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STRATEGIES FOR SMALL- AND MEDIUM-SIZED
COMPANIES IN CHINESE INSURANCE INDUSTRY

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Foreword

I am not the kind of a person who can give a grateful attractive speech in his foreword. However, I think that every thesis is a huge and complex process of work. People usually spend much more time completing their thesis even if they thought they were starting on time. Many troublesome issues will be your company during the writing time. They are both your enemies and friends in the whole process of work. You can hate them and you can also thank them every night in these months. Hate them because they made you suffer, you feel upset, suffering and sometimes even made you hopeless. You will thank them because they also bring you the power, the power which made you increase your confidence and faith in solving any problems that you will have to meet in the future. One night I took time to thank Buddha for seeing me through that day of days during the thesis writing period and prayed I can manage to gain more revelations during the process of the thesis work.

I have heard stories of the existence of a legless bird in the real world. A constant flutter in the space above constitutes its whole life. Prostrated with toil and strain, it just takes repose in the wind. Throughout countless nights and days, only once will its body brush the dust of the ground and that is the very time when it bids farewell to the world. I was pretty interested in this story and refer to myself, perhaps for me I need a chance to discover something deeply inside my heart, and maybe this time is the chance that I need.

Here I want thank all of my friends support and care during the writing of my thesis time, meanwhile every teacher that taught me in this university, special I want say thank you to my thesis supervisor Mrs. Satu Lautamäki, who gave me very helpful support and guidance and also I want to thank Mrs. Zeng and Mr. Song's patience for meeting me and answering my questions. Thank you very much indeed!

Napoleon Qian

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ABSTRACT

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With the development of the Chinese economy, insurance industry is becoming one of the most important commercial industries in China. Currently small- and medium-sized (SME) insurance companies gain more and more important status in the insurance market, but the main problem is to find a suitable strategy to develop in a balanced way. It is very important for the SME insurance organizations to identify their core resources and competencies and cultivate their competitiveness and competitive advantage.

This study outlines the main business disadvantages of SMEs within the Chinese insurance industry and through both theoretical and empirical analysis aims to discover the successful factors. The main research problem of this thesis to find the critical factors that lead to a long-term development of the Chinese SME property insurance organizations.

The theoretical study focuses on explaining the role of small and medium-sized companies within the Chinese insurance business. The empirical study is based on case study methodology where two company cases and in-depth interviews are conducted. The company cases are Huatai Insurance Co., Ltd and Tianan Insurance Co., Ltd.

Based on the case study analysis and the literature review, the following critical factors are defined as important for long-term development of SMEs: long-term talent development, innovation, rational development, completing and improving enterprise service system.

Key Word: Chinese SME insurance companies, Disadvantages, Innovation, Talents, Foreign Counterparts

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TIIVISTELMÄ

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Kiinan talouden kehittyessä vakuutusala on yksi tärkeimmistä kaupallisista teollisuuden aloista Kiinassa. Pienet ja keskisuuret yritykset ovat saamassa yhä merkittävämmän aseman Kiinan vakuutusmarkkinoilla, mutta ongelmana on löytää sopiva strategia, jonka avulla yritykset voivat kehittyä tasapainoisesti. Olisi erittäin tärkeää, että pk-yritykset tunnistaisivat ydinosaamisiansa ja resurssejaan, joiden avulla ne voisivat jalostaa omaa kilpailukykyään.

Tämä tutkimus kartoittaa ydinliiketoiminnan haitat yrityksiltä, jotka eivät kuulu Kiinan isoimpiin vakuutusyrityksiin tällä hetkellä. Tutkimus sisältää sekä teoriaosan että empiirisen tapaustutkimuksen, joiden avulla voidaan löytää pk-yritysten kriittiset menestystekijät. Tutkimusongelmana on löytää kriittiset tekijät, joiden avulla pienet ja keskisuuret vakuutusyhtiöt saataisiin kehittämään pitkällä aikavälillä.

Teoreettinen tutkimus selittää pk-yritysten roolia Kiinan vakuutusmarkkinoilla. Empiirinen tutkimus toteutetaan tapaustutkimuksena, jossa analysoidaan kaksi yrityscasea ja syvähaastattelua. Tutkimuksen kohdeyrityksinä ovat Huatai Insurance Co., Ltd ja Tianan Insurance Co., Ltd.

Tapaustutkimukseen ja kirjallisuuskatsaukseen perustuen voidaan määritellä kriittiset tekijät, jotka ovat tärkeitä pk-yritysten pitkän aikavälin kehittymiselle: kyvykkyyksien kehittäminen, innovaatiokyky, uusien kehitysmallien luominen ja palvelusysteemin edistäminen.

Asiasanat: Kiinalaiset keskisuuret ja pienet vakuutus mallit, Haitat, Innovaatio, Kyvyt, Ulkomaiset vastikkeet vakuutusmalleille

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ABBREVIATIONS

PICC: People's Insurance Company of China
CCPCI: China Continent Property & Casualty Insurance
CECIC: China Export & Credit Insurance Corporation
CUPIC: China United Property Insurance Company Limited
CPI: China Pacific Insurance (group) Co., Ltd
CPAI: China Ping An Insurance
HIC: Huatai Insurance Company of China
TIC: Tianan Insurance Co., Ltd
DZI: DaZhong Insurance
HAI: Huaan Insurance
YAI: yongan Insurance
TPI: The TaiPing Insurance Company Ltd
MAI: The Ming An Insurance Co. (China) Ltd
BOC: Boc Insurance
AAIC: Anxin Agriculture Insurance Company
AIC: Alltrust Insurance Company
APCI: Anbang Property & Casualty Insurance Company Ltd
AAIC: AnHua Agricultural Insurance Company Ltd.
CLPCIC: China Life Property & Casualty insurance Co., Ltd
SPCI: Sunshine Property Casualty Insurance Co., Ltd
BPIC: Bohai Property Insurance Co., Ltd
CPCI: China Property and Casualty Insurance Co., Ltd
APCI: Ancheng Property & Casualty Insurance CO., Ltd
GAIC: GUOYUAN AGRICULTURAL INSURANCE CO., LTD
YTPIC: Yingda Taihe Property Insurance Co., ltd
ZPCIC: Zheshang Property and Casualty Insurance Company Limited
ZKPCI: Zking Property & Casualty Insurance Co., Ltd

ACI: Aioi Insurance Company Limited
CPPI: Cathay Pacific Property Insurance
JII: Japan's Industrial Insurance
LIG: Life Is Great Insurance
ZURICH: Zurich Insurance
LMI: Liberty Mutual Insurance

1 INTRODUCTION

In the past two decades, the Chinese insurance industry has developed rapidly with about 21% growth in its premiums every year and approximately 27% raise for the total assets annually in the last several years. (Feng 2005, 23) After becoming WTO the Chinese insurance market is opening gradually, the industry is becoming increasingly competitive. The current situation in China is that the business operations of insurance organizations are becoming more complex, the main market continues to increase, with a majority of small- and medium-sized insurance companies. Currently small- and medium-sized (SME) insurance companies are constantly emerging, and gain more and more important status in the insurance market.

The main problem is how to control risk and how to find the suitable management patterns which could lead these middle and small scale insurance property companies to develop in a balanced way. At present, SME organizations are almost having a similar developing mode in competition as the large insurance companies, although SME companies do not have any advantages in expertise and innovation. If the small- and medium-sized insurance companies establish their growth strategies based on solving the problems appearing in the process of their development, they could win in the competition and develop steadily.

The property insurance industry in China has a huge potential for development. However, low level of price competition is the main problem for insurance forms in the market, particularly for SME companies. Currently the main development patterns which SME property insurance companies use are controlling the price and setting up a large number of new additional institutions which cannot support them in steady development. It can be seen that Chinese small- and medium-sized insurance companies have made great progress in the development in the recent years, but compared with SME companies in the foreign countries, Chinese companies still have a large gap between profits and investments.

It is very important for these SME property insurance organizations to identify their core resources and competencies and cultivate their competitiveness and competitive advantage.

1.1 Research problem and questions

The main research problem of this thesis is to find the factors that lead to a long-term development of the Chinese SME property insurance organizations. In order to achieve the study purpose, it is necessary to explore and describe the whole situation of these small- and medium-sized property insurance organizations in the Chinese insurance industry and try to find the decision factors that make these companies develop steadily in China.

In order to solve the research problem, it is necessary to explain the basic concept of the small and medium-sized property insurance companies. Then the basic interpretation of the situation and developing patterns with disadvantages for the SME property insurance companies will be discussed. Finally, the aim is to find the decision factors which determine the steady growth of these SME property insurance companies. The following four research issues can help to understand the research problem:

- Research issue 1: What is a SME insurance company in China?
- Research issue 2: What is the tentative situation for these SME insurance companies in China?
- Research issue 3: Are there different development methods for Chinese SMEs compared to foreign counterparts?
- Research issue 4: What operations and strategies could help these SME organizations to develop in a balanced way in China?

1.2 Structure of the thesis

This thesis is divided into five chapters. All these five chapters of this thesis are presented in

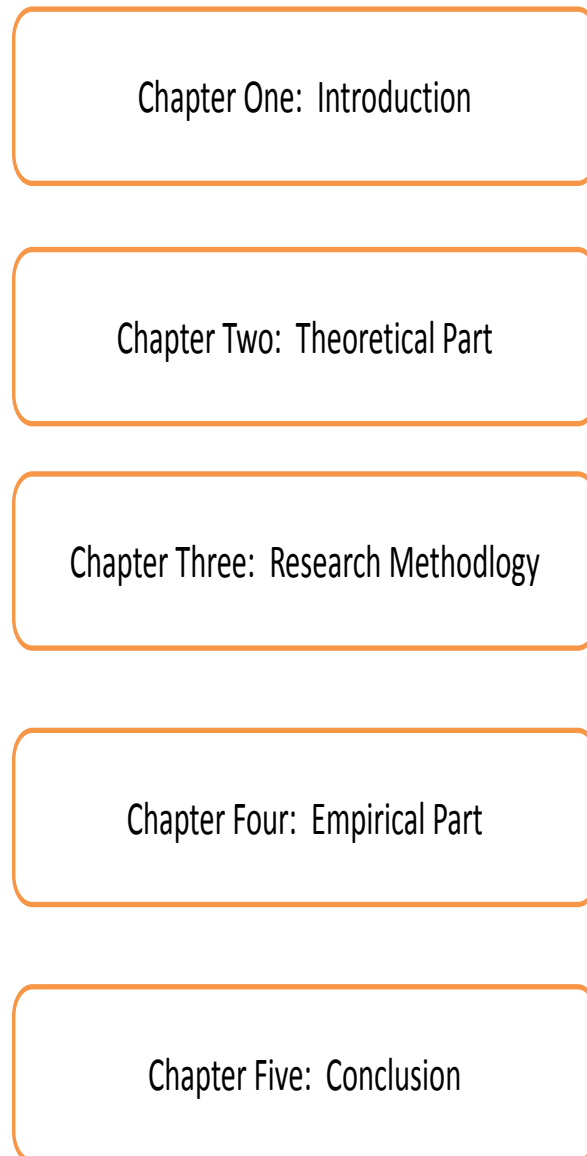


Figure 1. Thesis Outlines.

2 CONDITIONS FOR SMES IN CHINESE INSURANCE INDUSTRY

This chapter focuses on explaining what a small and medium-sized company means within the Chinese insurance business.

2.1 Defining SME in the Chinese insurance industry

An Insurance company is an insurance products supplier which provides all kinds of insurance products as well as bears, decentralizes and transfers the risks of the applicant. Then how to define SME insurance company in China? In my opinion, it is pretty difficult to identify a small- or medium-sized property insurance organization. The challenge is that there are not any global definitions of what a SME company is, but it varies country by country. Usually, the modus operandi is to find whether the company's business activity is limited or its market share is not a monopoly. According to the Chinese insurance law, those SME's enterprise structure usually comply the way of breakaway of proprietary rights and management rights; and generally who are unable to be the monopoly of the insurance market. Besides the premium income and the number of the offices, also the number of employees can distinguish the difference between big insurance companies and small- and medium-sized ones. (Yan 2007, 55)

On one hand, the insurance industry is a financial industry which needs enough capital and technology supporting; meanwhile we could identify the enterprise standard of these SMEs in the coming two ways:

- From the angle of different business characteristics from the different insurance parts which the company involved to accurately reflect its market scale and development level.
- Except the factors of enterprise employees, identify a SME on the part of its funds and technology level.

The following premium income charts can be used to determine SME property insurance companies in China (see Table 1).

Table 1. Premium income of insurance forms in 2009 (Chinabx 2010).

2009. Jan- Nov	Units: Million Yuan							
	(1 Euro=10 Yuan, approximately)							
Capital Structure	Company Name	Premium Income (Million Yuan)	Company Name	Premium Income (Million Yuan)	Capital Structure	Company Name	Premium Income (Million Yuan)	
Chinese Funded	人保股份 PICC	110818.689	信达财险 CPCI	helmi.88	Foreign Funded	美亚 AIU	752.4327	
	大地财产 CCPCI	9691.5159	安华农业 AAICT	2175.3789		东京海上 TMI	295.0499	
	出口信用 CECIC	5185.0236	天平车险 TAI	1691.2713		丰泰 WSI	138.6058	
	中华联合 CUPIC	18503.3982	阳光财产 SPCI	5938.5483		太阳联合 SAI	125.2426	
	太保财 CPI	31448.8534	阳光农业 SAMI	1640.7808		丘博保险 CGI	102.9396	
	平安财 CPAI	35006.7803	都邦 DI	3831.2368		三井住友 MSI	303.2341	
	华泰 HIC	2634.9597	渤海 BPIC	945.5641		三星 Samsung	253.4216	
	天安 TIC	6437.2061	华农 CHPIC	136.2567		安联 Allianz	235.2597	
	大众 DZI	1327.215	国寿财产 CLPCIC	7278.6176		日本财产 SJI	116.6477	
	华安 HAI	2381.0777	安诚 APCI	1282.8741		利宝互助 LMI	195.3993	
	永安 YAI	5097.2718	长安责任 CAPLI	1051.9254		安盟 UNITA	31.8704	
	太平保险 TPI	4032.3456	国元农业 GAIC	819.2777		苏黎世 Zurich	116.9364	
	民安 MAI	1139.4268	鼎和财产 DPIC	332.1717		现代财产 MPI	76.4112	
	中银保险 BOC	1758.9485	中煤财产 CCIC	24.3884		中意财产 IPI	98.3649	
	安信农业 AAIC	602.7692	英大财产 YTPIC	622.2097		爱和谊 AIC	23.0808	
	永诚 AIC	3712.4939	浙商财产 ZPCIC	67.2435		国泰财产 CPPI	17.2047	
	安邦 APCI	4733.6709	紫金财产 ZKPIC	15.232		日本兴亚 JII	touko.83	
		Subtotal		272367.122			乐爱金 LIG	6.002
							Subtotal	2893.7316
		Total						275260.853

In the recent years, the emerging joint-stock insurance property companies like CUPIC and CCPCI have been developing very quickly, especially CUPIC's share of the market is coming close to CPI's shares. Some of the small insurance companies are developing very steadily slowly, so the premium income of these property insurance companies is relatively small with a few market shares. In the past several years, the new established insurance property forms have a similar situation so that some of them are developing more quickly than the rest. For example, as Figure 1 shows, CCPCI, TIC, BPIC and MAI all belong to the new established forms rank, but CCPIC and TIC are developing faster than BPIC and MAI. In the coming several years, I think the Chinese funded insurance companies will enter into a rapid development period. Some of these medium or small companies will become large size insurance groups, some of them will focus more on some special insurance parts and they will be turning into special professional insurance organizations. The rest of the insurance companies might be kicked out of the insurance market if they don't take any actions. Also, the foreign funded insurance organizations will be divided into several classes which have the similar situation as the Chinese companies. (Feng 2002, 128)

At present, from angle of leading market players, the insurance companies in China can be divide into three big zones, which include the big insurance groups, the Chinese small and medium-sized insurance organizations and the foreign funded insurance organizations.

Table 2. Premium Income Ratios of Insurance Forms in China (Annual report insurance 2005-2009, 81).

Years	Insurance Group (The big three)	Chinese Insurance Forms	Foreign Funded Insurance
2005	94.13%	5.05%	0.82%
2007	72.63%	26.06%	1.31%
2009	63.97%	34.87%	1.16%

Due to the development of Chinese small and medium insurance companies and the new involved foreign insurance companies, the large size insurance property groups' market share has dropped a lot. The era of these big three insurance groups (PICC, CPI and CPAI) as monopoly enterprises in the Chinese insurance industry is never going back. The SME insurance companies have got an increasing space in the Chinese insurance industry market. Except these three large insurance property groups, the rest of the insurance organizations rely on a large number of new institution establishments and fierce price competition, which has caused them to develop rapidly in the past seven years, especially in the various different special insurance parts. (Feng 2002, 164)

In the part of property insurance market, the PICC is still the main and biggest player and from the market share rate, can be seen that the CPI and the CPAI can be divided into second echelon and the others are the third echelon. From the perspective of company management capabilities, these three big groups still have obvious advantages in brand, market and other parts. For instance, in most of China's regional county areas, there still are only these three big insurance groups' brands. Additionally, with the continuous improvement of their management advantages, it is very hard for the insurance companies in the third echelon to catch up or decrease the distance from the big three insurance groups. For example, the premium income of CUPIC is increasingly close to CPI, but its brand advantage and internet management still has large distance from the CPI. From statistical annual reports of Chinese insurance industry, until to 2008, there are 12 SME insurance companies which have some problems on their solvency, including CUPIC. To understand how an insurance property organization can be developed in long-term, one of the most important criteria is solvency. (Yan 2007, 122) Consequently, in the Chinese insurance industry, except PICC, CPAI, CPI, all the other insurance companies belong to the medium and small sized insurance companies.

2.2 Market position of SMEs

The property insurance companies can mainly be divided into mutual insurance form and joint-stock insurance company and meanwhile these insurance organizations also can be divided as the large insurance groups and the medium or small ones in the terms of their business size. An

insurance enterprise is an insurer as the configuration of an organization is to sign and make the insurance contracts with its policyholders. The Chinese Insurance Law stipulates that an insurance company in China must adopt the joint-stock limited liability company or the state-owned sole ownership company's form. In that case, it only allows corporate organization to carry on insurance business, but for a natural person. Since 2004, after two biggest state-owned insurance companies changed to become joint-stock forms, in the Chinese insurance market most of the forms are basically joint-stock companies at present. (Wang 2005, 323)

In 2005, one of the biggest Chinese insurance company, China Life Insurance Company Limited, implemented its business restructure and it turned to a conglomerate group company whose business areas involved property insurance, the life insurance, the health insurance, insurance broker, asset management and many other domains. Since 2005, another big group, People's Insurance Company of China (PICC), have continued to develop kept its life insurance and asset management business steadily and they have become involved in the property insurance field. Also, China Reinsurance (Group) Company has made very good progress in the part of reinsurance. (Yan 2007, 67) Three big state-owned insurance groups' establishment symbolizes that the Chinese insurance industry was fallen into mixed insurance business mainly based on these big insurance groups era. Additionally, another two big joint-stock organizations, China Pacific Insurance (group) Co., Ltd and Ping An Insurance Company of China, Ltd have integrated their business and structures to become insurance groups respectively.

Today in the Chinese insurance market, excepts these several big insurance companies running their business, the rest of the organizations are all SME property insurance companies. These companies usually do not have a big share in the Chinese insurance market, and they have much higher costs compared with the big insurance forms, especially in the part of risk costs. These SME property insurance companies are always struggling to cope with price war situations which will probably lead their business performance to volatility.

Since the insurance business started in China, the SME property insurance companies have been established increasingly in the past several years. These companies' ownerships are in various forms, their business is involved in many different insurance areas and it seems these companies are going to play a more and more important role in the insurance industry.

Usually three main indexes are used to measure the position of the SMEs in the market:

- The proportion of SME insurance companies of the total number of industry
- The numbered employees' in SMEs compared to total number of employees in the industry
- The output value of SMEs compared to total output value number of industry

Of course, there are also some other indexes to measure methods such as comparing the profit tax of SMEs insurance property companies with the total tax of the whole industry.

In Table 3, the number of insurance companies, premium income and SME ratio are shown.

Table 3. The proportion of SME property insurance companies (He 2005, 143).

2008 1 €= approximately 10 Yuan	SME companies	All companies in the industry	Proportion of SMEs
Number of companies	42	45	93.33%
Premium Incomes (Million Yuan)	75174.07	208648.44	36.03%

The data from this chart can be analyzed as follows: although the number of small- and medium-sized property insurance companies' accounts for the majority, their premium incomes are obviously lower compared with the income from the large insurance groups. The changed policies of SME companies cannot make significant influence on the market.

SME companies also have a disadvantage in the capital strength. Especially, when big property insurance groups become listed companies, gaps between the big groups and small companies increase. The capital limitation brings many troubles when SME insurance companies are running their businesses. Also, they have limited investment channels and investment experience compared with big insurance groups and the foreign funded insurance forms.

- compared with big insurance groups, SME insurance companies suffer from the lack of capital
- compared with some foreign funded insurance groups, the rate of the investment income are much lower in SMEs than in foreign insurance companies

The investment income is much lower, and the SMEs are depending more on the income from the part of underwriting profits. On another angle, because of the lower investment incomes, these companies usually use policies of providing cheaper product prices to their customers than the big groups and foreign forms in order to get more underwriting incomes.

Additional, the big three insurance groups have lots of institutions in the whole China, and they have already set up a relatively perfect network of selling their services and products. For approximately the 20 years past, they have established very huge advantages in the competitive market and, therefore, most of the customers prefer to trust these old brands of the insurance groups. This situation is not easy to change.

Although the small- and medium-sized insurance companies have occupied some market shares and they are also trying to enlarge their business by offering various insurance programs, for the moment, SME business performance still cannot exceed the big three insurance groups, which hold a majority position on the Chinese insurance industry. How to improve their performance with unique and special service and how to develop themselves in the fiercely competitive markets are the most important operations on their desk right now.

2.3 Capabilities of SME insurance companies

Because the SME insurance companies do not have different businesses, it is relatively easy for them to manage the company. They do not have complex corporate structures, so it increases the chance of communication and facilitation of cooperation between the employees from different departments. The policies could be relatively easily changed, depending on the requirements from the markets, without many worries from the other departments.

The small- and medium-sized insurance companies have played very well in the special insurance market because of their strong technicality. Usually they also have flexible management in the internal companies. This advantage is giving a very large developmental space for these companies, also because China is a very big developing country whose insurance industry still has a large potential market demand in the coming decades.

SME insurance companies might just have a small market share; on the other hand, compared with big insurance groups, the profits from a small market share might be enough to satisfy the developing requirements of SME companies at the present time. So usually these companies do not pay all attention on the insurance part which they are involved in and discover new insurance areas. In this case, the SME insurance companies will obtain competitive advantage in the markets they focused on because the large insurance groups usually prefer to take care of the part of how to maintain the market share which they have obtained and pay little attention on the new market development and subdivision. (Wang 2005, 248)

Currently the small- and medium-sized insurance companies do not have the capability to rob the market share of the regular insurance companies. So at the present times, these companies have started to provide the customers with unique service or offer the service to the special people in order to develop themselves and enlarge their market shares. For example, HAI provide the new insurance like Catering Liability Insurance and School Loans Insurance. These two insurances are first time to appear in the Chinese insurance industry. Catering Liability Insurance is to support the third party whose life or assets get lost and the School Loans Insurance is to support those who cannot afford his or her study fees which lead them to lose their studying chance in the colleges. (Feng 2002, 89)

In the present time, all of the property insurance forms are mainly running the traditional insurance business and most of them are lacking the capability of developing innovative coverage. Reinsurance, insurance brokers, and risk management has been just recently established for a while. Therefore integrated management level is not very high, which leads the insurance product categories are usually planned without any pertinence, without variety of insurance product categories or possibilities for so good sales channels. These general factors

offer a good chance for the SME property insurance companies to make their business innovation and win the potential advantages in the future competition.

There are several aspects which all property insurance organizations should be paying more attention to, especially the small companies. Firstly, they need to expand and enlarge service to more segments of the market and, secondly, they also need to improve the quality of service and establish more after-sales service institutions. Thirdly, they also need to make separate suitable policies in different economic areas to adapt to the various economic surroundings in China. Because of the lack of capital and competence, SME companies usually have to face the fact that their services suffers from many defects, especially when they cannot analyze the local pattern of economic development accurate. In this case, the lack of money is the heaviest problem for SME companies because their research reports and collected data cannot be latest and accurately. Meanwhile, it will also make them lose the opportunities to gain information about potential customers and lack of tracking and monitoring after their products are launched on the markets. For example, HAI launched so called auto loan guarantee insurances in the Shenzhen in 1998. In the first periods of this insurance, it was truly increasing the premium incomes for HAI. However, HAI didn't realize the insurance period of auto loan guarantee insurance was about three to five years, This meant that the risk of this insurance to be released was two years after the insurance was pushed out to the market. Finally, the company was beat by risk because they did not make enough research on the credibility of the customers who applied for the loans and also the credibility of the car selling institutions. Many cases of customer malicious default loans happened, but also even the underwriting employees arranged conspiracies with the customers and car selling institutions cheated to gain the false loans. This situation resulted in that the company's consequential loss was over 2000% and also let this insurance program of HAI totally being kicked out of the market with huge losses. (Jiong 2006, 136)

2.4 Opening of the Chinese insurance markets

The world economy globalization will drive the Chinese insurance industry to open up increasingly in the coming years. How to start opening the insurance market in China is an issue

which has been discussed by many experts in China. There are two main modus operandi, which are the following:

- set up new wholly-owned company
- purchase shares of the existed forms to enter the market

Many countries set up some restrictions to protect their own financial market when the foreign funded establish the new wholly-owned company, then there must be many troublesome for these foreign organizations or capitals. There may be challenges such as different local cultures and customs for these purely foreign funded organizations which enter into China. The second method means that foreign companies could, through purchasing the shares of the Chinese funded companies, to enter into the Chinese insurance market. This method might be easier for the foreign companies to solve the problems mentioned in the first method and they can start their business more easily.

With the further opening of the insurance market in China, the main business of property insurance subjects will be increased, especially because of the influx of many foreign funded insurance property companies. The fierce market competition will be a severe test, testing the capital strength and management operation level. The pressure from the big insurance property groups and the new foreign funded insurance organizations will make the small- and medium-sized insurance property companies to have a survival problem. The big insurance property groups usually do not have such problems, while SME companies have to pay more attention to their own long-term development. On the other hand, the balanced development of the SME insurance companies also will lead the big insurance groups improving their deficiencies and then the whole Chinese insurance industry is promoted. (Bo & Liang 2007, 117)

Currently the new establishment property insurance companies are Sino-foreign joint venture as a majority. As these three big property insurance groups play a very important role with too many Chinese citizen customers, consequently the medium and small property insurance companies should pay more attention to undertake more responsibilities of opening the Chinese insurance industry. This will prevent the huge impact from opening the Chinese insurance market to Chinese citizens and, meanwhile, it also could help the medium and small property insurance companies in improving their operational management capabilities. (De 2006, 64)

2.5 Positive effects for Chinese insurance market structures

It is very important to improve the Chinese insurance market and its competitive capabilities by establishing new small- and medium-sized insurance companies. Usually the management and marketing policies of SME companies are much more flexible and diversified, so these situations might be more fitted with the present situation of the Chinese insurance industry.

Nowadays the big three Chinese insurance groups have been Oligopoly in the insurance market that means there is not enough market competition and the market structure is not appropriated with enough risks. Let's assume that somehow one big insurance group would have a solvency crisis problem, so that they could not afford insurance fees any more. Then what could happen next? The answer is matters could lead to many huge, serious, even disastrous effects in the Chinese insurance market. Fortunately, with the increasing establishment and development of new SME companies and the decreasing market shares of the big three insurance groups, the Chinese insurance industry is becoming more and more competitive.

On the other hand, although the SME property insurance companies have brought some competition against the big three insurance groups on the market, apparently this situation needs to be expanded, because until 2008, the big three insurance groups still hold about 60% of the market shares. Many critics have said that the large insurance groups occupy too big a market share which will make Chinese insurance industry face too many risks in the coming several years. Therefore, how to develop the small- and medium-sized insurance companies is one of the big issues concerning the whole Chinese insurance industry.

2.6 Unbalanced business structure

Due to the fact that the position of large insurance groups is unshakable in the short time and with more and more foreign insurance companies entering, the market for the SME property insurance companies is becoming smaller and smaller. For instance, the automobile insurance business is becoming increasingly competitive, which decreases the profits of the automobile insurance. Under the big pressure from PICC, CPI and CPAI, the profit capability of SMEs turns

extremely fragile. Meanwhile, the misbehaviour of the intermediary market is another reason why smaller companies have experienced a serious increase in their business costs.

The common characteristics of small- and medium-sized property insurance companies are: most of them are having an unbalanced business structure and the automobile insurance business occupies a very high position in the whole business. However, there are no apparent signs that it is the result of choosing to use a centralization strategy or a differentiation strategy. In the present time, there are no insurance companies which only focus on doing automobile insurance business. Business policies of all the insurance companies in China are optimizing the structure of their business to decrease the automobile insurance items in the proportion of their whole business. Unfortunately, it seems that most of the changes in insurance organizations' operations have not been good enough in the past several years.

Excessive dependence on the automobile insurance has made the insurance companies bear too many risks. For instance, the total premium of all the insurance companies in China was 111 billion Euros and the automobile insurance premium amounted to about 77 billion Euros, it almost holds 69% of the entire premium. In 2006, the automobile insurance premium income was about 87 billion Euros in the proportion of over 68% of the entire income. In 2007, this insurance item still held the first place of the entire insurance items and data was over 71%. (Ying 2005, 212) In these years the profits of automobiles insurance decreased sharply and some of the insurance forms even lost their breakeven point. For example, the profits of automobiles insurance in Shenzhen market continually decreased approximately 29% annually from 1997 to 2005. In 1999 and 2002, the insurance market in Shenzhen met two serious malignant competitions so that almost all the insurance companies in Shenzhen used improve poundage and premium discounts to seize the market share. (Jiong 2006, 74)

In 2005, the comprehensive cost rate averaged of the automobiles was about 103% that means each premium charged was 100 Yuan (10 euro); the insurance forms lost 3 Yuan. In 2006, the insurance profit margins of automobile insurance were about -4.7% in China. (Ying 2005, 48) Therefore, if this situation will not change, it could lead to the decreasing of the total insurance profits and have a negative effect on the solvent capability.

So, the business structure of most small- and medium-sized property insurance companies is on serious unbalanced. On one hand, due to the price elasticity of automobile insurance market demand, it is thought to reduce the price to enlarge their business quantity level. An automobile insurance product has usually a low technical content and it is a relative easy product for the insurance salesman. On the other hand, medium and small property insurance companies are lacking their own unique insurance products and basically just follow main insurance programs in the market.

Secondly, due to the capital issues with limited underwriting capabilities of SME insurance companies, the big enterprises prefer to sign the contracts with big insurance groups on the part of their non automobile insurance items.

Thirdly, because of the market monopoly, PICC, CPI, CPAI hold most of the market shares on the non automobile insurance parts. That means SME insurance companies cannot obtain strong market shares in non automobile insurance market, which makes it easier to understand that they will focus their attention on the automobile insurances.

2.7 Insurance product similarity

Although there are many insurance companies in the market, most of their products are very similar with each other and the contracts of these products from the different insurance companies are close to each other. Additionally, some of the insurance companies use one insurance program with the same contracts in the different places and they do not offer the different contracts which depend on the demands of the different customers. Usually, these formatting products cannot satisfy the requirements of all the customers. With the development of Chinese economy and the increase of living standards, the spending habits and consumption methods of people have be changed a lot and these changes indicate that the markets put forward higher request on the insurance product diversification. Each region's economic development level and the demand for insurance are different. Apparently environmental risk of each area is different, if they all use the totally same insurance contracts, then obviously they cannot satisfy the special requirements in some areas. For small- and medium-sized insurance companies,

because of the disadvantage on the part of brands and network selling, it means that if they also use similar service with their products, they might have to face the situation of losing customers.

Because of the lack of market competence, services and products from different companies are often having the similar or the same patterns in the Chinese insurance industry. Many new established organizations launch out their services and products with just changes in some details or names to the market. This may be a serious problem for the small- and medium-sized property insurance companies which are short of the professional talents and enough capital. The financial product itself is easy to imitate and the only difference is embodied with category quantity or category combinations. For instance, different insurance companies provide auto insurance items in Shenzhen. They have put out many so-called different special auto insurance products, but for the customers these products are very similar without any big differences and some of them even add the unnecessary complexity in calculation. (Jiong 2006, 87)

Another reason for the difficulty of innovation is publicity of the product details. For example, if a company needs to start and develop a new insurance product that means the company not only has to collect information about insurance accidents and related affairs, but also needs to spend lots of resources including capitals and human resources to analysing the collected information details in order to calculate the best profits for the company. Unfortunately, after this huge spending, the results usually are very difficult to protect by the intellectual property rights and it is quite easy to be copied by the other companies through changing some non-role details of the products and service with a little different repackage. That means the insurance company may obtain a late-development advantage through delay and develop a new products or service. Firstly, they can save huge costs by copying the other innovative products of other companies. Secondly, they can use small resources to improve other companies' products and services based on observations of the product market reactions in order to improve their own profits. In fact, many small- and medium-sized property insurance companies use this modus operandi to get more profits in their starting period.

2.8 Market competition

Property insurance companies and branches have been rapidly developed in a relatively short period of time. At the end of 2008, there were approximately more than 120 insurance companies in the Chinese insurance industry. There are 10 insurance groups and holding companies, 44 assets property companies, 56 life insurance forms, 7 reinsurance companies and with about 12 insurance asset management companies. From the national angle, there are 65 Chinese funded insurance organizations and 48 foreign funded companies. The Chinese funded organizations include 30 assets property insurance companies, 32 life insurance forms, 3 reinsurance companies are Chinese funded. There are approximately more than 1150 district insurance branches with about over 60000 sub-secondly institutions in the different parts of China in 2008. (De 2006, 129)

Until 2008, there were approximately over 2650 professional insurance intermediaries in 2008, compare with 2007 increasing 189 intermediaries, which include 1853 insurance agencies, 363 insurance brokerage companies and 384 insurance assessment companies with about over 3 million insurance employees in the whole industry in China. (Fu 2008, 235) The insurance industry markets are becoming increasingly active in the cities and initially formed various forms of insurance organizations and the composition of ownership of property insurance companies coexist with fair competition and common development.

Most of the insurance companies businesses still have not developed in a mature pattern. As we know, most of the SME insurance companies do not have any big advantages; consequently they often adopt to use the decreasing of the price in the competition. Some of the SME insurance organizations think the most efficient way to attract customers is to give more discounts for the consumers than their competitors do. This step is due to their low profit income, the more discounts they offer, and less income they get from the market. The result is that insurance company profitability falls rapidly with gradual upgrading of vicious competition which causes serious trouble in the whole insurance industry.

Since the event '911' happened in the United States, the global insurance business was developed rapidly in the past 10 years, but there is an opposing situation taking place in the Chinese insurance market. Because of the upgrading of vicious competition, the momentum the

property insurance business is increasingly declining, especially on the main types of enterprises insurance, freight insurance and liability insurance. With the decreasing of the insurance rates, the reinsurance business is affected badly and also has to face serious financing issues; it leads many small insurance companies to lose their business opportunities by not being able to renew their products or services. The majority of the insurance companies cannot completely solve this situation and some of them only subtract or cut the poundage further and some small ones lose their profits in some special insurance parts. I have realized that most of them have to face the troublesome future which means when the insurance rate level declines, the possibilities of catastrophic risks are increasing. (He 2005, 219)

A monopoly situation also means that the survival of small and medium property insurance companies and their development space are becoming excessively narrow. In order to gain necessary room for survival with enough market shares, these medium and small property insurance companies have to sacrifice their own industry monopoly profits for the premium incomes, which mean they have to use a competitive price as the main marketing strategy against the big insurance groups. Nowadays in many areas of the Chinese insurance market, the insurance products or services from the different insurance companies have low degree of differentiation, sometimes without some necessary additional services. An insurance product is different from physical merchandise; because even if customers have brought these insurance products, but if they don't meet any danger experience which cannot feel excited about an insurance product in their daily lives. For some customers that the price becomes the decisions factors for their choice. For the new companies the only competition advantage for them is to cut their price. The old companies, which have some percentage of the market share, feel that their shares were 'stolen' by these new insurance companies. So, they will also have to decrease their price of the products and service which just leads to another turn for the price war and fiercer competition. (Bo & Liang 2007, 198)

But if the big insurance groups, having a dominant market position and enough capital, improve their business operations and control their business costs in order to reduce their cost below the cost of insurance industry average and then when the price war starts again, the SME property insurance companies will fall into a very difficult position against the big groups. Small- and medium-sized property insurance companies' service outlets are less than the large size

insurance groups' without any brand advantages, so their products are similar to the products of the big groups with similar price. The customer usually prefers to choose the insurance products from the big ones. If they want to use a decreasing price method to add their profits, it will increase the business risks.

In addition, the strength of the insurance companies and the insurance of intangible assets are key factors in the insurance business competition. This leads to many SME insurance companies preferring to choose insurance areas which are easy to control and have low risks with low level techniques. Many small insurance companies are focusing on the same areas of the insurance business which brings them very high level of the enterprise costs, and they have to meet their survival problem again.

2.9 Development manner

Many small- and medium-sized property insurance companies like to pay more attention how to enlarge on the scale of company size than the benefits of their business on their policies. As a part of internal employee evaluation mechanism, they encourage their salesmen to try their best to win every customer resources and market shares from competitors in the market and they think that is the most suitable way to develop their firms in a balanced way. But with increasing fees of salesperson and intermediary agents and other operational fees, the costs are far beyond the range which these companies can pay. From some company cases, we can see that long term business development is needed in order to avoid the deficits. The pursuit of short-term profits makes it difficult for the insurance salesperson to adapt this situation and it may affect the insurance business goals in a negative way and it will also bring more risks by increasing the loss ratio. (Sheng 200,102) On the other hand, many insurance companies lack a strategy on risk management, and most of them still put the premium incomes as the first important objectives when they are making their strategies. This phenomenon is bringing hidden dangers for the paying abilities and stability of the small- and medium-sized insurance firms.

It is true that companies accumulate capitals and expand their business scale in the short term by using this kind of a method. Firstly, a certain scale of business income is the premise of

operating insurance business, and a company has to have a certain market breadth in order to decrease the risk and maintain stable operations. Secondly, the expansion of the market for the enterprise means the expansion of consumer groups and it will bring convenience for the further marketing operations. Thirdly, the expansion of an enterprise means that the company becomes well-known due to brand advantages. Insurance products are special financial services (which through the insurance contract pay compensation for the accidents), and generally the immaterial nature of products increases the difficulty of insurance sales. So, when the company has a certain scale of their business with good reputation, the potential customers will often start to trust and have a desire of buying the insurance products which helps to reduce the costs of expanding the market. But if a company seeks to ensure short-term profit blindly, it will be difficult to maintain the quality of insurance products which they provide to their consumers. This is not good for the company in the long run.

2.10 After-sales service

Most of the small- and medium-sized property insurance firms do not have a comprehensive and completed after sales service system. Some of the insurance firms have not put themselves in a right position to care and devote themselves their customers, and some even use so called special requirements to refuse the customers for compensations, which causes harm for the interests of the insured and also cause a very negative image.

It is often difficult for customer to get the all their claim expenses, which is one of the biggest issues in the Chinese insurance industry. In many cases, customers feel it is quite troublesome and difficult to obtain their claim fees. The rate of paying the insurance indemnity to the customers reveals the fame of the insurance companies, but in fact many insurance companies do not have the right insurance indemnity payment systems which lead to a situation in which customers sometimes cannot get their claim fees.

Additionally, sometimes the contracts of the insurance products have some very uncommon professional words and sentences in them which make it difficult for the customer to understand

or give a wrong idea to the customer. Then after these customers have accidents, they probably will not get any or they will get less than they expected as claim fees.

As many other industries, insurance companies usually pay much more attention to their products than to customers in the long run. In the early times of the Chinese insurance market, this strategy may have been suitable for companies to develop themselves, but with the development of the economy and increasing number of insurance services and products, the customers' consuming behaviour has been changing a lot and customers have many more choices than before. I think insurance firms should pay more attention to the customers' demands than their own products and services. This change might help these insurance firms to improve the business efficiency and obtain more shares in the insurance markets. For customers, the quality of the after sales service is one of the most attractive factors when they are choosing products from different firms. So, after sales service also could help insurance firms, especially small- and medium-sized insurance organizations to build and improve their brand advantage and image in the Chinese insurance market.

2.11 Comparison with foreign SMEs

Finally, we can make a comparison between Chinese and foreign small- and medium-sized companies within the insurance industry.

2.11.1 Comparing premium incomes

In 2008, the Chinese premium income was the ninth of the whole world premium income rankings and its property insurance premium income was over 220 billion Yuan (1€=about 10 Yuan at that time). The property insurance premium income accounted for about 30% of the whole premium income in the whole Chinese market.

In 2007, a Chinese insurance industry research report reveals that with the development and huge demands of the new insurance markets, the global property insurance business raised 2% from

previous year. For the premium incomes part, Chinese insurance market had achieved the third position in Asia, after Japan and South Korea. Chinese insurance market is the most rapidly developing market in the world.

The real growth rate of both property insurance scale and general premium incomes in the Chinese insurance market are larger than in the foreign insurance companies and the growth rate of small and medium property insurance companies is much higher than the other areas of premium growth rate. However, because of the late establishment and weak basic business, compared with the premium incomes of the foreign companies, small- and medium-sized insurance firms in China have still a long distance to catch up. In 2006, the premium incomes of the Chinese insurance market just achieved the level of 4%, compared to 21.3-23.7% for the US, German and British markets. (Wang & Zhang 2007, 236)

2.11.2 Comparing market performance

There are many reasons why the Chinese insurance companies have not a high efficient performance in profits. The main factor is that the Chinese insurance firms prefer to pursuit the development of their business scale rather than profits in the market. From the underwriting profit part, most of the foreign insurance firms perform more efficiently than the Chinese insurance companies, because they pay more attention to the quality of the insurance products and services than the Chinese insurance firms do. From the investment profit perspective, the profit levels of Chinese SME property insurance firms are also much lower than most of their foreign counterparts. Because the efficiency of utilizing resources is not good enough, some of the small property insurance firms are almost near to deficit. Then how to develop these small- and medium-sized property insurance organizations? From the experiences of the foreign insurance companies' development, the key is striving to develop the capital using business— investment part, which means using the profits from this part to cover losses from the premiums directly. The Chinese insurance companies emphasize the premium parts much more than investment parts, and some of the new and small property insurance firms don't even have a department responsible for investments. Many SME property insurance companies have established their investment departments for only lately, and without enough professional

investment employees in the company that many of those organizations do not have enough confidence to control or keep their capital in a safety position. Then many insurance companies prefer to choose some low risky investment program such as investing in the national debt, and some of them even just put their money in the bank directly.

After the Insurance Industry Reform and Development Suggestion legal forms launched out by the Chinese government, the investment channels for insurance capitals have expanded, which is becoming a more and more convenient way for the insurance companies to deal with their capital. For example, I think while the Chinese insurance industry is developing, there will less and less insurance capital will be deposited in a bank; instead investments will be invested in bonds and basic infrastructure such as express highways and railways. Meanwhile, with the development of the Chinese Stock Market, an increasing number of insurance firms will invest their capital in the stock market and the quantity of stock holdings of insurance organizations will be increase rapidly.

Until 2006, the using capital in Chinese insurance industry market was over 2000 billion Yuan (1€=approximately 10 Yuan at that time). At the end of 2008, the Chinese insurance using capital was over 3300 billion Yuan in the market. In 2008, the whole investment profits of the Chinese insurance industry were over 400 billion Yuan and its average investment yield was over 12%. (Fu 2008, 308) The huge improvements of the investment profitability means also bringing improvements to creating innovative insurance products and improving the profitability and, meanwhile, solving the issues of solvency. For instance, one of the small insurance companies — HAI made a great profit from their investments from 2006 to 2007. It was one of the Chinese funded insurance companies with high speed development to obtain the profits and its whole assets from 26.48 billion Yuan increased to 45.12 billion Yuan, compared with the same data in 2005 and 2006, amplification is over 3000%, 170% respectively. (Cheng 2008, 108)

In the other developed insurance countries, the insurance firms in these countries usually have comprehensive and completely investing management systems. Therefore, the strategies of these companies generally are very positive considering both investment capital safety and profitability. In 2005, the investment profits of non-life insurance business in US, Canada, UK, France and Japan were all over 13%. (Wei 2008, 160)

Insurance funds have high safety requirements, which bring both huge profits but also risks for these insurance companies. In order to control these risks, the insurance firms have to build up the professional structure against the risks. Foreign experiences of insurance industry show that insurance investment experience from internal management or a trusted external company is needed to set up a professional investment subsidiary and process for controlling the situations. Generally many big foreign insurance groups not only establish subsidiaries of investment & assets management, but also purchase or hold other fund management companies. Many of these subsidiaries have fully independent directors, management team, organizational structure with unique investment concept, and top business investment and have outstanding professional field of investing. Usually these investing firms control the assets of both their parent company and third parties. Based on the experiences of foreign insurance firms, we can notice that they usually use a large amount of capital to invest in stocks, bonds, real estate or futures and options such as financial derivatives.

Compared with strong performance of foreign insurance companies, the spending of the small- and medium-sized property insurance companies is more unreasonable with a low level of claim ratio which means the customers obtain less compensation than the foreign insurance policyholders or the insurant. This situation will lead to these insurance firms increasing the price of the products and services. These issues just prove that small and medium Chinese insurance companies do not have good performance in the market comparing with their foreign counterparts.

2.11.3 Comparing market structure pattern

There are four main types of market structures within insurance industry, which are the following:

- ✚ Perfect Competition Market
- ✚ Perfect Monopoly Market
- ✚ Oligopoly Market
- ✚ Monopolistic Competition Market

Theoretically speaking, the perfect competition market does not exist, but some of the markets with special characteristics are very close to this kind of a market such as the market in Hong Kong. Hong Kong has always had high economic freedom; the insurance market is almost without any interference and obstacles. Therefore, the foreign insurance companies can easily enter to the Hong Kong insurance market. The number of insurance companies is basically adjusted by the market itself. From the economic efficiency perspective, a perfectly competitive market is the most efficient market, but it also is disadvantageous to the insurance market stability. Therefore the mainstream model of insurance market structure is a monopolistic competition market and a oligopoly market.

Monopolistic Competition Market is widely used in the developed countries today such as in the USA and Germany. The American companies who run the business of management property insurance are about over 3800 companies in 1997, but most of the property insurance market have occupied by about 900 insurance companies. (Ling & Xiang 2001, 342) From the angle of the insurance structure, the US insurance market is an example of a typical monopolistic competition market structure. The market has numerous insurance companies, but only a few large insurance companies have an absolute advantage in the market. The United States insurance market is one of the relatively stable global insurance markets in the world. One reason why American insurance market is always relatively stable is that America has good insurance industry structure: They have a very great and complete insurance structure in the market. Despite the amount of the SME insurance companies and the big insurance groups' business scale are increasing, but for these new established insurance organizations have less negative affections from the markets.

Compared with monopolistic competition market type of the US insurance industry market, the Chinese insurance industry market is belonging to oligopoly market type nowadays. Generally the Chinese insurance market lacks vitality and benign competition. The Chinese property insurance market has been a high concentration market in the past ten years, but this situation has been changing in the past five years. In 2003, the biggest three insurance groups in the Chinese insurance market covered over 92% of the market shares, but decreased to 73% and 64% in 2005 and 2007 respectively. It means rapid decline of market share of big three insurance groups and more intensified competition. (Annual reports 2007)

With the further opening of China's insurance market, the main body of the market is turning to be more effective with a more reasonable structure. The Degree of monopoly of the Chinese insurance market is gradually reduced and competition in the market is gradually strengthening, from the oligarchic market to monopolistic competition market change which means the Chinese insurance market is from Oligopoly structure patterns to becoming more and more Monopoly in the coming future.

2.11.4 Comparing main business sectors

In the international market, small- and medium-sized insurance companies are normally professional insurance companies and they usually focus on running a single business operation. For instance, some of the SME insurance firms focus on life insurance only, or only provide car insurance services. But at the same time these small insurance firms use all of their resources, including talents and capitals, to develop and improve the main insurance business sector which they involved in. This strategy helps them to concentrate on one or two insurance businesses and expand the market by depth and breadth. For example, assume both a small insurance company A and a big insurance group B are developing and involved in the assets property insurance business, meanwhile the big insurance group B is also involved in other insurance business sectors. In this case, we can see the small insurance company A may not have many resources and much capital as the big group B, but firm A uses all its resources into the assets insurance which reads it to possess more competence and service and management abilities than the Group B in the assets property insurance business. Usually in the developed countries and regions, although the small- and medium-sized insurance firms do not have big market shares in the whole insurance markets, they often have very high market shares in the rank of one or two business sectors which they are involved in.

In the Chinese insurance market, there is only one purely specialized insurance firm, TAI, which is specialized in car insurance products. Most of the small- and medium-sized insurance companies prefer to use comprehensive management strategy in order to pursue general development in every insurance business. In general, the Chinese small- and medium-sized insurance companies have very similar business structure without any special professional

features or obvious differences which does not help these companies to improve their competitiveness in the market.

The Chinese small- and medium-sized insurance companies usually not only undertake marketing & sales, underwriting, insurance claims, but also operate in many different insurance sectors to develop themselves. This makes it hard for the companies to fully use their limited manpower and material resources, to improve their specialized technology level and more advanced services to obtain more customers. On the other hand, the foreign small insurance companies usually though analysis the market demands and then develop their advantage and avoid the disadvantage to develop and innovate one or two insurance services as their key products to obtain more market shares. In strengthening capital powers, increasing profits, expanding the sources of profits and avoiding risks, the Chinese small- and medium-sized insurance companies still have a lot to catch up.

3 RESEARCH METHODOLOGY

The research problem and questions have been presented in the introduction, so in this chapter I will present the research methodology of this thesis. This chapter includes three main parts, including research design, data collection and analysis and reliability and validity.

3.1 Research design: qualitative research

Based on the research problem, which is explorative in nature, I decided to use the qualitative research as the research method. Qualitative research is generally considered as an unstructured research methodology which is often used when research problem is explorative in nature. Through this unstructured information analysis, we can further understand the subject of the study clearly and make our own insights of the subject.

Qualitative research seeks out the ‘why’, not the ‘how’ through the analysis of unstructured information – things like interview transcripts, emails, notes, feedback forms, photos and videos. It doesn’t just rely on statistics or numbers, which are the domain of quantitative researchers. (QSR International 2007)

Qualitative research is used to gain insight into people's attitudes, behaviors, value systems, concerns, motivations, aspirations, culture or lifestyles. It is used to inform business decisions, policy formation, communication and research. Focus groups, in-depth interviews, content analysis, ethnography, evaluation and semiotics are among the many formal approaches that are used, but qualitative research also involves the analysis of any unstructured material, including customer feedback forms, reports or media clips. (QSR International 2007)

Collecting and analyzing this unstructured information that can be messy and time consuming using manual methods. When faced with volumes of materials, finding themes and extracting meaning can be a daunting task. (QSR International 2007)

In this research, case studies and depth interviews were chosen to be main research methods, and it was meant to gain a clear understanding of the insurance industry business in China. Through analyzing two company cases and interviewing two professionals who have been involved in the insurance business for a long time, the aim was to gain insights from these company cases and experiences of the interviewees in order to analyze the business situation and get my own understanding of this topic and insurance business.

3.2 Data collection and analysis

In generally, two main data collection methods to be considered to be used in the research which are the following:

- ✚ Primary data
- ✚ Secondary data

A basic interpretation will be presented of both primary data and secondary data and how to collect those data.

Primary data is the specific information collected by the person who is doing the research. It can be obtained through clinical trials, case studies, true experiments and randomized controlled studies. This information can be analyzed by other experts who may decide to test the validity of the data by repeating the same experiments. (Barker 2010)

Secondary data is information which has been gathered before by somebody else other than the researcher for some other purpose other than the research aims at hand. Secondary data are usually much cheaper and easier to be collected and thus less time-consuming. (Burns & Bush 2003, 152)



Figure 2. Primary and secondary data classification (Feng 2008).

Some of the information gathered is from relevant reports, internal materials from case companies, relevant books, and other information is secondary data which is collected from Internet, relevant books, magazines and journals. The primary data from depth interviews is of high relevance for this study.

3.3 Reliability and validity of the study

In any kinds of research, whether they have been done or are going to be done, there are errors as there will always be differences between the research results and the real value. Unfortunately, there would be no way to know about the real or true value because if it was known, then there is no need to do the research. So, usually we use reliability and validity to estimate the errors occurred in the research. (Kent 2007, 141)

A scale is said to be reliable to the extent that it produces consistent results if multiple measures are taken. That is to say, if I design a research and I ask the same respondents to answer my questions in different time, the result I collect at different times should be consistent with each other, and then I can say, my research is reliable. A scale is valid to the extent that it measures what it is intended to measure. Specially, if I design a research and the result I get from the respondents can explain the problem I try to solve, then this research is said to be valid. (Kent 2007, 141)

There are four general classes of reliability estimates, each of which estimates reliability in a different way. They are:

- **Inter-Rater or Inter-Observer Reliability**
Used to assess the degree to which different raters/observers give consistent estimates of the same phenomenon.
- **Test-Retest Reliability**
Used to assess the consistency of a measure from one time to another.
- **Parallel-Forms Reliability**
Used to assess the consistency of the results of two tests constructed in the same way from the same content domain.
- **Internal Consistency Reliability**
Used to assess the consistency of results across items within a test.

(Trochim 2006)

In my research, the two professional comments of the two interviewers and some internal data are used for providing perceptions and interpretations of the topic. These interviews can be claimed to represent the true views of the respondents, which means validity in qualitative research. The topic of my thesis is to find out the how to develop balanced development of SMEs in Chinese insurance industry. The whole context of the Chinese insurance business might be much more complicated than I have introduced and just only two case study companies might not give a comprehensive perspective into the Chinese insurance industry. This means the external validity of the results does not hold with all types of insurance companies and with the whole insurance industry in China. In order to generalize these results, future studies into the industry should be done, using also other research methods, such as quantitative surveys.

4 EMPIRICAL STUDY

In this chapter, the empirical results based on two case companies will be discussed.

4.1 Case study

Here, the case study will outline the analyses of how the case companies solve the problematic situations mentioned in the theoretical study and we will discover what they do in order to develop for a long term in the Chinese insurance markets. Two company interviews will be attached.

4.1.1 HIC

Huatai Property Insurance Company of China was jointly established in Beijing in 1996 by 63 enterprises and groups, which is the first national joint stock property insurance company in China. The company registered capital 1.38 billion Yuan and it involves four categories including property losses, responsibility, and accident harm insurance. Until 2009, it has more than 60 cities where branches have been set up and over 10 thousands employees. In 2002, the world famous insurance group—U.S. ACE group bought 13.999% of the shares of HIC and ACE brought advanced management concept and global business network which made HIC's service more comprehensive than before. In 2005, HIC established two subsidiaries—HIC Assets Management Company and HIC Life Insurance Limited. After several years of development, both of these two companies have been developed into very outstanding firms with high competitiveness in their business sectors respectively. HIC has officially launched group restructuring in 2009 and also HIC will be based on the integration of resources and improvement of overall company strength in order to establish a new competitive advantage in the market. Its insurance business has a steady growth and makes new progress in investment business parts. (Huatai Enterprise Reviews)

Since the establishment of the HIC insurance company at the end of 2006, its insurance premium has shown 28.37% average growth, which is more than the national average rate of the other property insurance company. Huatai insurance company obtain 167.82 million Yuan of after-tax profit in 2006, the Rate of Return on Common Stockholders' Equity or say ROE/Profit Margin on Net Assets is over 11.5%. Earnings per share / EPS is 0.1523 Yuan, it over fulfilled the goals that have been made by management board. Total assets had been increasing from 8.15 billion Yuan to 21.37 billion Yuan with Net assets worth of 18.27 billion Yuan in the end of 2006. The solvency capability is 10 times of the standard minimum solvency. The company has been realizing the premium income directly 1.52 billion Yuan with an increase of 25.13% from last year. Its consequential Loss (CL) is over 63.61% with GAAP—General Accepted Accounting Principle adjustment (expenses reasonably deferred) underwriting profit 13.6 million Yuan. Insurance products from the total business are 25.22 million Yuan at the end of 2005, which increases at the end of 2006 with 66.56 billion Yuan, up 1.6 times. In 2006, the Huatai Insurance Company established a decade of the optimal investment performance. Total investment income reached 0.7 billion Yuan and its growth rate was over 27.29% in 2007. (Huatai Enterprise Reviews)

Huatai Insurance Co., Ltd is one of the successful medium insurance companies in the Chinese insurance industry. It has a complete company structure developing in a suitable speed, and it has a comprehensive insurance business systems which includes the after sales service system, product innovation system and foster talent system. Meanwhile Huihai insurance also has a very impressive subsidiary—Huatai Asset Management Company Ltd to handle its investment business. Huatai insurance is one of the fewer insurance companies which could handle its auto insurance business in a very positive way.

In all these competitive advantages, the innovation system of services and products is especially the ace programme of this company. When many small and medium insurance companies have some talents or solvency issues, Huaitai insurance not only makes many innovation steps on improving their older services or products to be more reasonable, but also add some new advantages, such as related-foreign insurance business.

This is a very new insurance business for small- and medium-sized insurance firms. It is considered to provide economic compensation during the loss from the foreign trade, economic cooperation and communication activities abroad. It also includes liability insurance, property assets insurance, life insurance and guarantee insurance. The main difference is that all these situations are taking place abroad and with foreign currency payments. Since providing the related-foreign insurance services to customers which has brought many premium incomes for Huatai insurance Co., Ltd, because Chinese Multinational Group has sent their management talents or employee abroad to get training or to visits, then many those Chinese Multinational Groups pay the life and property asset insurance fees for dozens millions in the related-foreign insurance business market. Huatai is one of the first insurance firms involved in this business and apparently they have done a pretty good job in it. For example, ChinaMobile Ltd sent their employees to visit a place in Barcelona, and when these employees reached Barcelona airport, they took a taxi to go to the city centre through a highway. Unfortunately, two men riding the motorbike followed them from the airport and broke the glasses of the taxi and robbed their money and bags. With the help of the taxi driver, they called the police, who provided the certification to prove that these two Chinese employees had been robbed. Huatai insurance paid claims immediately. This type of service has giving Huatai insurance a positive image among their customers through which the company can establish a competitive advantage based on their brand in the market. This type of active company behaviour also adds balanced weight for their long-term development. (Huatai Enterprise Reviews)

4.1.2 TIC

Tianan Insurance Co., Ltd was established in October 1994 in Shanghai, China. The registered capital of TIC is over 2.1 billion Yuan and the headquarters is in Pu Dong district of Shanghai. The company was founded over 15 years ago, and the scale of operations and institutional construction has been developing rapidly, and now it has 32 branches and more than 1,000 business institutions throughout the country. Until 2009, Tianan Insurance Co., Ltd had 14471 employees throughout the whole country. Gradually the company has grown into a national modern financial insurance enterprise. Until 2009, the company premium income was about 70

billion Yuan and total assets of nearly 72.80 billion Yuan. At present, the company has formed strong market competitiveness of product system and try establishing the IT advantages in the market. It strictly follows, develops and manages the international quality certification system of ISO 9001:2000 and ISO 14001:2004. (Tianan Insurance Introduction)

In one period after the company was established, Tianan Insurance met many problematic issues and mistakes. In 2004, the company tried to increase its business scale as much and as soon as possible in order to gain as strong market share as possible. However, they did not pay more attention on both the product quality and the investment. The return of the enterprise capital was quickly put into the new insurance business sectors: the company started to be involved in many insurance sectors including auto-insurance, asset property and life insurance business in the majority of regions of China. After running with this strategy for a while, the company increasingly realised that they started to meet more and more difficulties and problems on the cash flow continuously which meant solvency problems. Due to the strained solvency, the company started to seek for strategies to save costs urgently, and some of the heads of branches even tried to decline the claim payments which they should have paid to the customers. This situation made the company to lose many old customers, which further worsened and increased the company's solvency risks in period 2005-2007. (Tianan Insurance Introduction)

After the new CEO was chosen, a series of saving strategies were established. The company started to change their speed of development and slow down in aspects which were expected to develop normally. The company decided never try to develop their business scale as big as the big insurance groups had done in a short time. Many new strategies were delivered to company branches. Firstly, the company decided to decline the speed of development and business models which also meant the company ended some of the insurance businesses gradually, for example as its auto insurance business. The company established a professional investment department to control their capital in order not to invest too many high rates of return of financial items and not to start new insurance businesses in the short period. Secondly, due to some unprofessional behaviours of some heads of branches, the company decided to establish a backup talent system and make demotion for all these branch managers who had behaved the unacceptably. Thirdly, to

obtain old and potential customers' new attention, the company decided to decrease the price in a reasonable rank and set up a comfortable after sales service system. The company made many steps of innovation to put out many new attractive services and products in order to meet the increasingly high requirements of the customers.

About one and a half year later, the company's situation turned to better. The former, negative experiences made the company and employees to keep an eye on possible weaknesses. The company states that they started to treat every customer as their 'god' and also they become involved in some big insurance projects, such as Shanghai railway station and Zhong Wei NO.1 satellite, with some other insurance firms to decrease the risks. (Tianan Insurance Introduction)

After strategic actions and goals were made and achieved, Tianan Insurance was able to turn the deficit into profitable turnover in 2007. To get profits in 2009 under the right strategies, the innovation, the talents, developing speed and after sales service systems started to be considered as very important elements for all the insurance companies to develop sustainably.

4.1.3 Interviews

I interviewed two managers of the case companies in summer 2009. The first interviewee was Zeng Yue Ling, Vice Manager at Huatai Insurance Co., Ltd, who is one of the youngest managers in this insurance company. I contacted her for several times and told her the purpose of my visit in early June. The interview was done on June 17, 2009 and it lasted about 1.5 hours.

The other interviewee was Song Wei, a manager at Tianan Insurance Co., Ltd. He has worked for several organizations in financial business field industry for about 20 years. Also, this interview lasted about 90 minutes and it was done on August 11, 2009.

Because both of these two interviewees work for SME insurance companies, the same questions were used with them. The interpretations of these two respondents might be somewhat different, but I think the basic perception of the insurance business industry should be based on similarities. The following texts are based on the transcripts of the interviews.

Interview 1

Respondent: Zeng Yue Ling

Time: 13:45---15:15 17th June 2009

Interview 2

Respondent: Song Wei

Time: 12:45---14:20 11th August 2009

The interviews were started by a question about the respondents' long term experiences in the insurance industry and specifically about their insights on the current situation of the insurance industry.

Mrs. Zeng from the Huatai Insurance Co., Ltd pointed out that after reforming and opening-up the business, the development of Chinese insurance industry has been rapid. At the end of 2004, the total assets of insurance business were over 1000 billion Yuan (approximately equal 111 billion Euros), about 4% of the whole GDP of China. Since 2003, the insurance industry in China has been becoming the world's fastest-growing insurance market. In 2004-2008, the premium incomes of China have been increased from 3000 billion Yuan to 5800 billion Yuan, its average annual growth rate is over 15% and the growth of premium income in the part of property is over 13.5%. More and more new insurance companies have been established annually over 20 every year.

Mrs. Zeng also pointed out that on the other hand, Chinese insurance industry is still in its initial stages, and the insurance industry has a big gap compared with the developed countries with still many issues to be solved. For example, the possibilities for insurance investment capital channels are very narrow. Before 1998, the insurance companies only could put their money in the bank as a deposit, trade of government bonds, or buy other financial bonds which were allowed by governments. Although nowadays the insurance firms could invest through many channels, it is still much more limited than for the foreign insurance organizations.

Mr. Song from the Tianan Insurance Co., Ltd presented an argument that after 20 years of development, the Chinese insurance industry is becoming one of the supporting industries in China. Nowadays, although the growth of establishments of the new insurance companies is rapid, the Chinese insurance business still has a huge potential space for these new organizations to develop. Meanwhile with the increasing number of companies involved in this business, the markets are under fierce competition more and more. Many insurance companies focus on how to increase their scale of business to gain as large as possible a market share without any good preparation. This leads them into developing too fast and brings them many problems. Among these problems, the financial problem is one of them, and it is bringing the biggest problems for the small property insurance organizations. Mr. Song also commented that insurance companies have to always deal with two things: money and customers. Each of these two main elements has some problems that will be a calamity for the insurance companies.

The second question focused on what the respondents think are the main difficulties small- and medium-sized insurance organizations have to face and what are the main factors behind these troubles.

Mrs. Zeng from the Huatai Insurance Co., Ltd first commented that the Chinese insurance industry is still in its initial stages with many problems and difficulties. She reminded that there are several main aspects which should be considered by these smaller companies like themselves. She thought that firstly, many small- and medium-sized insurance companies pay too much attention to developing their scale of business, which has been proved not to be good for the insurance companies in the long run. As a second argument, Mrs. Zeng presented that many insurance companies do not have their own special insurance products. Many of them like to copy other companies' services; and this step might help saving money, but meanwhile for a long time they also lose the innovation capabilities which is not very good for them. Thirdly, Mrs. Zeng thought that their enterprise's structure is not scientific, which produces costs because company resources are used for development and some of them put too much capital on the auto-insurance service, which is very problematic. As a fourth argument she presented that many of

them do not have a comprehensive business selling and after sales system to support customers and other aspects is some of them do not care about how to foster their own backup talents.

Mr. Song from the Tianan Insurance Co., Ltd thought that in the fierce competitive insurance market, each insurance firm will meet their own difficulties including the big insurance groups. For the Chinese small- and medium-sized insurance organizations he stated that there would be four main risks.

First, smaller insurance firms have to face expansion risk; many insurance companies focus on pursuing the premium income scale, market share and short-term gains, but ignore business quality, long-term interests and sustainable development pattern. Since 1980, the Chinese insurance industry was restored; its average growth rate has been over 36% every year that is about 4 times the Chinese GDP growth.

The second aspect which Mr. Song presented is solvency risk. Many of the small- and medium-sized insurance companies were lacking in capital, additionally some Chinese laws limit the investment channels which made the Chinese insurance firms suffer from further capital shortage than their foreign counterparts. He also thought that as China's insurance industry is just in an initial phase, the huge amounts of payment period is not coming yet, and this will be the serious problem for all the Chinese insurance companies and they should pay more attention to them, especially SME insurance organizations.

The third aspect expressed by Mr. Song is investment risk. Although since 2004, many investment channels have been open to the insurance companies, such as bank subordinated bonds. But in the current situation, the insurance capital investments still face the fact that assets cannot match liabilities, and also the market risk threats. Many insurance forms still choose to put their money into the bank or government bonds.

As the fourth aspect, Mr. Song argued is sales risk; because many salesmen of the insurance business have only taken short time training courses within the result that they cannot obtain enough knowledge and skills when these sales people are introducing their products. This situation could cause many mistakes when they are selling the insurance products, which may bring a series of problems.

Finally, the respondents were asked what steps or strategies these small- and medium-sized insurance companies should take in solving the problems that they have met and how the respondents think these small- and medium-sized insurance companies can be sustainably developed in the Chinese insurance markets in the coming future.

Mrs. Zeng suggested that there could be many steps in improving the SME insurance companies' bad performance in the market. First of all they could establish a comprehensive foster backup of insurance talent who also know the management skills system. According to her experiences, talent is the most important part of the insurance business industry. For example, Huatai Insurance Company is now starting to establish this kind of a system against the talent loss. Second of all, she proposed that these small- and medium-sized property insurance firms should take certain percentage of the enterprise capital for innovations. This is also one of Huatai Insurance company's next five year important plans. According to Mrs. Zeng, their company cannot always follow the big insurance groups' products; they need to offer special service to make more customers remember their brand. She also thought that there is a need to complete their after sales system, this step is pretty important for the SME companies. Finally, Mrs. Zeng argued that investment aspects should be enlarged: small- and medium-sized companies cannot just put their money in a bank or just invest in some simple bonds like they did before. Instead, they need to invest in more aspects, such as Huatai Insurance Company is trying to invest in the city infrastructure like highways and financial products.

Mr. Song argued that companies could through these risks discover their shortages, then they could make the steps against the difficulties. As an example from Tianan Insurance company Mr. Song told that when he discusses about the enterprise strategies with the other managers, Mr. Song always tries to tell them they do not want their company to be developed at an unreasonable speed. As an old Chinese saying states 'when there is time you want to increase your speed, then you may probably have lost your speed.' Developing at a reasonable speed, paying more attention on how to increase the quality of company services and setting up a good after sales system are very important. Mr. Song argued that in order to make sure that a company is truly having five customers, and then they will think adding up ten customers; otherwise they prefer to offer more comfortable service at a reasonable price to these five customers. Meanwhile, talent is also very important; in 2004 Tianan Insurance Company has invested in

establishing talent training programmes to foster more talent. On the other hand, Mr. Song replied that they need to decrease the auto-insurance business parts, because this part of insurance is too unusual in China.

To conclude based on the depth-interviews and company case studies, we can present some major factors which are important for the long term development of SMEs within the Chinese insurance industry. In the following subchapters, 4.2 to 4.6., these major factors will be presented.

4.2 Long-term talent development strategy

Insurance industry is labour-intensive in nature, and the integration of talents and organizational structure can have a direct effect on the survival and development of enterprises. Talent management is one of the most important factors related to insurance business productivity. Talent is currently a scarce resource within insurance industry, and property insurance companies should grasp the opportunities to obtain several and various talented employees from the beginning of establishment. After China's access to WTO, the insurance market has gradually loosened and the main insurance business has gradually increased. This has brought on a war among all the insurance companies about hunting for talents. As time has passed, old and new insurance companies have experienced fierce competition about talents: companies having enough talented resources will have the power over competition. After joining WTO, small- and medium-sized property insurance companies further realized the importance of talents, and they felt unprecedented talent shortage that brought tremendous pressure of competition. The issues which they have to face now are how creative and productive human resource management is and how to adjust talent development strategy against the competition from the market. Small and medium-sized companies extensively lack professional talented resources. After the large insurance groups have adopted means to prevent their talent outflows, this problem has become more and more serious. The rising cost of talents is also putting forward new serious challenges for these enterprises and this problem will be more acute after foreign insurance start swarming into the Chinese insurance industry. Besides talent shortage, the quality of talents also gives these small insurance enterprises a huge issue. (Cheng 2008, 97)

However, after further analysis it shows that the most serious problem is not the lack of business talents, but the lack of management personnel. Experiences of small insurance firms show that their insurance business ability is commonly better than their management ability. Therefore, they need to change their philosophy that devote insurance technology and despise business management, then set up a new and comprehensive scientific management system. They should fully realize that developing technical matters is a conventional method for an insurance company, while the management development is a decisive factor. The small property insurance companies need talents who have managerial abilities and can collect and analyze information, rather than technical professionals. The small- and medium-sized property insurance companies shall put talent cultivation and management in the first place. The internal training of employees should have features of combining theory with practice. They should not only pay more attention on training insurance experts in management, making them to have the basic management skills and strategic thinking, but also on training these management experts quickly into the insurance expertise. Planned to improve both professional business talents and management talents into amphibians' talents, who could handle the different situations from both technical level and management level in order to reserves mothball strength for the sustainable development of enterprises. (Cheng 2008, 131-132)

4.3 Special aspects of non-auto insurance business

Talent management is one of the factors affecting the development of the non-auto insurance business. Small property insurance companies should positively attract professional personnel into business, improve the company management level, vigorously develop liability insurance and enlarge potential insurance markets. Due to the fact that non-auto insurance business involves very wide knowledge, the small- and medium-sized property insurance companies need many areas of professional talent to control risks. Cultivation of different kinds of professional talent is a gradual and accumulating process. In order to develop companies in long-term, cultivation and selection of various professional talents is a keyword.

The categories of non-auto insurance sector includes enterprise insurance, accident insurance, health insurance, liability insurance, insurance of credit guarantee, guarantee insurance,

insurance of contents and so on. In different categories of insurance, the small insurance companies need to make different strategies according to the specific insurance characteristics in order to achieve gradual and long-term development. For instance, when small insurance companies are involved in the sector of enterprise insurance, they need to make a scientific analyze and research of their customers, divide customers into several segments based on their business and enterprise cultures, then offering them different special enterprise insurance products and services. This step could help the SME insurance firms to win the customers and avoid intense price competition. Accident insurance and health insurance sectors have shown a strong growth in SME companies for the last two years. Small insurance companies should actively expand their sales channels to get more customers and benefits. As the Chinese legal environment has developed and improved, liability insurance, credit insurance and guarantee insurance businesses have great potential development opportunities in the latest years. With the increasing household income and increasing awareness of the risk, insurance of contents has an increasing demand. Through the insurance combination and insurance innovation, small insurance companies could provide packages of risk management services to meet the diverse needs of insurance customers.

In the current situation, due to the vast differences between the regions of China, insurance firms in different areas have very different situations. For example, because of the frequent typhoons, the branches of small- and medium-sized insurance organizations often experience big lost in the eastern coastal cities in Fujian and Zhejiang province. A recommended competition strategy could be both differentiated and concentrated strategies. The competition strategy needs its various level subordinate business institutions based on market segmentation goals to make a reasonable selection of appropriate target in the market and to invest it. Meanwhile, the aim is to develop the core technical ability and coordination ability, product development and marketing ability with expand the market share of the business objectives to achieve economies and benefit of insurance business scale. (Cheng 2008, 222)

4.4 Innovation and long-term capability

Innovation is a core competitive factor for enterprises, especially for the insurance industry. Because the formation of innovation ability takes quite a long time, small- and medium-sized property insurance companies must create innovation ability from the beginning of the enterprise establishment as an overall development plan.

Innovation is a kind of capability, which is not merely research or product development capabilities, but it can grasp a market opportunity with a technical innovation, correctly and effectively implement the decisions that help the company to launch products or services into the market. There are two main innovations in the insurance market which are commercial technology innovation and scientific technological innovation. The difference between these two innovations is that the commercial innovation does not completely pursue advanced technology, but pursue the business feasibility and business interests in the market as the success of the innovation standard and it depends on the potential performance of the market. That means the market is the key and companies launch their new products and services with new technology according to customer demand and use new products to create and find new markets. (Insurance developing report 2008)

Innovation must be used for an enterprise's core expertise and companies cannot blindly chase what is fashionable in the markets, because all products do not have the value of innovation. Accordingly, if a SME property insurance company wants to launch a popular product, then they must make adaptive selection of relevant insurance sectors to be their own target market. They have to study the economy of these business sectors, and then according to some specific needs design the insurance products. For example, in the past several years, many small- and medium-sized insurance firms have copied other companies' products or services and then changed some small detail and launched it out to the market. However, they have not realized and considered whether these copies could be used for a long time for their own customers in the different areas of the market. In order to avoid this situation, the small property insurance firms shall gradually form a product development system of their own according to the market demand. They have to take into account the Chinese national economic policies and insurance industrial policies, and then they need to make adjustments and significant changed in their own insurance business and

market sector strategies. At the same time, they should focus on product innovation and offering a variety of products in order to provide support for the Chinese social security system services. Meanwhile the companies also should develop unceasingly consummates clauses and reasonable premium standards to make their insurance contract terms to be more humanization and reasonable for different customers. For instance, the small- and medium-sized property insurance firms could make more specialized services respectively in insurance contract terms, which can avoid these VIP customers to invest with high actuarial cost. On the other hand, they also could consider making some new reasonable contracts to let customers with high risk to have a relatively low price. (Wei 2008, 146)

Except paying more attention to the innovation of the products, small property insurance companies also should focus on how to establish new reasonable systems on setting loss exploration, underwriting investigation and financial controlling. Also, how to set up complete business training and performance evaluation systems are key weapons in obtaining their comparative competitive advantages in the Chinese insurance market.

In the current situations, due to general these services or products are lack of copyrights, many insurance products have been quickly copied after market launch. Therefore, most insurance companies cannot establish any product and service advantages in the market. Consequently, small- and medium-sized insurance firms should also focus on the target markets, which could help them to set up their products and services advantages. For example, they can choose the target market according to the level of consumer income.

Fortunately, more and more small- and medium-sized property insurance organizations have started to realize the importance of product innovation and they are trying to achieve changes that prioritize business profits rather than the economic scale by making more innovations and improvements.

4.5 Rational development

Small- and medium-sized property insurance companies should change their business development concepts and try to run their company more reasonably with rational development.

SME property insurance firms should also try to inhibit excessive competition; meanwhile Insurance Association shall assist insurance companies in establishing good communication and coordination mechanisms. Facing the increasingly risky, large commercial insurance project bids, all insurance companies should improve and strengthen communication and cooperation with each others, especially SME property insurance firms. Currently small property insurance companies generally take a wide and general business strategy; most of them have a similar business structure, and some of them are even almost the same in having similar products. Therefore, they should make rational development plans in this unstable period.

Currently, the main development strategy of small- and medium-sized insurance companies is to increase their business and gain more market shares blindly without much thinking about improving the quality of their business. To change this situation, these companies need to change and improve their enterprise management in order to change their development strategies from simply pursuing business scale and speed to caring about quality, company structure and efficiency. They need to also carefully analyze the market, constantly study market dynamics and research and discover the potential market. This way they could have more chances to improve the efficiency and business benefits. They also need to increase the quality and capabilities of their employees. Currently the overall qualities of senior executives are mainly not very high compared with the foreign ones. Especially the grassroots executives are only using the premium incomes as the promotion selection standard. (Shenzhen insurance reports 2005)

Improving these described situations, small- and medium-sized insurance firms should change and improve their management patterns as well as improve the quality and capabilities of their talents. Meanwhile, they need to use a more tolerant attitude towards the insurance claims, such as if it should be compensated then they have to resolutely pay compensation to customers. Establishing the company's development and claims underwriting management system are in order to obtain the customer faith and establish insurance company integrity of positive image in the society.

4.6 Completing and improving service system

To establish a comprehensive service system, medium and small property insurance companies have to improve the quality of the insurance products and improve the business parts which still have some issues like telephone and net insurance selling. The core business competitiveness for the insurance organizations is service. Only innovating on the services in order to meet the customer requirements is the way to develop these companies in a balanced way. Not only the SME property insurance firms but also big insurance groups have to establish more innovation steps such as set up the Internet buying service and establish a customer track systems in order to run their enterprises in a sustainable way. Innovation steps also include realizing the benign interaction with customers, actively promoting the standardization and integration of services, basing their companies on sincerity, bringing their insurance services closer to the customers' real life and close to the society. Meanwhile, they also need to have a fair and reasonable way to pay claims, and correct possible mistakes in paying the compensations.

On the other hand, establishing the brand integrity in the market is also one of the improving steps for these smaller insurance companies, which include increasing the quality and speed to offering claims to customers and optimizing the insurance service. These insurance firms should realise that they are not only offering the insurances but also relevant insurance services that they provide to the customers. That means that optimizing service is very important for SME insurance firms in order to establish their own brand image. They also need to improve insurance steps including insurance consulting, a risk assessment of insurance, an insurance scheme design, a cover a survey, and paying the claims to meet the demands of the customers. (Cheng 2008, 235)

5 CONCLUSIONS

At present, the domestic people's insurance consciousness is still at a low level in China and many people even do not trust or are unwilling to purchase these insurance programs. What becomes the depth and density of the insurance business, Chinese insurance industry still has a long distance to catch up compared with other countries; particularly the developed countries have completely functioning insurance industries. But it also means that the Chinese insurance industry has a huge potential market in the coming future. With the increasing of citizen's insurance consciousness and personal assets increased both the large and SME property insurance companies have a big space to develop, especially for these small- and medium-sized insurance companies can develop within the new insurance market.

For SME insurance firms, business innovation is always one of the key themes as the way to balanced development. Innovation and change is not only related to the technical level, it is involved in the enterprise structure, staffing and all other aspects. In the growth process, the small- and medium-sized property insurance companies should not only increase the scale of their business, but also care about the efficiency of their business profitability. From the perspective of company structure, some of the small- and medium-sized property insurance firms could be developed into becoming big insurance groups and some of them could even be come listed companies, so that relevant changes should be done in various aspects in the different developing stages.

The characteristics of these small- and medium-sized property insurance companies are high growth and uncertainty growth prospects; if these SME property insurance companies want to develop in a balanced way, they have to pay more attention to maintaining security of growth management strategies which include security strategy, crisis management, increase of control, innovation management and quality strategy.

From the perspective of security strategy, they should monitor their solvency changes and maintain enough capital safety and liquidity capital assets value in order to steadily avoid insolvency. In the area of crisis management, once appeared seriously developing problems such as company cannot achieve the objectives of the plans or company operating condition overall fall into deterioration; those not large property insurance forms also should take actions to

solving the issues. Many of the SME insurance companies cannot maintain their business increasing rate, because most of them are lacking of the increasing control management. Generally some of the insurance firms have developed too fast in the early years and with no capabilities to maintain the increasing rate of their business growth. Some of them are even facing very big financial problems because of their fast developing speed. From the angle of enterprise innovation, on the one hand, companies have to through innovation to improve their business situation in order to obtain more customers and gain a stronger market share. On the other hand, the innovative activities with huge uncertainty contain high direct and indirect costs, so how to control the innovation and improve innovation management are also big issues. From the angel of quality strategy, the purpose of quality management is to keep business process stability and long-term stability of the product quality. Service quality could be transformed into company core competitive advantages and enhance company brand value so as to ensure balanced development.

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