance market¹⁰⁷. In addition, a countless number of cases can be found that insurance agents lured customers to buy policies, but failed to carry out the liabilities they promised. Such competition would in the long run infringe on both insurers and customers interests.
- *Cultural barriers:* The Chinese culture has the inclination toward saving, which could lead to the public's view of insurance as atrophic. In addition, Chinese citizens historically have been known for tending to be superstitious. Purchasing insurance might by some of them be considered as cursing oneself and asking for misfortune. These values cause barriers for foreign insurers.

5.6 Prospects of the Chinese Insurance Market

The development of the Chinese insurance market depends on various factors, of which China's WTO membership would be the most important one in the near future¹⁰⁸. Since China's entry into WTO will not only introduce more foreign competitors into China, but also speed up the liberalizing process of the whole Chinese insurance market. In the following paragraphs, we would like to predict the developing trend of the market in connection with China's WTO membership.

¹⁰⁷ Telephone Interviews with Mr. Cao Xinmin, New China Life, Beijing, 20001214

¹⁰⁸ Liu Jingsheng, WTO entry and the Chinese insurance industry, China Insurance News, 20000509

China's last major obstacle to joining the WTO was cleared in May 2000, when the Chinese government reached a trade accord with the European Union. That agreement deals mainly with investments and tariffs, but it also produces concessions to the European Union's demand for greater accessibility for E.U. insurers, and has led so far to China agreeing to offer licenses to seven more European insurers¹⁰⁹.

A tentative schedule, which is subject to change, was generated as part of China's WTO deal:

Table 5.1 An opening-up schedule of China's life insurance sector

	<u>Time</u>	<u>Content</u>
Geographical Restrictions	20020101	Life insurers will be able to conduct business in 12 new cities
	20030101	Another 12 more cities will be open to foreign life insurers
	20050101	The entire county is scheduled to be opened
Participation	2000	Life insurers would be limited to 50-50 JVs with domestic insurers
	20010101	Foreign life insurers would be able to own 51% of JVs
Products License	20040101	Insurers will be able to sell health insurance products
	20050101	Group life and pension products would be approved for sale
	?	No limit on licenses

(Source: Steven Brostoff, *China May Fully Open To Life Insurers by 2005*, 20001104)

China's bid for membership in the WTO has opened its doors to increased trade, greater foreign investment and increased demand for commercial insurance, which will face both challenges and opportunities in the future. The entry of China into the WTO is expected to put heavy pressure on Chinese insurers. Foreign insurance companies are expected to take a large share of the market with their advanced technologies and management know-how.

After China joins WTO, the business scope, operational regions and organizational structures of overseas insurance companies should gradually change overtime. For example, foreign operators will be permitted to have a majority shareholding in joint venture insurance company. The geographic advantages of domestic insurers will diminish. Foreign insurance companies will be allowed to expand business from Shanghai and Guangzhou to the vast inland areas. Some outstanding personnel of domestic companies will also be lured to

¹⁰⁹ Wang Ying, China Daily, 20000602

foreign firms. In addition, insurance regulation will become more difficult and complex with so many entities.

Weighing the pros and cons of China's WTO entry, however, the positive influence still outweighs the negative. China's WTO entry may be jarring for local insurers in the short term, but will benefit the industry in the long run. The WTO agreement will help Chinese insurance companies expand to the world market. Foreign insurance companies can not only bring advanced technology and management know-how in, but also introduce much needed competition to the Chinese market. Competition can increase domestic companies' awareness of the gaps and force them to speed up service upgrading and product restructuring. The law of the survival of the fittest will improve the management quality and the industry as a whole, which benefits the public in the long run. Although some domestic insurance firms' staff will flow to foreign companies, overseas firms will also train a lot of professionals for the Chinese market. Therefore, the opening up of the market will further promote the Chinese insurance industry, as well as contribute to the country's economic development.

Chapter 6 The Internal Environment of the Gerling Group

In this chapter, we are going to present and analyse Gerling's internal environment, which is located at the centre of the whole environmental analysis. As life insurance is an integrated part of Gerling's business, we will take a short look at the Gerling Group as a whole but focus on its life insurance sector. This is because we found that important strategic decisions for entering the Chinese market are mostly made at the Group level.

6.1 Goals and Values

6.1.1 Goals

Firms possess multiple goals. Their choices of goals and the ways in which they pursue them are influenced and constrained by the values that the firm adheres to¹¹⁰. As Gerling is a shareholding company, its final goal is of course to maximise its shareholder value. In the past hundred years, the company worked constantly to pursue satisfied economic returns for its shareholders. Also, Gerling further specified its own business ideas, which distinguishes the company from its competitors:

- *To provide the best possible comprehensive risk management and insurance protection in dialogue with Gerling's clients,*
- *To shape an exceptional and responsible company, and*
- *To be in harmony with creation for the benefit of man and nature.¹¹¹*

As Gerling perceives itself first and foremost as an insurance problem solver for the business community, its important goal is to provide tailored insurance solutions and risk consulting service for complex insurance problems. This means that Gerling always seeks to be outstanding in the industry. Also, Gerling intends to shape itself as a company with great social responsibility. Gerling believes that its responsibility as an insurer lies not only in settling losses but wherever possible, in preventing their occurrence. This approach is evidenced at

¹¹⁰ Grant (1998), p. 32

¹¹¹ www.gerling.com

Gerling by sponsoring various social activities. In addition, Gerling is highlighting the commitment to environmental protection.

In order to reach the above goals, Gerling is very active in business promotion in both German and overseas markets. In its preliminary business connections with China, Gerling immediately realised that the country was a big potential market where the Company could find great business opportunities. Therefore, to get a business license from the Chinese government and to operate businesses in China became two important goals for Gerling in the Asian market.

6.1.2 Values

Gerling formulated its own values in the company's long history:

- *Commitment to performance and success*
- *Respect for man and nature*
- *Joy in beauty*¹¹²

Gerling understands that performance and profit are vital components that insure lasting business success and create new employment opportunities. Therefore, the company keeps strong relationships with its business partners. Gerling does not only deal with well-established companies, but also sets up close relationships with new businesses - its potential customers to seek for common development with them. As mentioned above, Gerling is an environment-oriented company. It developed and implemented in-house environmental guidelines that are consistently adhered to in the day-to-day running of the company. In addition, the company believes that an aesthetic workplace can have a positive effect on both, employee attitude and job satisfaction. Hence, it is to be said that Gerling also has become noted for creating harmonious working surroundings for its employees.

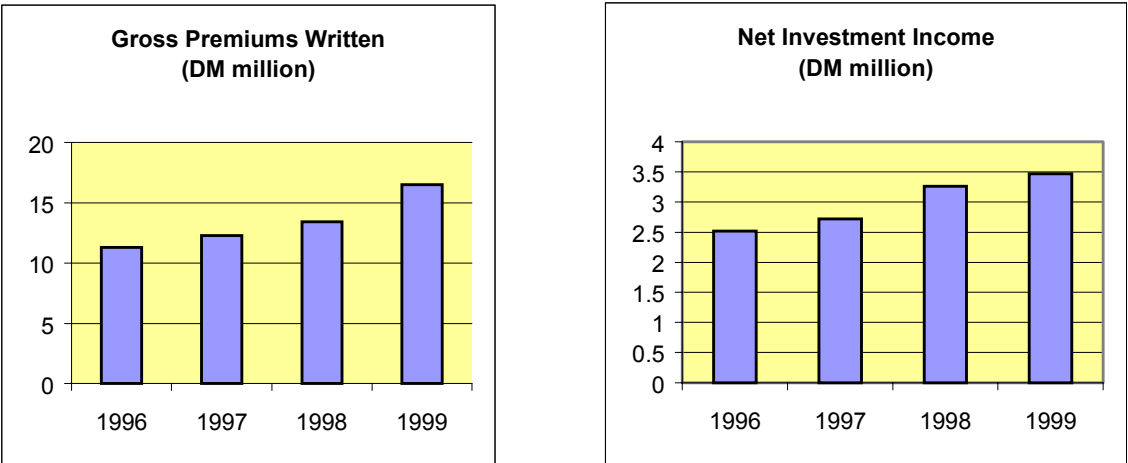
¹¹² www.gerling.com

6.2 Resources

6.2.1 Assessment of Tangible Resources

The Financial Resources: Gerling Group shows assets totalling to DM 72.95 billion (US\$ 32.81 billion). Its operating result depends mainly on the profits transferred by the subsidiary companies and the investment income. The company has achieved competitive business performance during the past several years. In the financial year of 1999, Gerling's premium payments volume grew sharply by around 23 per cent to DM 16.5 billion (US\$ 7.43 billion), while the investment portfolio enjoyed an increase of 7.5 per cent to DM 52.5 billion (US\$ 23.63 billion)¹¹³. Securities, real property, mortgages and loans are the main forms of Gerling's investment.

FIGURE 6.1 GERLING'S FINANCIAL PERFORMANCE



(Source: Gerling's annual report 1999)

The Physical Resources: Most of the branches of Gerling are located in either world famous financial centres such as New York and London, or in capital cities of respective countries. In Asia Gerling has subsidiaries in Hong Kong, Taiwan, Singapore, Malaysia, South Korea and Japan. In addition, Gerling also has access to some of the markets through large insurance brokers.

¹¹³ Gerling Annual Report (1999)

6.2.2 Assessment of Intangible Resources¹¹⁴

The Technological Resources: As a successful insurer, Gerling owns a high stock of proprietary technology such as copyright of the Company's publications, trade secrets as well as knowledge in the application of technology. In terms of resources for innovation, Gerling has its own technical support organisations: Gerling Information Management (GKI) and Gerling Academy for Risk Research. GKI, with a highly skilled staff of 360 persons, supports Gerling's central application system, data warehouse, Intranet, and Internet access. The Gerling Academy for Risk Research, on the other hand, studies and discloses information on escalating risk situations in the industrialised world.

Reputation: The company's brand awareness highly depends on its geographic location. Gerling is well recognised in the markets where it has been present for a long time, such as in Western Europe and in North America. According to the company's research, its customers in these markets perceive Gerling as a reliable and competitive insurer that is able to provide satisfactory products and service. Also, Gerling gains good reputation in the public eye due to its social responsibility. However, in some new markets, such as China, the brand name of Gerling can so far only be identified within limited areas.

Culture: Growing together for almost one hundred years, the Gerling family has set deep marks in the company's history. Even though Gerling has already been a model company, it remains today a family enterprise. Long-standing tradition and a proven track record can be found to characterise Gerling's corporate culture. "Insuring and securing" are core principles guiding Gerling's corporate philosophy.

The Human Resources: Gerling is recognised for its staff-expertise in the insurance industry. The company has skilled and experienced staffs that are able to cater to customers' requirements in different markets. One reason that contributes to this fact is that Gerling through new media such as Intranet, Internet and business TV is consistently providing for its employees with training programmes. Also, Gerling is well aware of the importance of having an

¹¹⁴ This section was based on the information of Gerling's annual report, internal report and homepage.

experienced management throughout the group. Therefore, the company sharpens the international profile of its staff through international personnel recruitment, an international programme for trainees and assignments abroad for senior and junior managerial personnel. Another important human resource policy in Gerling is the adoption of flexible work models. In some regions, Gerling employees can arrange working time according to their wishes. As a result, more Tele-workplaces are being set up within the Company.

6.2.3 Summary of Gerling's Resources analysis

Generally, Gerling seems to have rich tangible and intangible resources to develop its business in China. However, as China differs in many ways from the markets where Gerling operates now, it is still necessary to discuss where the company currently is performing well and what kind of improvements can be made in order to match its internal environment with the specific market situation in China.

- Foreign investors may find that a strong financial background is a crucial factor for achieving success in China. Gerling has quite a solid business and financial performance, with an upward tendency. As the company is very active in consolidating its business, it should be able to maintain its competitive positions and profit margins. The company's investment portfolio is of good quality and it has strong liquidity. The strength in the liquidity profile is due to the favorable cash flow from the company's insurance business. Therefore, Gerling's financial status, which already has been demonstrated as being rather stable would provide a strong basis for the company promoting business in China.
- We can also find the big strengths from Gerling's professional knowledge and international business experience as well as their skilled employees. As a multinational company with long history, it would not be a problem for the company to deal with routine insurance products and service in a young and receptive insurance market. Therefore, we believe that the granting of the business-operating license can be identified as being the key issue for the company to access and penetrate the Chinese market.

- With its rich technological resources, Gerling would be very competitive in applying high-tech marketing instruments such as e-commerce in the Chinese insurance market. That means Gerling has outstanding strength in IT management.
- The real challenge for Gerling is how to deal with the specific business environment in China. Although Gerling's experience in the Asian market could provide some references, it would not help Gerling to solve all the problems in the Chinese market. As a newcomer, the big weakness is that Gerling lacks insight knowledge and deep understanding of the business environment in China as well as Chinese insurance market. Meanwhile, Gerling have not a complete marketing network in China, therefore, its business will be limited in some areas, such as Shanghai and Guangzhou.
- It is difficult to determine whether or not Gerling's corporate culture is good in Chinese market, but the company's business oriented corporate culture might in some instances collide and cause conflicts with the Chinese relationship oriented culture in special and Chinese culture in general.

6.3 Organizational Capabilities

6.3.1 Assessment of Gerling's Organizational Capabilities

Corporate head office: The corporate head office of the Gerling Group is Gerling-Konzern Versicherungs-Beteiligungs-Aktiengesellschaft (GKB) in Cologne, Germany. GKB is the holding company and administrative center of the Gerling Group, which is in charge of central controlling, business intelligence gathering and strategic planning, internal auditing, handling of tax- and legal affairs matters of all the Group companies, as well as coordinating business promotion within the Group.

Management information: Information on decision-making is provided mainly by an internal information processing organization - the Gerling Information

Management (GKI), which offers the Group basic ideas, knowledge and the capability of its staff. Also, Gerling explores and seeks new opportunities for growth on the Internet. An Intranet system links the management team within the whole Group, thus enabling the efficient decision-making process.

Research and development: Gerling's capability in basic research can be considered as rather high, which is evidenced by the large amount of information collected by the Beijing Representative Office on the Chinese market. Moreover, the company is also capable of developing new products according to the specific situation in the new markets.

Product design: Gerling is known for tailoring its products and processes according to customer requirements and target groups.

Marketing: The brand management and promotion strategies are designed at Gerling's senior management level and carried out by the branches in individual markets. Gerling puts great effort into sharpening its brand in the international market. The Company links its brand name as an insurer with professional products and service offers, as well as to high social responsibility.

Sales and distribution: Backed up by its centralized services, such as IT and personnel, Gerling developed a multi-distribution concept, which consists of the establishment of a private risk management scheme for its customers and a groundbreaking new Internet insurance service. Gerling also enhances its sales organization by systematic development of its marketing channels through respected brokers. Currently, Gerling does not have a distribution network in China.

6.3.2 Summary of Gerling's Organizational Capabilities analysis

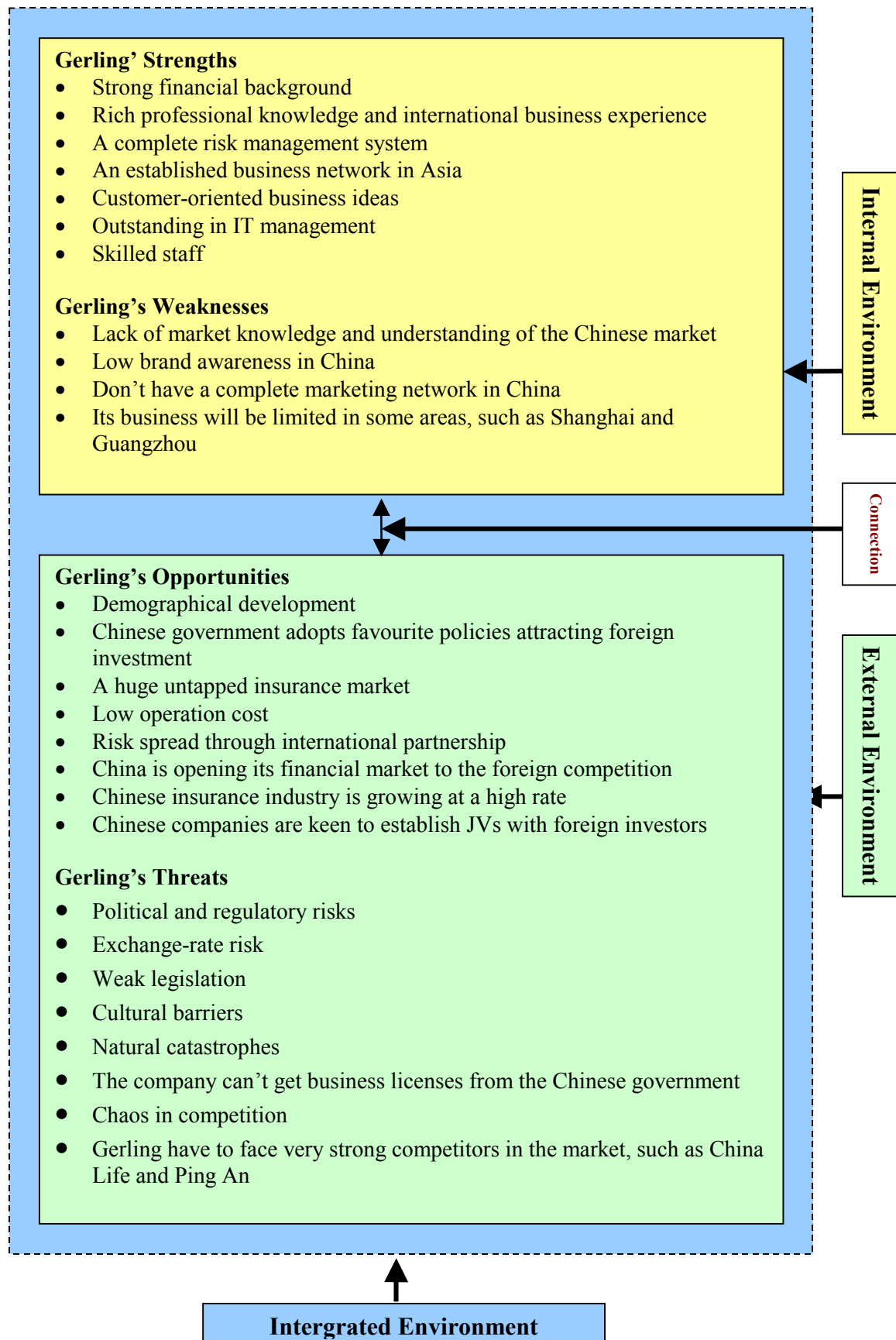
- Gerling's organization is characterized by the central control of its head office. Such a centralized management system enables the company to plan and promote business from the whole group's point of view, so that it can achieve the final goals at the group level. Also, Gerling could reduce its operation cost through sharing the common resources and capabilities among

different branches. However, such a highly centralized management system could cause unnecessary inefficiency and inflexibility. As Gerling is a large group with many business divisions and hierarchy levels, it would take a relatively long time to transfer information forth and back within the company. There would be possible risks caused by delayed important decisions or by missing good business opportunities occurring in the Chinese market. Also, the management working in China should have a better understanding of the market than the senior management in the head office, this in turn requiring the right people capable to adopt operational and flexible strategies towards the market.

According to the resource analysis in previous sections, the strengths and weakness of Gerling' s internal environment have been discussed in great detail. However, there are still some weaknesses in Gerling' s organizational capabilities, which are worth mentioning.

- The decision making power on marketing is under Gerling's senior management's control. Therefore, It is crucially important for Gerling to communicate the marketing missions between the senior management and its China branches. Since China is a market with different political, economic and social background, Gerling will find that it has adapted its marketing strategies, for instance branding and advertising.
- Gerling might face the question how to transform its advantages in the Chinese market. For example, in terms of sales and distribution, Gerling has to start from the beginning in China. In some markets like Germany, Gerling uses advanced techniques such as e-commerce in sales and distribution channels, but in China the IT-infrastructure is not so well established that the Company can widely use or fall back on such high techniques as in distributing insurance products and services.

6.4 Gerling's SWOT in China



An integrated business environment is a context where the external and internal environment is incorporated. In our case, the external environment in Gerling's SWOT analysis is related to the opportunities and threats for its entering into Chinese insurance market, which has been discussed in Chapter five. The internal environment of Gerling refers to the strengths and weaknesses of its internal resources and capabilities. Ignorance of either environment may cause the failure of Gerling's entering into Chinese insurance market. Therefore, the awareness of the intertwined connection between internal and external environment is a determinant factor. Thus, the successful entering strategy of Gerling should be based on a good understanding of both external and internal environments, and the relationship between them – the integrated business environment.

Chapter 7 Market Entry Strategies for Gerling

Based on Hans Jansson's MNC-government network strategy theory, strategies for Gerling's entry into the Chinese insurance market will be discussed in this chapter. Since Gerling's business in China needs to be approved by the Chinese government, we will concentrate on strategies of how to obtain a business license from the government, followed by entry mode and location recommendations.

7.1 Network Strategy towards the Government

For Gerling, network strategies towards the Chinese government are a key issue in the process of entering China's insurance market. This is because China's insurance industry is a highly regulated sector and many licenses and permissions are involved in the market entry process. Therefore, Gerling initially should carry out a study of the Chinese government and its related authorities. According to its function, China's government network can be divided into two parts - *the policy-making bodies (the political part) and the executive bodies (the administrative part)*¹¹⁵. In Gerling's case, the State Council of the P.R. China is the policy-making body, holding the power to approve foreign insurers to operate business in the country.

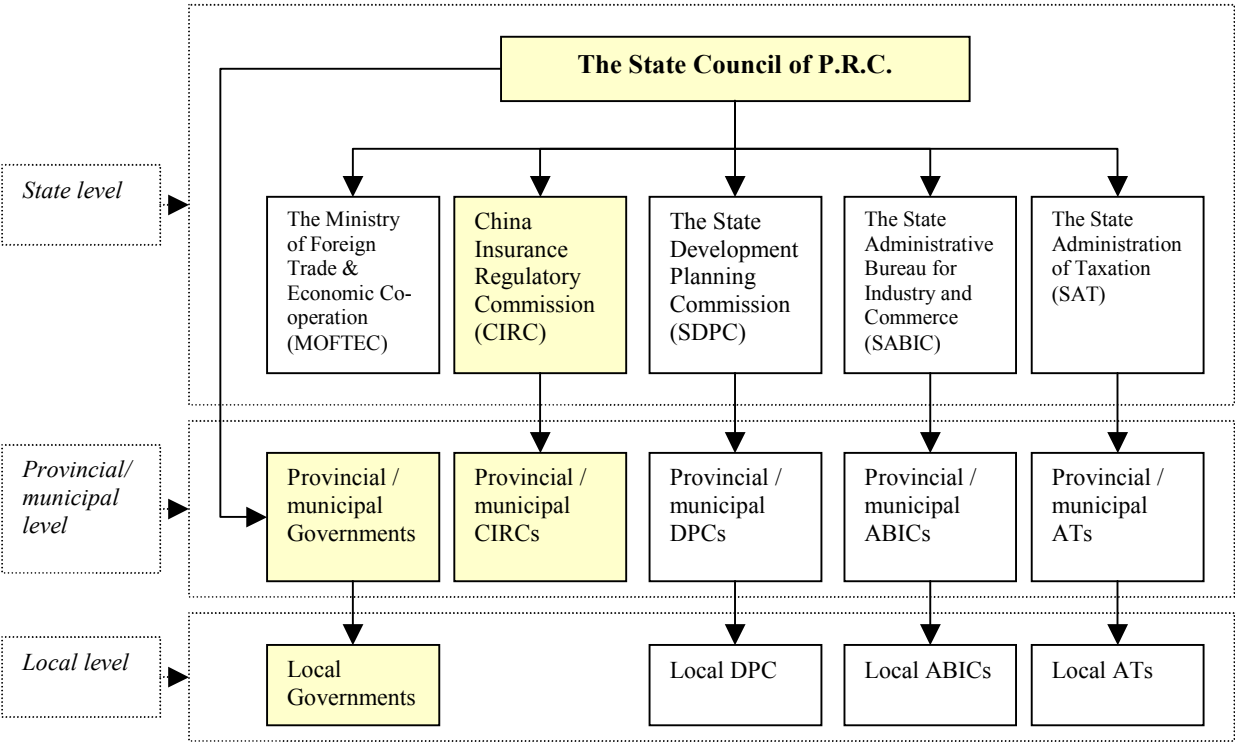
The remaining authorities are administrative parties, which are in charge of implementing the State Council's decisions and supervising foreign insurers' business operations in China. There are mainly three hierarchy levels in China's governmental system: the national, provincial/municipal and the local levels. In this thesis, we will focus on the strategies toward the state authorities, because it is in their power to approve Gerling in the first instance to enter the market. In addition, we believe that same strategies as to the state authorities can also be applied on provincial and local levels.

¹¹⁵ Hans Jansson, Chp1,p13

7.1.1 Mapping of the MNC-Government Network

A network map of main government authorities, with which Gerling has to establish relationships, is shown in figure 7.1. For a newcomer like Gerling, it is a rather large bureaucratic network with countless authorities and complicated linkages. For the company, the most important organizations in the network are the State Council, the CIRC and its branches, as well as the governments of municipalities or cities where Gerling intends to operate business in the future. As stated before, the State Council is the principle decision-maker on license granting, while the CIRC is the industry supervisor. Other national authorities, that Gerling has to deal with, are the State Development Planning Commission (SDPC), the Ministry of Foreign Trade & Economic Co-operation (MOFTEC), the State Administrative Bureau for Industry and Commerce (SABIC), and the State Administration of Tax (SAT)¹¹⁶.

FIGURE 7.1 REGULATION MATRIX IN CHINA



(Source: authors)

¹¹⁶ <http://www.china-insurance.com>

The SDPC is the department responsible for working out strategies and plans for developing China's economy¹¹⁷. The reason for the SDPC's importance for Gerling is, that this authority participates in the formulation of the country's financial and monetary policies. Hence it could influence the State Council's decision on Gerling's entry into the Chinese market. Another important authority, MOFTEC, is a department in charge of foreign trade and economic co-operation. Since MOFTEC is authorized to formulate and implement specific policies in foreign trade and investment¹¹⁸, Gerling would need to approach this authority in order to get the permission for investing in China, or co-operating with Chinese enterprises.

As soon as the CIRC grants permission for Gerling to operate business in China, Gerling has to register with the SABIC, which will thereafter issue a formal business license. With this document in hand, Gerling has to register with the SAT in order to be included in China's taxation system¹¹⁹.

7.1.2 Main Objectives

The two main objectives Gerling pursues in the MNC-Government Network are to gain legitimacy and efficiency. While legitimacy constitutes the right organization gains to exist, efficiency refers to its capability to be competitive and to survive in the market. These two basic objectives are interrelated with each other¹²⁰. For instance, the sooner Gerling gets permission to enter the Chinese market, the easier it will be to establish competitive advantages against its competitors who also intend to do business in the market.

Technical legitimacy, which refers to the output, or the economic performance of the firm, is one of the basic standards of the State Council issuing business licenses to foreign insurers¹²¹. As a successful multinational insurance company Gerling has advantages in gaining technical legitimacy in China. Gerling should carefully present itself to the national authorities and let them understand that

¹¹⁷ <http://www.lib.umich.edu/libhome/Area.Programs/Asia/china/gwy.htm#25>

¹¹⁸ <http://www.moftec.gov.com.cn>

¹¹⁹ <http://www.lib.umich.edu/libhome/Area.Programs/Asia/china/gwy.htm#25>

¹²⁰ Hans Jansson, Chp7, P2

¹²¹ Telephone Interview with, Mr. David Liu, Chairman, AON China, and Ms. Wu Xiaomei, Chief Representative of CGU Beijing Office

China will benefit from permitting Gerling to do business in the country. Well-prepared company brochures, annual reports and other company information in Chinese would be very important items when communicating with these authorities. In addition, Gerling could gain technical legitimacy by holding seminars to share its expertise on insurance product design, investment and marketing with its Chinese counterparts, and so on. By doing so, Gerling would help Chinese insurance firms to improve their management know-how and technologies. Of course, Gerling has to put a limit on how much it could let its potential competitors know.

MNCs gain *regulative and procedural legitimacy* by learning and respecting the rules of the host country¹²². This is of utmost importance in the Chinese insurance industry, which is highly regulated by the national government. Gerling should learn all laws, rules, and regulations concerning insurance and foreign investment in China, which mainly include the Insurance Law, the Temporary Regulation on Foreign Insurance Companies operating in China, the Foreign Investment Law, the Company Law and the Taxation Law¹²³ as well as all regulatory documents issued by the CIRC. In order to gain regulative legitimacy, Gerling should not infringe any of these rules.

Social legitimacy is the way that a company's behavior is perceived by the society. It can be achieved by demonstrating social responsibility¹²⁴. Poverty and education are among China's top ten social problems¹²⁵. Gerling could for instance establish an education fund to sponsor Chinese children, who live in poverty areas, to go to school. Gerling could also focus on China's high-school education by sponsoring programs, lectures, courses and scholarships there, or donating educational equipment such as computers to schools. These activities will attract media's attention and increase Gerling's reputation as a company with high social responsibility.

¹²² Hans Jansson, Chp7,

¹²³ Bruce Kelly, Financial Services Companies Beginning to Enter Chinese Market, 199908

¹²⁴ Hans Jansson, Chp7

7.1.3 Strategic Capability Profiles

7.1.3.1 *Authority Specialist*

The Chinese government is a complex network. A licensing or permission-granting process might need approvals of several officials in different authorities. In each government authority, the decision power is concentrated on one, or a group of leading persons. Gerling would have to find the key persons at the right authorities and establish a relationship with them. Therefore, it is necessary for the company to employ or to consult with authority specialists dealing with such matters.

It would be best if Gerling could establish direct relationships with the key decision-making officials, such as the Chairman of the CIRC, (at this time Mr. Ma Yongwe) or the Minister of the MOFTEC, (Mr. Shi Guangsheng). Many foreign insurance companies are working very hard to establish such relationships. For instance, the American Life Insurance Company John & Hancock invited the former American president George Bush as its special representative to visit China. By adopting such a step the company established high connections with key officials of both the MOFTEC and the CIRC¹²⁶. Gerling in turn, and could also invite influential German politicians to help lobby high-ranking Chinese officials, but such a relationship is difficult to establish and usually very costly.

Another efficient way is to employ retired high officials of the State Council as Gerling's special consultants. Although these retired officials don't have decision-power anymore, they usually have well-established relationship networks in the present Chinese government system and some of them might still be able to influence the present leaders decisions. Through these special consultants, Gerling might also be able to obtain first hand information or even influence high officials' decision-making. However, Gerling should be aware of that it could also be very costly to employ such special consultants.

¹²⁵ <http://www.163.com>

¹²⁶ <http://www.ching-insurance.com>

7.1.3.2 Procedure Specialist

As we mentioned before, the licensing process is very complex and time-consuming. Especially, the Chinese insurance market is undergoing a liberalization process. The procedures for applying for certain licenses and permissions are changing frequently. Therefore, Gerling needs to have a procedure specialist, who is responsible for monitoring the insurance regulatory authorities. By doing so, Gerling could keep itself well informed and adapt quickly to the changes in application procedures.

7.1.3.3 Intermediary Specialist

Like in many other countries, it is illegal for a company to bribe government officials. Recently, China's continuous anti-corruption campaigns even make the problem more sensitive¹²⁷. Gerling would need intermediary specialists to deal with special cases or sensitive operations. In addition, as we mentioned above, some relationships are very costly. It might be cheaper for Gerling to use intermediary specialists to deal with some relationships. Gerling can find many "consulting" companies in China as its intermediary specialists. The main business of such consulting companies is to help foreign investors to lobby Chinese government agencies. These companies usually have broad contacts in the government network and are more experienced to deal with the bureaucratic system.

7.1.4 Network Strategy

7.1.4.1 Linkage Strategy

Linkage strategy is about establishing long-term and mutually beneficial relationships with the government¹²⁸. It is likely to be the most effective and practical strategy to deal with the Chinese authorities.

¹²⁷ James Kynge, Financial Times, 20001012

- *Exchange of resource*

Resource exchanges is a main way to set up linkages with the Chinese authorities. It is believed that one factor influencing the CIRC's decisions is how much a foreign insurer contributes to the evolution of China's insurance industry, and that is the magnitude and multitude of donations foreign insurers make to China¹²⁹. This has become broadly known as an opportunity for government officials to skim off funds from wealthy investors. Top government officials have long vowed to clean up this corrupt system, but until actual changes are made, Gerling might have to decide if they want to play this game.

There are many ways for Gerling to make donations to China. In terms of insurance education for instance, Gerling could run educational seminars for industry and Chinese company officials to enrich their knowledge in insurance. Or it could establish insurance lecture series and courses at Chinese universities for students and officials to improve China's comparatively undeveloped insurance education. Also, the company could invite high officials of the CIRC to visit its headquarters in Germany. Such kinds of visits would enable the invited officials get more knowledge about how a multinational insurance company operates, and certainly deepen their impression about Gerling. Another way for Gerling to exchange resources with the Chinese officials is, that the company could translate German insurance laws and regulations into Chinese. It would give the CIRC officials a good reference to improve the legislation of the Chinese insurance market.

Investments could also be made in developing China's infrastructure. For instance, China still has a long way to go to develop its e-commerce infrastructures. China's e-commerce market is not expected to reach maturity for another three or four years¹³⁰. Gerling could sponsor China's only official insurance newspaper - 'China Insurance News' - to establish websites on the Internet. Such a donation would not only improve Gerling's image among the other license applicants, but also educate general public. That would generate

¹²⁸ Jansson, Chp5

¹²⁹ Telephone Interview with, Mr. David Liu, Chairman, AON China, and Ms. Wu Xiaomei, Chief Representative of CGU Beijing Office.

potential customers for Gerling in the future. Although even such donations are costly, the size of the Chinese insurance market might be worth paying the price.

- *Social Exchanges*

Guanxi is a means of survival in the Chinese market. It is a network of relationships a person - or a company - cultivates through exchange of gifts and favors with the aim to obtain mutual benefits. It is based on friendship and affection, and on a reciprocal obligation to respond to requests for assistance¹³¹. As a newcomer, Gerling needs to develop Guanxi with many authorities and people. It is therefore important for Gerling to identify the most useful relationships, so that the company could focus its time, money and resources in developing and enhancing such relationships. For Gerling, the high-ranking officials of the State Council and the CIRC should be the most important targets for the company to develop Guanxi with, because it would be a big advantage for Gerling if it had good relationships with them.

Gerling can set up Guanxi in China in many ways. The most popular way to enhance mutual interaction is by visiting each other, giving gifts, inviting individual officials for dinners, and so on. Gerling should consider each contact with high officials as an opportunity to establish professional or personal relations with them. Contacts on such levels would make it much easier for Gerling to later on have access to those officials again.

The second way is to build up a relationship through personal introductions - intermediaries. In China it is a huge advantage for an outsider to be introduced as a friend or a relation to a Guanxi network by a member of the network. This gives the outsider a certain "insider" status, thus making it easier for the outsider to gain mutual trust from the "insiders" within the Guanxi network. Gerling should make use of these intermediaries to establish and expand its Guanxi network. In some cases, Gerling might have to pay commissions to intermediaries who use their personal relationships to help the company link

¹³⁰ James Glase, financial Times, 20001025

¹³¹ John Hooker, Doing Business in China, 1997

with important Guanxi networks, but such expenses are worthwhile for the benefits Gerling could get from the Guanxi network.

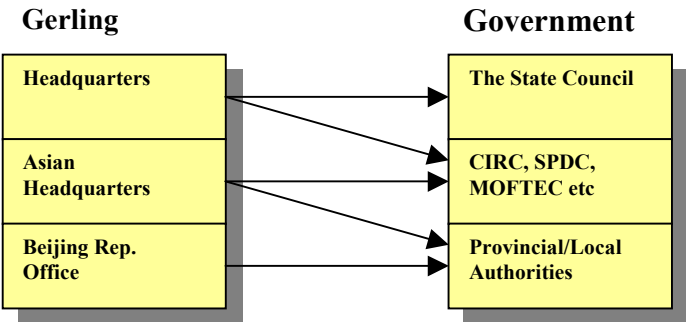
The third way to establish Guanxi is to exchange favors. Gerling should not be surprised if some government officials asked for extraordinary favors, such as to sponsor high officials' overseas training, for example. In the Guanxi context, it is a message that if you grant the favor, then it will be returned with another, when you need one. It would be an opportunity for Gerling to strengthen its Guanxi network. Gerling should provide the requested favor and treat the exchange confidentially.

Once Gerling has established its Guanxi network the company has to spend time, money and effort to maintain it. Although gifts are important, they are not sufficient as a basis for long-term relationships. Gerling has to develop a personal relationship with the other party that is deeper than mutual tangible benefits. To enhance Guanxi, Gerling should understand the needs of its relationship partners, their background, topics they like to talk about or even their food preferences.

Gerling is well advised to always keep in mind that there is a very fine line between Guanxi and corruption in China. It is mandatory to maintain a reputation of incorruptibility and to rely on Guanxi.

- *Linking Rules*

FIGURE 7.2 LINKAGES AND LEVELS



(Source: own)

It is essential for Gerling to establish strong links with the regulating authorities at all levels. Since the social values in China are based on hierarchical orders, Gerling has to be the initiating part for establishing linkages with the government authorities. In that context Gerling also has to be aware

of the distinct separation of communication levels. As shown in figure 7.3, it would be up to the top management level of Gerling to take up contacts with the top officials of the State Council, respectively the CIRC, the SPDC and the other national authorities.

7.1.4.2 *Competitive Strategies*

As already accounted before in this thesis there are presently more than one hundred overseas insurers competing to enter the Chinese insurance market. In order to gain a competitive edge, Gerling should make use of its following advantages:

- *Risk Management*

Gerling has an effective intelligence and risk monitoring system to identify menacing developments at an early stage. At Gerling, risks are systematically identified, assessed and communicated to the management Group-wide by a specially created Central Risk Controlling Unit¹³². On the contrary, the Chinese insurance firms are very weak in risk management¹³³. Gerling could share its experience in how to monitor market risks such as new tax regulations, changes in interest rates, shifts in competition to the CIRC and other Chinese insurers helping them and to take these risks into consideration when planning business and making up strategies. This will help Chinese insurance companies to improve their risk management capabilities. Even more important is that this shows Gerling's competitive advantage in risk control and would improve its candidacy standing towards its license application.

- *Environmental Protection*

As introduced in the chapter four, the company attaches special importance to environmental protection. In 1999, Gerling /Cologne became the world's first insurer to be certified under the European Eco-Management for the company's

¹³² Gerling Annual Report, 1999, p.41

¹³³ Wu Ming, Financial News, 20000518

outstanding contribution to environmental protection¹³⁴. Gerling sponsors various environmental projects around the world. Through China's State Environmental Protection Bureau, Gerling could also take up sponsoring environmental projects in China, for example river irrigation. Such sponsorships would increase Gerling's reputation in China, and would certainly be a good way to gain social legitimacy.

- *Pension Management*

Another advantage Gerling can make use of is its professional knowledge and rich experience in pension management¹³⁵. As pointed out in chapter five, commercial pension insurance is an important "pillar" of China's social security system. Gerling could present its superiority in pension management to the CIRC officials, convincing them that this would be beneficial for China. By proving that Gerling would have the ability to provide tailored pension products to Chinese customers, it would assist the Chinese government to strengthen the country's social security system.

7.1.4.3 First-mover Advantage

A first-mover advantage is a crucial part of the strategy to lock out competitors through efficient mix and sequences of linkages over time¹³⁶. In our case, the American insurer AIG has achieved first-mover advantage by its earlier entry into the Chinese market, and its good connections with the Chinese government authorities, as well as a well-established distribution network in Shanghai and Guangzhou.

However, China is a developing market with large territories. It provides many opportunities for foreign insurers. As soon as Gerling has obtained a business license it still has chances to gain first-mover advantages such as choosing a suitable business location or a new product design.

¹³⁴ Gerling Annual Report, 1999, P.44

¹³⁵ <http://www.gerling.com>

¹³⁶ Jansson, Chp 7

7.2 Entry Mode

7.2.1 Joint Ventures

According to the current policy of the CIRC, Gerling can only enter the Chinese market in form of a joint venture with an already existing Chinese company¹³⁷. Compared with solely owned companies, JVs have both pros and cons for Gerling. Weighing the pros and cons of establishing a joint venture in China, the advantages still outweigh the disadvantages. Gerling might have to face some challenges, but a good Chinese partner would help Gerling to reach the objectives, which would be difficult for the company to pursue alone, for

FIGURE 7.3 PROS AND CONS OF A JOINT VENTURE

Pros	Cons
<ul style="list-style-type: none">• Local capital could reduce the investment risk.• Local partner would provide valuable insights and experience of the market.• Local partners would provide important contacts and relationships with the government and market actors.• An influential local partner could sometimes reduce the risk of possible government expropriation of the joint venture.	<ul style="list-style-type: none">• Reduced level of profits available.• Decreased level of management control, especially if Gerling has a minority holding in the JV.• Various differences between the partners, such as goals, capabilities, culture etc. could cause difficulties in business operation.

(Source: own)

example, to establish an efficient Guanxi network. Therefore, joint venture is a feasible form for Gerling to enter the Chinese market.

7.2.2 Partner Selection

In order to achieve success in the market it is essential for Gerling to find competent and compatible partners in China. Gerling might find it difficult to select the partners in China because of the lack of capable organizations able to

¹³⁷ Steven Brostoff, China May Fully Open to Life Insurers by 2005, 20001104

provide unbiased assistance and realistic background information regarding potential candidates. Gerling could ask for assistance from the German Embassy and Chambers of Commerce in China to provide information on potential candidates. Also, the selection could be based on its previously established relationships with domestic firms. In this way Gerling could obtain much information, which is difficult to get from public media.

7.2.2.1 Choosing a Chinese insurance company as partner

A first choice for Gerling would be setting up a joint venture with a Chinese insurance company. Having a Chinese insurer as partner, Gerling could draw from its partners' reputation and established market position in China. Also, the local partner would be able to make good for the lack of Gerling's knowledge and experience in China. The disadvantage of such kinds of joint venture is the risk of losing management control and business know-how.

7.2.2.2 Choosing a non-insurance company as partner

Contrary to that, Gerling would have to start its business from the beginning if it chooses a non-insurance company as joint venture partner. This means that the company would have to deal with a series of matters such as establishing a distribution network, employing staff, advertising, developing products etc. It would be a lot of work for Gerling. The positive side to having a non-insurance company as partner would be, that Gerling would be in total control of the management of the joint venture.

7.2.2.3 Important partner characteristics

No matter what kind of company Gerling might choose as partner, it has to put some basic requirements into the selection process. Important factors such as the financial resources of the candidate would be one of them. Insurance is a financial service industry; hence the partners' financial status would directly influence the joint venture's business solvency. In addition, to promote business in such a large market like China, huge investments and capital is needed.

Therefore, it would be a strain for Gerling if it co-operates with a partner in poor financial condition.

Gerling should also choose a candidate who has similar business objectives as a partner. Disputes on business objectives between partners are a main reason for the failure of joint ventures¹³⁸. When Gerling chooses a partner, it should communicate with the candidate and check if they have the same business objectives in common. If not, Gerling should look for other candidates.

Last but not least, the partner should be trustworthy. As Gerling is a foreign company, it would always to some extent have to rely on its Chinese partner. Therefore Gerling should find a reliable partner. Otherwise, Gerling might run the risk of being treated as a "milk cow".

7.3 Recommend Locations

The choice of location is very important for Gerling's business promotion in China. Since the economic development is unbalanced between the southern coastal regions and the west, the investment environment also varies from one place to another. When choosing a business location Gerling has to consider the following criteria:

- *Population:* As insurance is a service industry, the amount and concentration of population are important factors in making a location decision. This is definitely not a problem in China. There are a total of 666 cities in China, of which 11 have a population exceeding 2 million, 23 cities with a population between 1 to 2 million and 44 cities with a population of a mere 500 thousand¹³⁹.
- *Economic development:* Insurance is a service promising to provide people with safety and security. People mainly need it when they have a surplus economy, that is, when their basic needs for ample life, such as food, housing

¹³⁸ Russel R. Miller, *Selling to Emerging Market*, 1998, p57

¹³⁹ <http://www.chinatoday.com/city/a.htm>

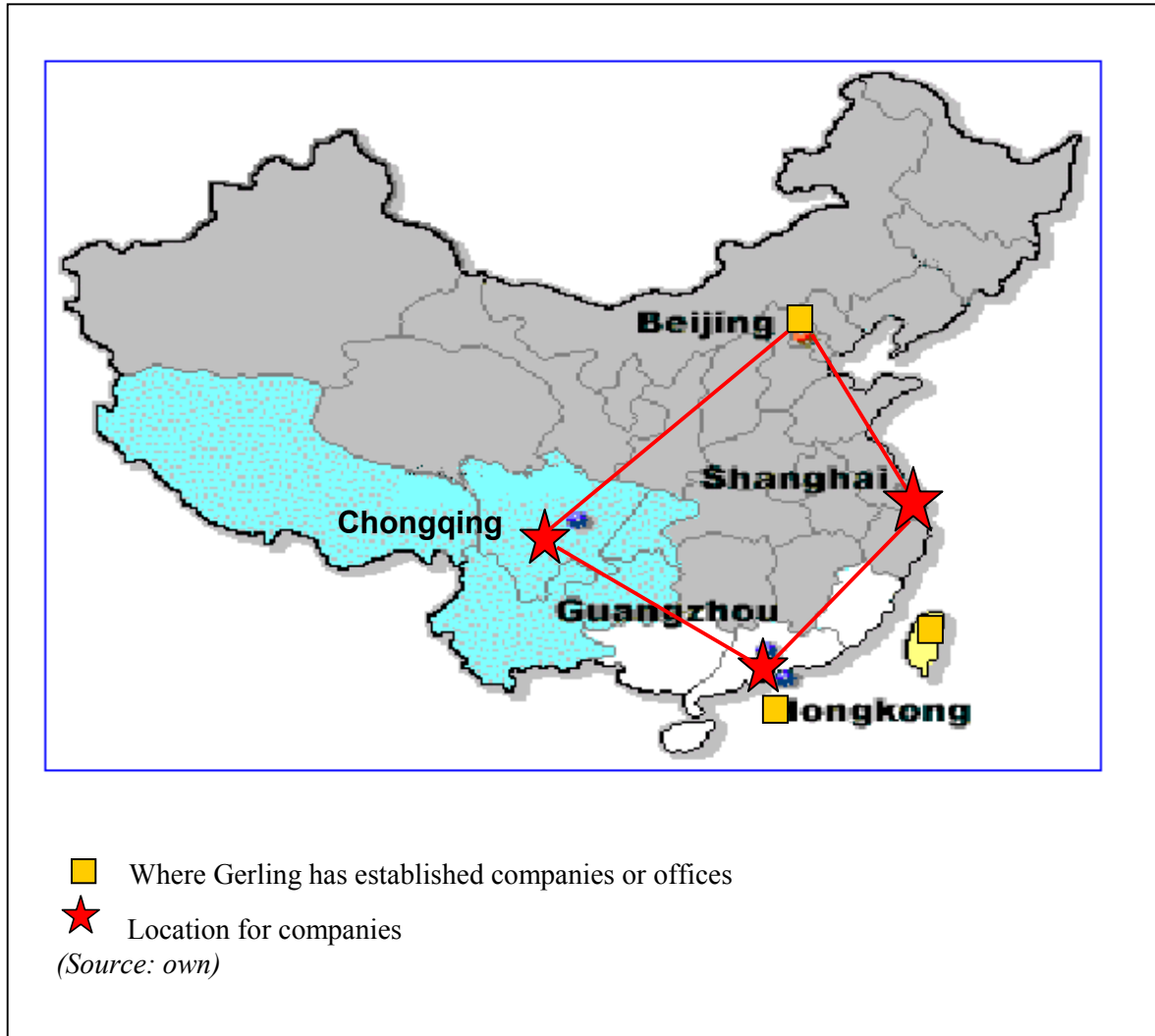
etc. is satisfied¹⁴⁰. Therefore, Gerling should check if the potential customers in the target locations are able to afford for insurance products. In addition, economic development is impacting on the infrastructure. Some basic infrastructures such as the telecommunication and transportation system, which are of crucial importance for Gerling, would be needed to establish linkages with its customers and business partners.

- *Provincial/city investment policies*: In China, policies on foreign investment vary in different provinces and cities. The policies could greatly influence Gerling's business, for example in terms of taxation, currency conversion and reinvestment. Seeking the places with most favorable policies would be a major task for Gerling in the choice of locations.

Due to the favorite policies and the other advantages, the recommended location would be given to Guanzhou, Shanghai and Chongqing for Gerling to establish insurance joint ventures. Together with Gerlings Beijing representative office, such placement would cover the most prosperous market regions of Mainland China in form of a square. (See Figure 7.4) Once well established in this square Gerling would hold a strong basis for further business expansion to West- and North-China.

¹⁴⁰ Joseph Marbacher, *Combining Banking and Insurance Services*, 1994

FIGURE 7.4 LOCATING IN CHINA



Chapter 8 Conclusion and Recommendations

In the final chapter, research findings from the analysis of macro-, meso- and microenvironment are presented in section 8.1. Furthermore, the implications and recommendations for Gerling from our conclusion are discussed in section 8.2. Final remarks in section 8.3 close our thesis.

8.1 General Conclusions

As known, insurance has only 100 years history in China. Until today, most Chinese people, especially the older generation and those from countryside, have no clear perception and knowledge of the concept ‘insurance’ and its features. However, Chinese government has made efforts to continuously reform and open up Chinese insurance market, so as to catch up with the rest of the world, and to ensure the rapid growth of the Chinese economy in recent decades. All these facts lead to a very healthy investment environment in China. More and more well-known foreign insurers are attracted to take the opportunities to enter this potential market. Gerling, the famous German multinational insurance company, as one of them, has had their eyes on this huge market for quite a long time, although Gerling’s well-established markets are in Europe and North America. As early as 1995, Gerling had already established its representative office in Beijing. The main function of this office is to apply for the insurance business operation license from the Chinese government.

Based on Jansson’s institutional network theory, we have tried to pick up the key institutions, which have mainly affected or will affect the insurance market, and made a thorough analysis of them in order to provide some useful advice to Gerling. The facts, such as, rich resource and business experience, organizational capabilities of Gerling; stable development of Chinese insurance market, the continuously reforming and open policies on the market, and the booming economy environment and other perfect macro environment, have determined a bright future for Gerling. Shown by the latest news, Gerling has

been one of the thirteen candidates for gaining the insurance business operation license in China¹⁴¹. Thus, we can draw the main conclusion as follows:

General Conclusion:

Gerling, the multinational insurance company, has the best chance today to undertake successful operations in the country by applying the institutional network approach to its relations and activities in Chinese market.

In order to answer the main research question, we need to discuss the three sub-questions first. In chapters 4, 5 and 6, we applied the outside-in perspective to make an in-depth analysis of the macro business environment of China, the Chinese insurance market, and Gerling's internal environment. In the proceeding sections 8.1.1, 8.1.2 and 8.1.3, the conclusions from above mentioned chapters is presented. In section 8.1.4, we will draw the conclusion on chapter 7, which is to answer the main research question.

8.1.1 Research Problem one, the Analysis of Macro Business Environment

Research Problem 1:
What is the macro environment in China?

China is a very large and complex market that differs in many aspects from Western and U.S. markets. To be successful in the Chinese insurance market presupposes that Gerling fully appreciates the specific institutional environment of China. It must adapt its strategies and functional activities in such a way that it is well adjusted to the imperatives of the institutional environment of the

¹⁴¹ <http://www.sina.com/news>

country. Therefore, the good understanding of and adaptation to the particular characteristics of the Chinese institutional environment are key success factors in the future operations of Gerling as well as being the key for formulating applicable and practical strategies toward the market. In this part, the conclusions on PEST will be drawn.

8.1.1.1 Political/Legal Environment

The state council as the representative of political part played the important role during the process of entering the Chinese market for Gerling. Because it is in charge of choosing the one who will get the insurance business-operating license in the market. The legal system in China is characterized by a lack of transparency and inconsistent enforcement; governments and courts enforce the laws and regulations. It is in need of modification in order to keep up the pace of the economic growth. Gerling Group will be affected by the Chinese Insurance Law, which has not been fully enforced in practice. It is the first real attempt by the authorities to regulate the expanding insurance industry. Political and legal factors will always influence the foreign investor's investment decision and strategy making since the political and legal environment of the country cannot be changed. The only way for Gerling to survive is to adapt the systems and try to understand it in order to reach their goal more easily.

8.1.1.2 Economic Environment

The exciting record of economic growth goes up to average 9.6% from 1979 to 1997, and its overall economic strength ranked seventh in the world. Up to the year of 1999, China had approved the 300,000 foreign-financed ventures operating business in China. Absorption of foreign capital has become an indispensable component part of China's opening policy. Small wonder than that, according to recent World Bank prediction reports, China may well be the largest economy in the world by 2020, with US and Japan coming second and third. But on the other hand, if ranked by GDP per capita, China is very much a developing country and still among the world's 30-40 poorest nations, since its GDP per capita is still less than \$700. The uneven development between Eastern Coast areas, such as Guangzhou, Shanghai etc. and Western & central areas are

strongly shown in the figures mentioned in chapter 6. However, China still has an attractive economic environment for Gerling.

8.1.1.3 Social/Cultural Environment

Social relation was of high significance for foreign companies, both in obtaining important information and in influencing Chinese decision-makers. ‘Guanxi’ is a key concept for understanding social behavior in China, especially the link between interpersonal relations and the attainment of desirable resources. The cultural disparities between China and Germany can be considered as an entry barrier for Gerling establishing business in the Chinese market. Thus, the Company has to modify its corporate culture in accordance with the Chinese culture. It is difficult to evaluate whether Gerling’s corporate culture is good or not in the Chinese market, but its business oriented corporate culture might have some conflicts with the Chinese culture.

8.1.1.4 Technological Environment

China is a massive, imposing and unignorable presence with the world’s largest population and the oldest culture. China will play a significant role in shaping the emerging scientific advances of the 21st century. Especially on mathematics, physics, biology and computer software etc. Gerling could find dramatically modified technological environments in some large cities such as Beijing and Shanghai, Guangzhou, Chongqing. Such discrepancies will greatly influence the choice of Gerling’s business location and distribution in China.

Sub Conclusion one:

Political/legal tradition: being ruled by man not by law it is however hard to implement new rules and regulations. Gerling has to adapt the Chinese political/legal systems and tries to understand it in order to reach their goal more easily.

Economy: rapid growth and stable development, uneven regional development.

Culture: Guanxi and face concepts

Technology: continuously well developed in technology field, esp. IT.

8.1.2 Research Problem two, the Analysis of Insurance Industry

**Research Problem 2:
What is the current market situation and the potential
development of the Chinese insurance market?**

The purpose of analysis of the Chinese insurance market is to help Gerling Group gain a better understanding of how the market is going recently and what's the future market orientation.

China's insurance industry has experienced ups and downs in the past hundred years. The Chinese government is highly involved in both financial market and the insurance sector. For insurers, the government is policy maker, market supervisor, license approver as well as tax recipient. Therefore, the government is one of the most important institutions for both domestic and foreign insurers.

The potential competitors are mainly stated owned companies, shareholding companies and joint ventures. The potential customers can be also generally divided into three categories: retired people, employees and children. Agents and brokers are two main types of intermediaries of life insurance business. People today that are served by insurance products, for example life insurance, are less than 20%¹⁴². Most of them are from J.V. companies or foreign-owned companies or entrepreneurs. These facts mean that general citizen can not afford to buy the insurance service, in other words most of them do not have the extra money to pay for the insurance, especially because they can not see the benefits in short run. Moreover, insurance concept is still a new and unfamiliar thing for the majority of the Chinese since they have never been served and benefited by it before.

In the future, the Chinese government will continuously speed up market liberalisation after China enters the WTO, and remains to play the role of regulator. More insurers will be allowed to enter the market thus increasing the competition. Discrimination between domestic companies and foreign firms will

¹⁴² Sample test.

exist in the near future. As a consequence, it will stimulate the expansion of the opening region towards north and west China.

Sub Conclusion Two:

Nowadays Chinese insurance market is experiencing the process of a rapid growth and stable development. The insurance consciousness of Chinese has become stronger and stronger. As a result, the Chinese insurance market is a very attractive emerging market for Gerling. The future Chinese insurance market is quite bright for Gerling, but the competition is increasing day by day also. And the domestic companies have to switch from State-owned to shareholding. The opening region has been moved from Eastern Coast to Western & inner part.

8.1.3 Research Problem three, the Analysis of Internal Environment

Research Problem 3:

How does the company's internal environment look and what are the goals the company wants to achieve in China?

Gerling Group's internal environment is the key to entering a new market. Its goals, resources and organizational capabilities will absolutely influence the company's fundamental strategy making on the emerging market. On the other hand, the understanding of internal environment also aims to figure out the company's strength and weakness in the market.

8.1.3.1 Opportunities

Gerling, as an insurance problem solver for the business community, its important goal is to provide tailored insurance solutions and risk consulting services for complex insurance problems i.e. Gerling always seeks to be outstanding in the industry and also intends to shape itself as a company with great social responsibility. In the Chinese insurance market, two important goals of Gerling are to gain a business license from the Chinese government and to achieve business successes. Gerling has rich resources both on tangible and intangible side. According to the balance sheet, its total assets have reached \$32.81billion and its branches or representatives have built in 34 countries and regions in all five continents. In Asia Gerling have branches in Hong Kong, Taiwan, Japan, Singapore etc. Gerling's financial status is rather stable; it would provide a strong basis for the company promoting business in China. Hence, we thought that regarding the business license, it seems more important issue for the company to penetrate the Chinese insurance market compared with marketing their insurance products and services due to Gerling's professional knowledge and market experience.

8.1.3.2 Challenge

The real challenge for Gerling is how to deal with the specific business environment in China. Although Gerling's experience in the Asian market could provide some references, it would not help the company to solve all the problems in the Chinese market because of Gerling's lack of insight knowledge and deep understanding of the business environment in China.

Gerling's highly centralized management system could cause unnecessary inefficiency. It could be possible that the company delays important decisions or misses good business opportunities in the Chinese market. In addition, the management in China should understand the market more than the senior management in the head office. Therefore such centralized decision-making system would limit the company's flexibility in the market. Face the challenge of how to transform its advantages in other markets into the Chinese market.

In general, Gerling's opportunities are more than its challenges. The first sub conclusion was drawn as below.

Sub Conclusion Three:

Gerling, a worldwide insurance company, that has good internal environment for example, strong financial background; rich resources and professional knowledge, experience, high-tech management and skilled employees. Its first goal in China is to gain the business license. But meanwhile Gerling is unfamiliar with the Chinese environment, lack of a complete marketing network and also rolling with inefficient highly centralized management system. However, since China is actively opening its financial/insurance market, Gerling's opportunities seem more than its weakness.

8.1.4 Main Problem: Strategies

Main Problem:

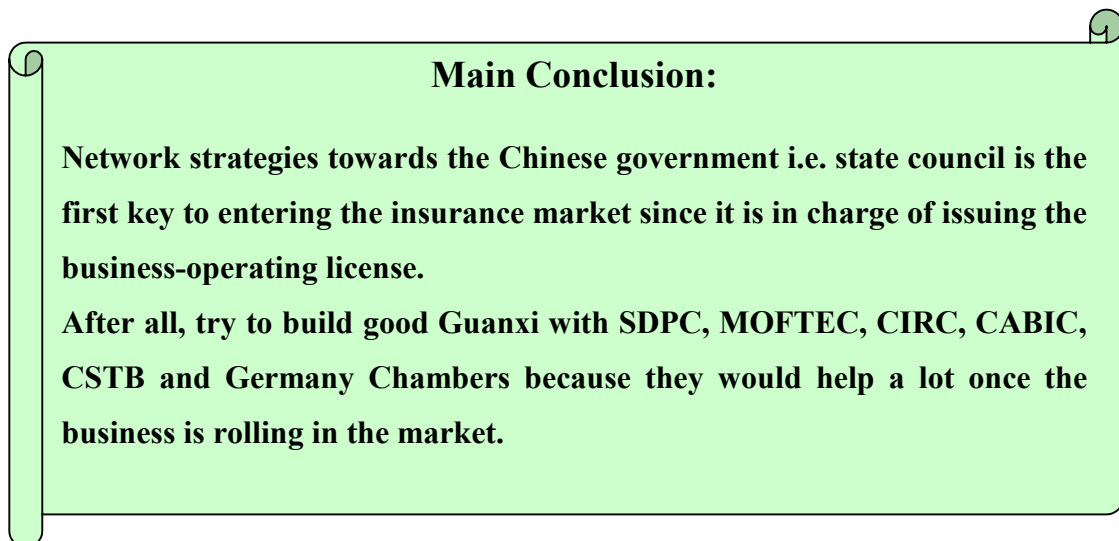
How can foreign insurers successfully enter the Chinese insurance market?

For Gerling, the network strategies towards the Chinese government are the first key issue to entering China's insurance market since its goal is to gain the business-operating license. The State Council is the policy-making body responsible for approving foreign insurers to do business in the country. Entering China, Gerling would find that it involves a rather complicated government network. SDPC, MOFTEC, CIRC, CABIC, CSTB and Germany Chambers in China, who might be able to influence Chinese authorities in diplomatic artifices, are also included in the map. The two main instrumental purposes Gerling pursues in the MNC-Government Network are to gain legitimacy and efficiency in the Chinese market. In order to reach its goal to

gain a business license in China, Gerling should adopt high legitimacy, low efficiency strategy. Therefore, it is important for Gerling to have inside understanding of the Chinese authorities and act according to their wishes. Gerling has to be very careful when making strategic decisions such as partner selection and business location, which are essential for the Company's success in the market.

Guanxi Building

The Chinese culture is to a great extent influenced by the need of relationship i.e. *Guanxi* and Gerling should strengthen the network of personal and social relationships, to facilitate the development of business in the country. To establish *guanxi* with the important people, one must be extremely sociable because the best way to build up relationship is through personal introductions. Once Gerling builds wide & good relationship/*Guanxi* with all aspects of governments or administration departments, the business will definitely be easier than without *Guanxi*. The main conclusion was shown as the follow figure.



Main Conclusion:

Network strategies towards the Chinese government i.e. state council is the first key to entering the insurance market since it is in charge of issuing the business-operating license.

After all, try to build good *Guanxi* with SDPC, MOFTEC, CIRC, CABIC, CSTB and Germany Chambers because they would help a lot once the business is rolling in the market.

8.2 Recommendations

Today, the insurance industry is a rising sector in China. Hence, we thought Gerling should enter the market RIGHT NOW, as early as possible and the first task for Gerling is to obtain business-operating license from the Chinese government. The process could be time consuming but the reward in the future would also be stimulating. Gerling should also have a long perspective of the

market and take advantage of its professional knowledge and rich market experience. Gerling should localize the management in China and tailor its marketing strategies according to the specific market situation in the future.

To get to the right people and to deal with them in the right way is crucial for the quality of future networks, as these are decisive for starting the business operations of Gerling in China. In other words, Gerling must learn how to build ‘Guanxi’ with Chinese government administrations in order to reach their business goal.

According to the government policies and the specific market situation, a joint venture with Chinese enterprises would be the feasible entry form for Gerling compared with solely owned companies as our recommendation. J.V.s have both advantages and limitations for the Company. Gerling may have three alternative regions to locate its business in China - Shanghai, Guangzhou/Shenzhen and Chongqing/Chengdu. We think that Gerling should take a long-term perspective on market entry even though the Company might not achieve economic return within short time. Although the market environment in China is rather complicated, at the same time the huge potential makes it definitely worthwhile for Gerling to enter the market.

In addition, Gerling's Chinese brand name “●●” has no exact meaning in the Chinese language, but can be recognized immediately as a foreign brand. Even though foreign brands are in a way more acceptable than domestic brands in China, a proper Chinese name with positive meaning would increase the Company's awareness. Therefore, we suggest that Gerling finds a more suitable Chinese name, which is easier to remember, has positive meaning in Chinese as well as reflects the Company's background.

8.3 Final Remarks

In this report, we have analyzed Gerling's internal environment, the current situation of the Chinese insurance market, as well as the macro environment of the country. However, we could not provide a completely study and

recommendations to Gerling, due to our limited professional knowledge and time. Since we only analyze the network strategies towards government, we strongly suggest that Gerling do more research work in the future, especially on the strategy part such as the network strategies in industrial product/service markets, and also the matching strategies. Because both Gerling and we think the first step to entering the Chinese insurance market is to gain the business-operating license, otherwise the further discussion of marketing the service will be in vain.

Finally, we think the best strategy for Gerling Group is to be aware of the significant factors that affect Chinese business and the insurance market. If Gerling Group smoothly gets the business license and starts up their business in China, the project/market will probably be very profitable in the long run, even if it might be a tough way to its success in China.

BIBLIOGRAPHY

BOOKS

Denzin N.K. & Lincoln Y.S. (1994), *Handbook of Qualitative Research*, Sage Publications.

Ernst & Young, (1995), *“Doing Business in China”*, Ernst & Young International Ltd.

Franklin R. Root (1998), *Entry Strategies for International Markets*, Jossey-Bass, Inc., San Francisco.

Grant, Robert M., (1995), *Contemporary Strategy Analysis*, Blackwell business.
Gary Hamel and C.K. Prahalad, 1992, pp164-165

Haller & Ackermann (1992), Chapter 3

Lundin, P. & M. Teien. *Managing Mainland and Overseas Chinese. Is there a difference?*

Jansson, Hans, (1999) *International Strategic Management in Emerging Markets*,

Kotler, P., Armstrong, G., Saunders, J. & Wong, V., (1996), *Principles of Marketing, the European edition*, Published by Prentice Hall.

Kristina Jordaky, (1998), *insurance industry in Romania*, Gothenburg University, p40

Koopman, Albert. (1991) *Transcultural Management: How to Unlock Global Resources*. Blackwell. Oxford.

Mike Meldrum & Malcolm McDonald, (1995), *Key Marketing Concepts*, Macmillan Business, pp41-46

Merriam, S.B., (1998), *Case Study Research in Education—A Qualitative Approach*, Jossey-Bass Publishers San Francisco.

Patel & Tebelius, (1987).

Russell R. Miller (1998), *Selling to Newly Emerging Markets*, Quorum Books, London

Revised and expanded from case study research in education: Jossey-Bass Publishers, San Francisco.

Stephen Hills Belton, Belton M. Fleisher, (1998) Education and regional economic development in China: the case of Shanghai.

Shanghai Financial News, 20000502, Liang Juan

Theodore Levitt, “Marketing Myopia”, pp24-47

Yin, Robert K., (1994), *Case Study Research—Design and Methods*, Second Edition, SAGE Publications.

Year book, (1996), China state statistical bureau

Yearbook, (1997), China Statistical Bureau.

Yearbook, (1999), China State Statistical Bureau

Zeithaml, V., Parasuman, A., & Berry, L. (1985), *Problems and Strategies in Service Marketing*, Journal of Marketing, vol 49.

Zasiri M, (1996), Benchmarking for Best Practice, Butterworth Heinemann.

THESES

Kristina Jordaky (1998) The Insurance Industry in Romania, Graduate School, Göteborg University

Kristina Emilso, Malin Holmber (1999)

Richard Andersson, Håkan Nylander (1999)

Yinbin Wei (1999), The Chinese Pharmaceutical Market: Facing the Challenge of Chinese Healthcare Reform, Graduate School, Göteborg University.

Yao Yongji (1999), Transjonic AB makes first appearance in Chinese health care market-the exploration of the strategic decision making and tactical implementation, Göteborg University.

Zhang Hongyi (1999), An Efficient Way of Supporting Swedish Small Firms to Export, Göteborg University.

JOURNALS/ARTICLES

Anthony Neob, China's domestic capital markets in the new millennium, 20000821

Amy S. Friedman, International Life & Health Insurance Report, 1999

A statistical survey of China, 1998.

Bruce Kelly, "Financial Services Companies Beginning to Enter Chinese Market" 199908

China Insurance News, July, 7,2000

China Insurance News, 280300

China Insurance News, 19981009, Zhang Chun

China Daily, 19990530, Wang Ying

China Daily, 20000621, Wang Ying,

China Daily, 20000919, Yong Zhe

China Daily, 20000912, Wang Ying
China Daily, 20000602, Wang Ying
China Daily, 10/09/1999
China Business Review, November-December 1999, p.16
China Economic News 20000509
Country Commercial Guide, China. U.S. Department of Commerce, 1999

Decision on Establishing a Social Pension system, the State Council of P.R.
China, 199703

Far Eastern Economic Review, 19981126
Financial Times, 20000904, James Kynge
Financial Times, China Profile, 20001113
Financial Times, 20001113

Julia Chu, All Eyes on China, 20000808
James Kynge, "Beijing's Hard Bargain" Financial Times, 20000526
James Kynge, "China to Ease Financial Regulations", 20000605
James Glasse, "Infrastructures Hold the Key", Financial Times, 20001025

Liu Jingshen, "WTO Entry and the Chinese Insurance Industry", China
Insurance News, 20000509

Richard McGregor, "Challenge of WTO Rules Threatens Chinese Economic
Success Stories", Financial Times, 20000926

People's Daily, April 3, 1997

Steven Brostoff, China May Fully Open To Life Insurers by 2005, 20001104
Song Xiaowu and Zhang Zhongjun, Solving the Problems in the Social
Healthcare System, 20000509
Shanghai Financial News, 020500
Song Xiaowu and Zhang Zhongjun, " Solving the Problems in the Social
Healthcare System", 20000509

The State Council, Decision on Establishing a Social Pension System.
Document No.26, 1997

The Future of China's Economy, Weiming Zhang and Hongjie

Xiao Tang, Investment News, 20000322

World Bank, China at a glance 1999

World Bank, 1997

Wang Ying, "Insurance Sector Booms" China Daily, 19990118

Wang Ying, "Development in the Insurance Market" China Daily, 19990530

Xu Xiao, "What will WTO Brings to China", China Insurance News, 20000427

Zhang Chun, "The Establishment of the CIRC" China Insurance News,
19981009

REPORTS

Amy S. Friedman, International Life & Health Insurance Report, 1999

China Business Review, November-December, 1999

Country Commercial Guide, China, U.S. Department of Commerce, 1999

Gerling Annual Report 1999

The Chinese Government Report, 2000

INTERVIEWS

Zhang Yunwei, Ping An China Insurance Co., Ltd. Beijing, 200008

Telephone Interviews

Zhang Xin, Agent of China Pacific Insurance Company Ltd, Shanghai, 200012

Kang Weili, Deputy Managing Director of Sales Department, Ping An China Insurance Co., Ltd. Guangzhou, 200012

Cao Xinmin, Managing Director of Market Development Department, New China Life Insurance Co., Ltd. Beijing, 200012

David Liu, Chairman, AON China

Wu Xiaomei, Chief Representative, CGU Beijing Office Telephone Interviews with Mr. Cao Xinmin, New China Life, Beijing

WEBSITES

www.163.com

www.chinabig.com

www.chinalifes.com.cn

www.chinaonline.com

www.chinatoday.com

www.chubb.com/china/laws/inslaw.htm

www.cpic.com.cn/gb1/enterprise/gsj.htm

www.china-insurance.com

www.chinadaily.com.cn

www.future-china.org/fcn/papers/1999011801.htm

www.gerling.com

www.lib.umich.edu

www.moftec.gov.cn/moftec_cn/zcjs/jrwh/0630.html

www.newchinalife.com

www.oecd.org

www.paic.com.cn/default.asp

www.stats.gov.cn

www.stats-sh.gov.cn

www.sina.com

www.sohu.com

www.securitiestimes.com.cn

APPENDIX

1. Questionnaire

Questionnaire

Company Name: _____

Address: _____

1. What are the main attractive factors for foreign insurance company entering the Chinese market?
2. What are the main barriers for foreign insurance company entering the Chinese market?
3. What is your opinion on the current situation of the Chinese insurance industry and its further development?
4. Do you think foreign-owned insurance companies can smoothly enter the Chinese market? As you know, who will be the lucky candidates for gaining the business licenses?
5. Does your company plan to cooperate with the new foreign entrants in the near future?
6. Which sector do you think is foreign investor's first target area?
7. Where do you think they should build their branches or representative offices in China?

2. Foreign Insurers with Chinese Licenses (Branches or Joint Ventures)

Aetna (U.S.)
AIA (U.S.)
AIU (U.S.)
Allianz (Germany)
AXA (France)
Chubb (U.S.)
Colonial (Australia)
John Hancock (U.S.)
Manulife (Canada)
Prudential (UK)
Sun Life (Canada)
Tokyo Marine & Fire (Japan)
Winterthur (Switzerland)

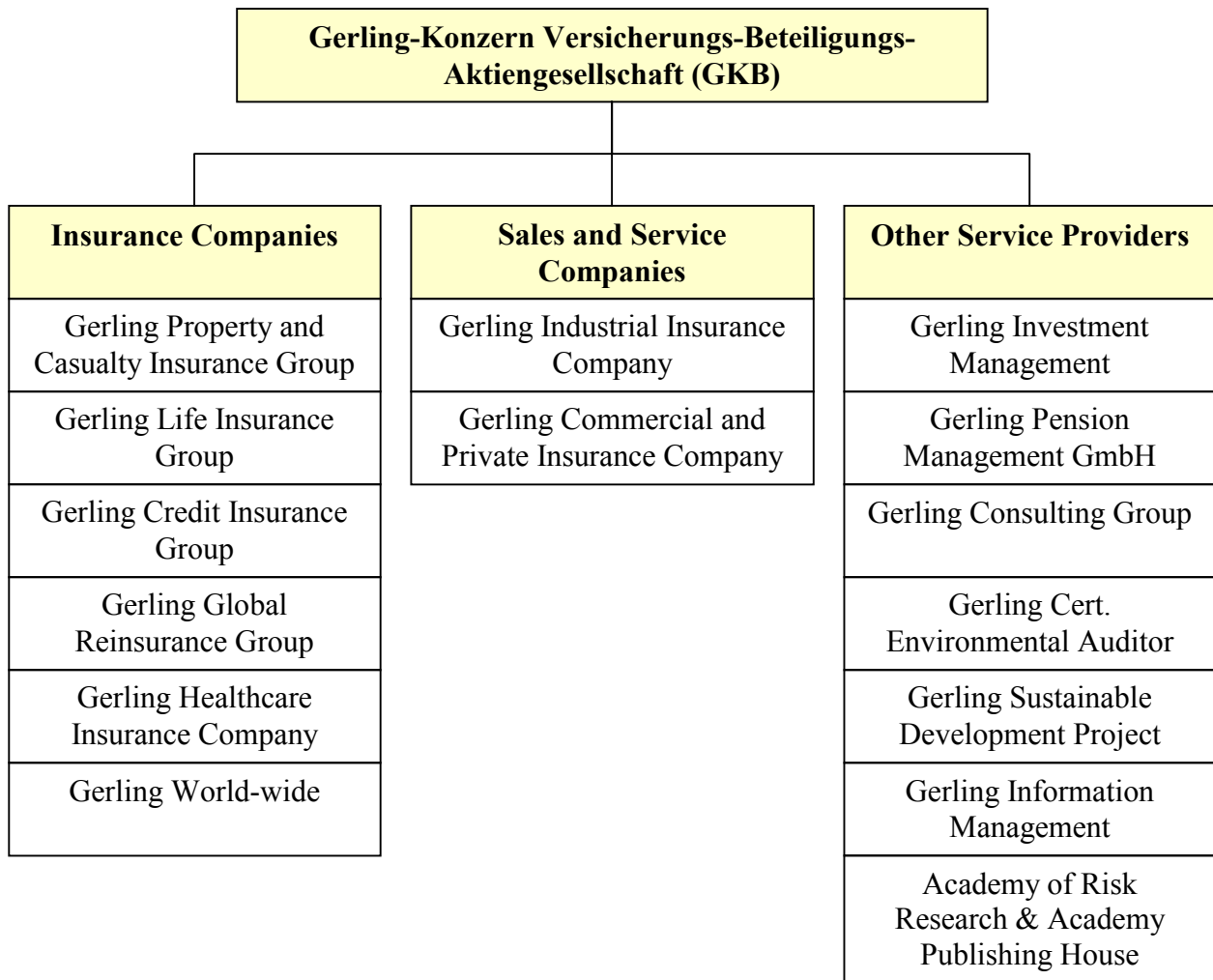
Source: http://www.securitiestimes.com.cn/english/intermediaries/index_insurance.html

3. Gerling Highlights 1996-1999

	1999 DM million	Change	1998 DM million	1997 DM million	1996 DM million
Gross premiums written	16,502	+23.0 %	13,419	12,270	11,288
Net earned premiums	13,323	+19.1 %	11,185	10,001	9,130
Benefit and claim payments	13,357	+19.7 %	11,156	9,539	8,727
Life portfolio	380,831	+25.2 %	304,154	217,596	197,877
Investments (excluding deposits)	52,513	+7.5 %	48,867	43,286	38,682
Net investment income and gains	3,470	+6.5 %	3,258	2,720	2,518
Equity including participation certificates	3,979	+2.2 %	3,894	3,618	2,945
Number of employees	11,682	+5.6 %	11,059	10,404	10420

Source: Gerling Annual Report 1999

4. Gerling's Organisation Chart



Source: <http://www.gerling.com>

5. Brief Introduction of Guangzhou, Shanghai and Chongqing

- **Guangzhou**

Guangzhou, the capital city of the booming Guangdong province, is one of the best places for Gerling to establish a joint venture. Guangzhou, located at the north of the Pearl River delta, is an important trading and economic center in South China. The city is 113 miles from Hong Kong and has a population of 6.7 million. As one of the most prosperous cities in China, Guangzhou has developed sound investment environment. A modernized telecommunication network with mobile telecommunication services, acoustic information services, wired television services and script services has already basically taken shape. Moreover, Guangzhou is noted for its good educational system. The city has 2,181 educational institutions and 557 independent scientific research institutions¹⁴³.

- **Shanghai**

With a population of 14.6 million, Shanghai is the largest city of China. Located along China's central coast, Shanghai is also called the "deagon's head" of the Yantze Valley, for along the Yantze River delta lies some of the country's best farmland. Today, Shanghai has been a center of modern industry and business. In 1997, Shanghai's GDP exceeded 336 billion yuan (US\$ 40.5 billion) with the per capita GDP reaching US\$ 3,000, ranking the highest in China¹⁴⁴. Nine overseas banks and eight foreign insurance companies have established branches or joint ventures in the city¹⁴⁵.

- **Chongqing**

Chongqing is China's youngest municipality located in the middle of Sichuan province. The city has a very large population of 30.2 million. The main reason to recommend Chongqing as a location is its favorable policies. In China

¹⁴³ http://www.gzmbi.net/wwwgzmbi/Environment/environment_e.htm

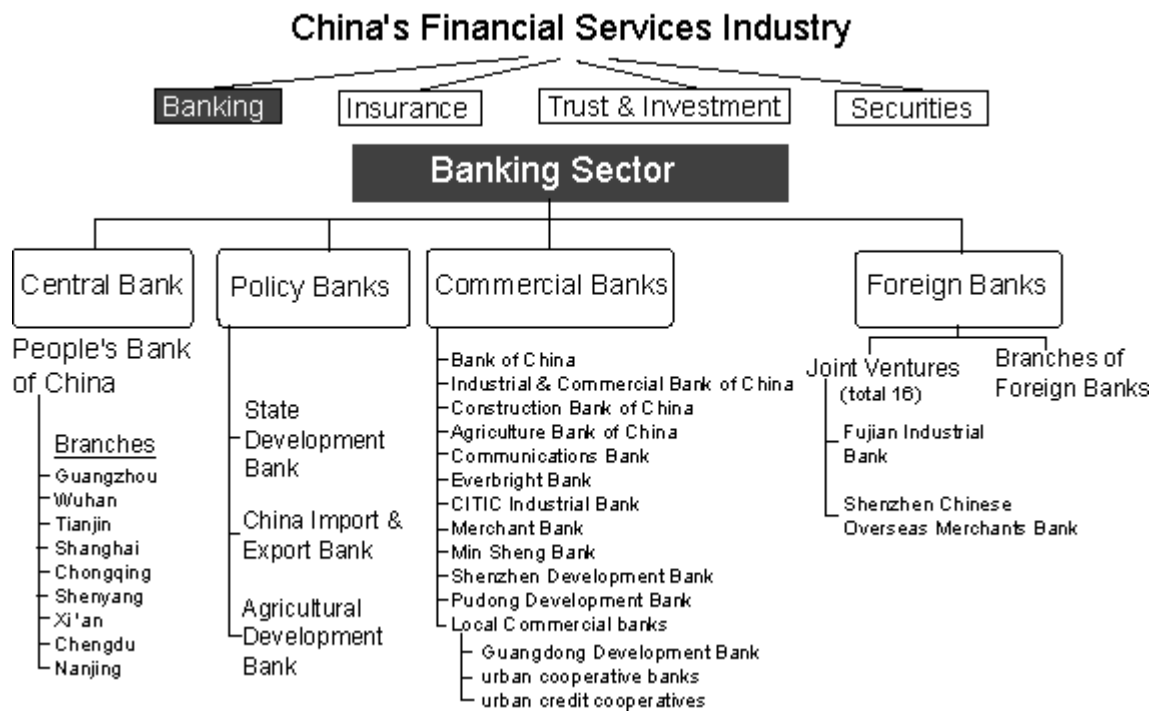
¹⁴⁴ <http://www.sh.com/introduce/economic.htm>

¹⁴⁵ China Insurance News, 20000427

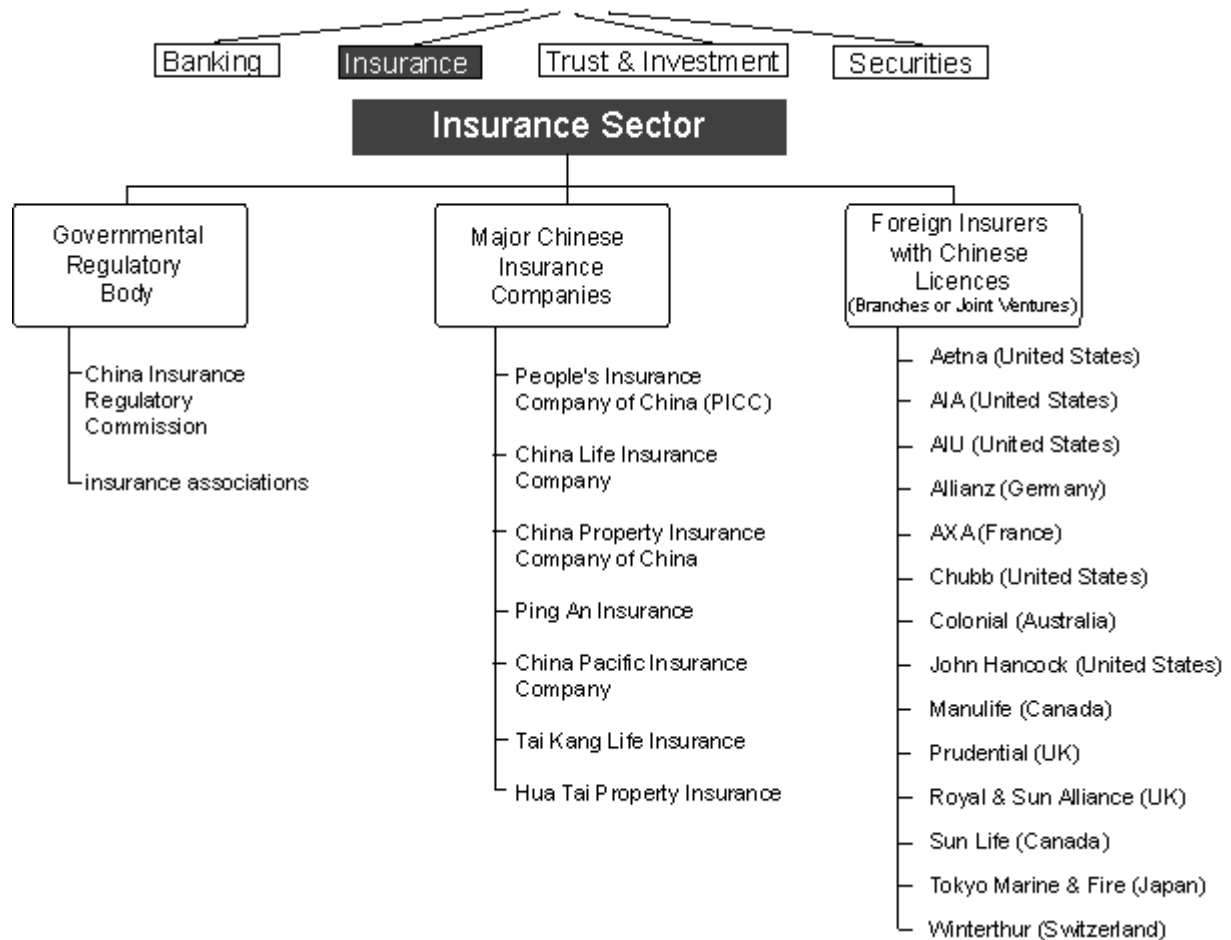
overseas-funded enterprises are entitled to a three-year tax reduction and exemption under the Chinese law. In Chongqing, foreign financed enterprises can enjoy a six-year tax reduction and exemption. This policy, which has been in effect since January 1, 2000, is aimed at encouraging foreign investors to invest in Chongqing¹⁴⁶.

¹⁴⁶ <http://202.98.36.241/cqgov/>

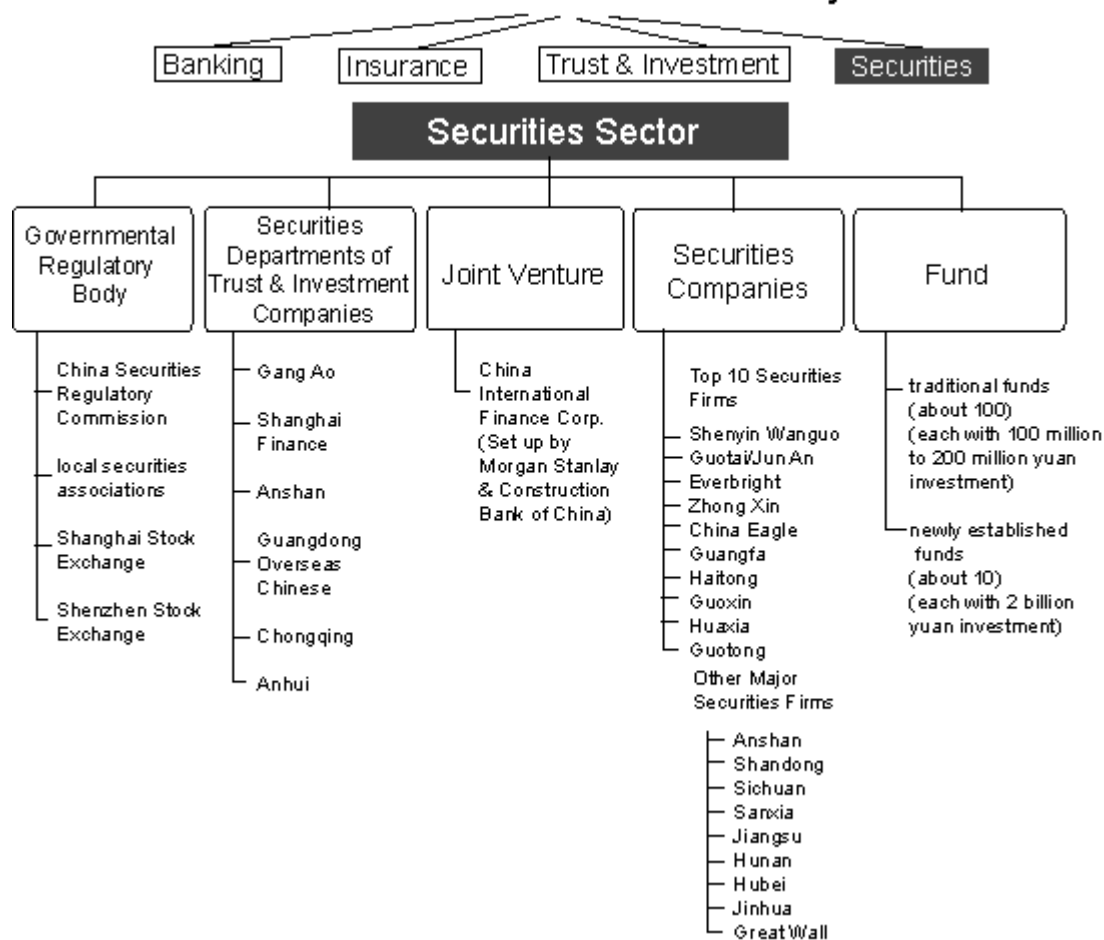
6. China's Financial Services Industry



China's Financial Services Industry



China's Financial Services Industry



7. Initial Time Schedule

Stage	When	Where	How	Whom	Who
Research topic discussion	March ~April	Handels	Discussion		Teng Ba
Hand in first Proposal	May	Handels		Prof. Hans Jansson	Ba Teng
Preliminary, Secondary Data Collection & Company contact	July~ Sep.	China & Sweden	Interviews Publications & articles , Internet, books ,Data base	Chinese Insurance Co.	Ba Teng
Hand in Research Proposal	Sep. 20			Prof. Hans Jansson	Ba Teng
Companies Contact	Sep. 20~	Handels	Mail Telephone,e-mail, Fax.		Teng & Ba
Theoretical Framework study	Sep. 28		Lectures material Books		
Preliminary & Secondary data Collection	Sep. 28~ Oct.10	Handels			Teng & Ba
Data Evaluation	Sep.~ Oct.15	Handels	Discussion & Analysis	Tutors	Teng & Ba
Revising		Handels	Discussion & Analysis		Teng & Ba
Hand in first version report	Nov. 24	Handels		Tutor	Teng & Ba
Revising		Handels			Teng & Ba
Hand in second version Presentation	Dec.8	Handels		Tutor	Teng & Ba