

Chapter 1

Introduction

1.1 Rationale of the study

As a leading developing country, China had started its tough economic reform since 1978 which has been steadfast implemented nowadays. It has been almost twenty years since the Chinese government has started to reform the economic structure and it has profound historic significance to the Chinese people's life. The economic reform consist of social security reform, health-care reform, education reform and the restructuring of State-owned enterprises. However, the economic reform process in China is not completed yet and improvements of different economic system administration are required before the full benefits of a market economy can be realized. One of the developing markets is the insurance market which has become very active since 1979. The economic reform really affected Chinese household income, savings behavior and the consumer behavior of life insurance purchasing. People start to pay more attention to the benefits of life insurance and what life insurance can do for them in the growing economy. Now, people think about how to choose a life insurance schedule. However, the Chinese life insurance market is still a very immature one¹.

China had entered the process of the economic system transition from traditional centrally planned economy to socialist market economy system.² During

¹ Aimei, Zhang. (1995). *Economic Growth and Human Development in China* [Online]. Available: <http://www.undp.org/hdro/oc28a.htm>. [2000,Dec. 18].

² Chen, Dongsheng, *Life Insurance Industry and Capital Market of China*. Shanghai: Economic & Science Publishing Housing, 2000, p89.

this transition stage, medical expenditure, accidental protection, and retirement plans which used to be taken as kinds of welfare by enterprises in the past would be at the present time taken care of by insurance companies or social security institutions. Life insurance is regarded as an investment instrument because of its long term and living benefits .

Consumer behavior of life insurance had significantly changed after the year 1982. People began to pay more attention to purchasing life insurance instead of leaving this burden to the Chinese government budget. According to the data of China People Insurance Company, the largest state insurance company, the revenue of life insurance in 1982 is 1.59 million RMB (REN MINBI, Chinese money), and 207 billion RMB in 1994, showing an annual increase of 120.2%.³ The growing rate of economic value of life insurance, then, is very attractive for the insurance companies, and knowing the consumer behavior of life insurance will certainly be beneficial for corporate strategic planning.

China has become one of the most attractive countries for investors and Shanghai is a key commercial city or the hottest economic center of China. Therefore, the research of Shanghai consumers will reflect consumer behavior of other cities in China and can explain the changes of consumer behavior of China's life insurance. Because of the city of Shanghai is growth, Fortune 500 chose Shanghai as the city to hold their annual meeting in 1999 and APEC (Asia Pacific Economic Committee) meeting in 2001. Additionally, Shanghai will be a window for the world to understand China, the experience in the case study of Shanghai will be useful and valuable in

³ Ibid., p92.

Chinese reformation of its social security system. It is also useful to understand China's present life insurance condition and its trend after China became a member of WTO (World Trade Organization) and has open the insurance sector more widely. This study has examined several important parts of China and Shanghai to explain the changes of consumer behavior in purchasing life insurance.

1.2 Purposes of the study

To study the evolution of consumer behavior in the life insurance in Shanghai, the People's Republic of China.

1.3 Scope and methods of the study

1.3.1) Issues to be investigated

The evolution of Chinese consumer behavior in the life insurance, economic environment, social security system of China and Chinese consumer behavior in buying life insurance. This study covers Chinese consumer behavior especially that of Shanghai consumers from the year 1979 to present.

1.3.2) Data sources

(1) Primary data sources

Data was collected from four life insurance agent companies and the Shanghai office of China Insurance Regulatory Commission which includes the interviews with managers and division chief as follows:

- A manager of American International Assurance (AIA), Shanghai Branch. AIA is the first foreign life insurance company doing insurance business in China and Shanghai.

- A manager of The People's Insurance (Life) Company of China (PICC), Shanghai Branch. PICC is the first and largest insurance company in China and Shanghai.

- A manager of PING'AN Life Insurance Company of China (PING'AN), Shanghai Branch. PING'AN is the first stock insurance company in China.

- A manager of China Pacific Insurance Co., Ltd. (CPIC). CPIC is another larger insurance company in China with head-office in Shanghai.

- An officer of China Insurance Regulatory Commission (CIRC), Shanghai Office. CIRC have supervision and regulation rights for the life insurance business, domestic and foreign insurance organizations in China under the CIRC's brief.

The interviews consist of four parts:

- Historical background of life insurance in China and Shanghai.
- The present situation and consumer behavior of life insurance in Shanghai.
- The problems and difficulties of life insurance business in Shanghai.
- Future environmental situations and trends of consumer behavior of buying life insurance in Shanghai.

Their views and opinions will be summarized in addition to the secondary data as well as the information on the present and future of life insurance markets in Shanghai and China.

(2) Secondary data sources

Data from economic books, related research, newspapers and web-sites.

1.3.3) Data analysis

Secondary data collected will be analyzed to understand the nature of the insurance market. Additionally, expert interviews will be used to have better understanding of consumer behavior with respect to insurance industry and its future.

1.3.4) Theories

- Rely on a macro-economic model which is called General Equilibrium Model.⁴
- Use Maslow's theory which proposes five stages of human needs to analyze the savings behaviors and consumer behavior in buying life insurance.⁵
- Rely on a model of consumer behavior which is called Stimulus-Response theory.⁶

1.4 Education / application advantages.

To be able to better understand consumer behavior of buying life insurance in China and propose some appropriate strategies for the life insurance business.

1.5 Location of data collection

Data was collected in Shanghai, the People's Republic of China, and at the Faculty of Business Administration, Chiang Mai University, Chiang Mai, Thailand.

⁴ N. Gregory, Mankiw. *Macroeconomics*. Harvard University. Worth publishers, 1992, p71.

⁵ Kotler, Philips. *Marketing Management*. 10th ed. Prentice Hall International, 2000, p161

⁶ Ibid., p161.

1.6 Duration of the Study

The study had taken place between November 2000 through April 2002.

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