

Chapter 5

Implications, Applications, Limitations, and Future Study

5.1 Introduction

Chapter 2 presented systematic and periodical description of the economic environment of the Chinese economy, along with social and social security reform, and the exploratory stage of the social security scheme in Shanghai.

Chapter 3 presented an overview of China's Life Insurance business. It includes the history, the market size and its potential, market competition, product scope, and key players of China's insurance business. It described China's insurance business' position and environment in both an international and domestic marketplace, and introduced the life insurance business in Shanghai.

Then, the presumed patterns of consumer behavior in Shanghai, the limitation of Shanghai consumer supposal before 1978 and the limitation of consumer in Shanghai supposal after 1978 were presented. It further discussed factors influencing Shanghai householder savings, and how it influenced the savings behavior in Shanghai.

After analyzing the data gathered from public documents and the in-depth interviews of the life insurance managers and government officer in Shanghai, Chapter 4 showed the summary of the evolution of consumer behavior in purchasing life insurance in Shanghai. The analysis is based on the general equilibrium model, Maslow's hierarchy of needs and the model of buyer behavior which was called the

Stimulus-Response model. In this chapter, there are the implications, the applications and the limitations along with a comment on future study.

5.2 Implications and Applications

This study showed the whole picture of the evolution of consumer behavior in the life insurance business in China. The development of the insurance industry in the People's Republic of China can be divided into three stages: the underdevelopment stage (before 1978), the monopoly stage (1979-1987), and the development stage (1988-present).

We found that the changes of the country's economic system and social security system were the two most important factors which influenced the development of the life insurance business.

Before 1978, there was no life insurance business because of political reasons and the central planned economic system. The Chinese government gave continuing support to people through the state-owned enterprises. After 1978, China's economic system was transferred from the traditional central planned economic system to the socialist market economic system. During this period of time, the income level of Chinese people rose at a high rate. It influenced the consumption of the whole country and the consumer behavior. During the same period of time, the social security system was transferred from state-owned enterprises to the social security institutions and insurance companies. As a result, people began to do their family financial plannings to cover a future of uncertainties.

The evolution of China's life insurance also points out the evolution of marketing strategies in the life insurance business. In the underdevelopment stage,

there was no life insurance business because of political reasons and the government's support. During the monopoly stage, the sole insurance company of China monopolized the insurance market, and offered only group life insurance. After the development stage of life insurance business, the market-driven life insurance industry was approaching the maturity stage. As long as the Chinese government supported the insurance business and allowed it to be the sole state-owned insurance company, the marketing strategies were not thought out nor development to compete for a market share.

With the foreign insurers' entry, the insurance market became more competitive. Both domestic and foreign life insurance companies improved their marketing plans, and initiating varieties of marketing strategies. The market share and customer's satisfaction are the marketing objectives in the present time.

This study pointed to the key success factor of life insurance companies. The better understanding of the market size, the market potential and the customers' need can help the senior managers improve their marketing plans and strategies. There are 6 major reasons in buying life insurance. They are monetary return, disease-prevention benefits, pension return, risk-prevention benefits, friends' recommendation and child benefits. From 1979 to 1995, friends' recommendation and child benefits were the first and second important reasons for purchasing. Now, the monetary return and disease-prevention benefits are the first and second most important reasons for buying. In the near future, the disease-prevention benefits would seem to be the most important reason for purchasing this insurance for the Chinese people. In short, managers of the insurance companies must adapt their marketing strategies due to the

fact of consumers' buying reasons and they should know the important order of those reasons and they must realize those reasons can be changed with the time.

In terms of competitive strategies, PICC (Life), the market leader, used the low cost leadership strategy to maintain its market share in Shanghai's life insurance market. The new entrants such as CPIC and PING'AN must differentiate their strategies or put their marketing efforts on a specific target market in order to maintain and increase their market share. In addition, the information systems which were used in the management and marketing also helped the insurance companies offer a better services to their customers. The competitive advantages of life insurance business are high quality and comprehensive services.

In the 1980s, after China opened its economic policies, there are more middle-level income people in some big cities, especially in Shanghai, where the standard of living is of higher quality than other cities. This study showed that most of the primary target customers are middle class level people, so marketing promotions should be designed to satisfy their demands.

In 1999, the GDP of Shanghai was 4,035 billion RMB, GDP per person was 3,720 USD. In 2000, the GDP per person of Shanghai was over 4,000 USD, and it seems to be increasing continuously in the future years. The continuing economic development of China and specifically of Shanghai affects the middle-level income to increase rapidly.

People who are classified as middle-level income consists of scientists, administrative staffs in foreign enterprises, people who work in IT sector, entertainment business or financial institutes, and the owner of private enterprises. Most of those people's major investments are in real estate, stock market and life

insurance. In the next 10-20 years, middle-level income people in Shanghai will increase rapidly and will be the major target customers of most life insurers. However, they must be aware of the different strategies to attract higher and lower income levels.

The evolution of life insurance business in Shanghai reflects the changes on consumer behavior of life insurance: from no need for life insurance in the past to purchase attention, and to the perception of life insurance as the necessary financial investment and basic risk protection for future time.

In a word, the life insurance companies need to pay more attention to consumer behavior of middle level income people for now and in the near future, because they prefer life insurance as one of the many channels of their major personal investment. Importantly, the life insurance companies must design different life insurance products to satisfy their distinct needs and wants.

The consumer behavior analysis also implied that life insurance companies could be the winner in the life insurance market and could maintain their market share in the long-term. Furthermore, the future duty of the life insurance companies is to create more effective marketing strategies to increase competitive advantages in this business.

5.3 Limitations and Future Study

This study reflects the case in Shanghai, showing the evolution of consumer behavior of life insurance. The findings may not explain behaviors of consumers in other cities of China or China as a whole because different regions of China have different culture, economic foundation and other environmental factors. Those

different factors influenced the consumer purchasing behavior. As a result, to compare the consumer behavior of different regions in China might be a good future study to get the complete picture of consumer behavior of life insurance in China. The analysis was based on the opinions of the managers of life insurance companies and the China Insurance Regulatory Commission's officer, so the analysis of this study is done within the scope of their background of experience.

Under WTO agreement, China opened its life insurance market more widely. Both domestic and foreign insurers have improved their organizational structures and marketing strategies to fit this new environment. Therefore, the future study may focus on the differences of marketing strategies between the domestic and foreign insurance companies under the new competitive environment. A new mature and international life insurance market based on how those domestic and international life insurance companies and their agents have to change their strategies in the more mature market environment is also worth studying.