

A BUSINESS STRATEGY FOR A LIFE INSURANCE COMPANY

by

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**Submitted to the Alfred P. Sloan School of Management
on March 31, 1993 in partial fulfillment of the
requirements for the Degree of Master of Science in
Management**

ABSTRACT

In this thesis, the author has been granted the honor to use the methodology developed by Professor Arnaldo C. Hax, to formulate a competitive business strategy for a leading life insurance company in Taiwan, the Cathay Life, which is appropriately defined as the Strategic Business Unit (SBU) by itself, to maintain its long term sustainable advantage over competitors under the setting of drastic changes along with the opening of insurance market and the enhancing social vitality in terms of deregulation and internationalization.

The author also utilized a strategic planning software called Strategic Planner which is based on Professor Hax's methodology for the planning of business strategy, and is developed by Electronic Data Systems Corporation (EDS).

The framework presented in this thesis consists of the analysis and identification of the mission of the business to meet the challenges from changes in business scopes, opportunities and threats by the environmental scan for the industry, strengths and weaknesses by the internal scrutiny with the SBU and its main competitors, the positioning in the business competitive strength and the industry attractiveness matrix, and the formulation of the business strategy by planning a series of pragmatic and feasible action programs to secure the long term "Number One" leading position in the industry.

Thesis Supervisor: Arnaldo C. Hax

Title: Alfred P. Sloan Professor of Management

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I would like to express my special gratitude to my sponsor, Dr. Hong-Tu Tsai, the Chairman of Cathay Life Insurance Company, for having given me such an excellent opportunity to study here at MIT, and for always appreciating my capability and supporting me in my career.

I would like to dedicate this thesis to my beloved wife Yuan-Hwei, my daughter Yi-Wei, and my son Dee for always accompanying me, encouraging me, and giving me warmest support as much as they can. I would also want to dedicate the achievement of my Master Degree to my father, mother, and sisters who love me, trust me and support me without any limit or condition. Heartfelt thanks to my parents in law for offering their constant support to me and my family.

Kung-Shih Lee

1993 at MIT.

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CHAPTER 1

INTRODUCTION

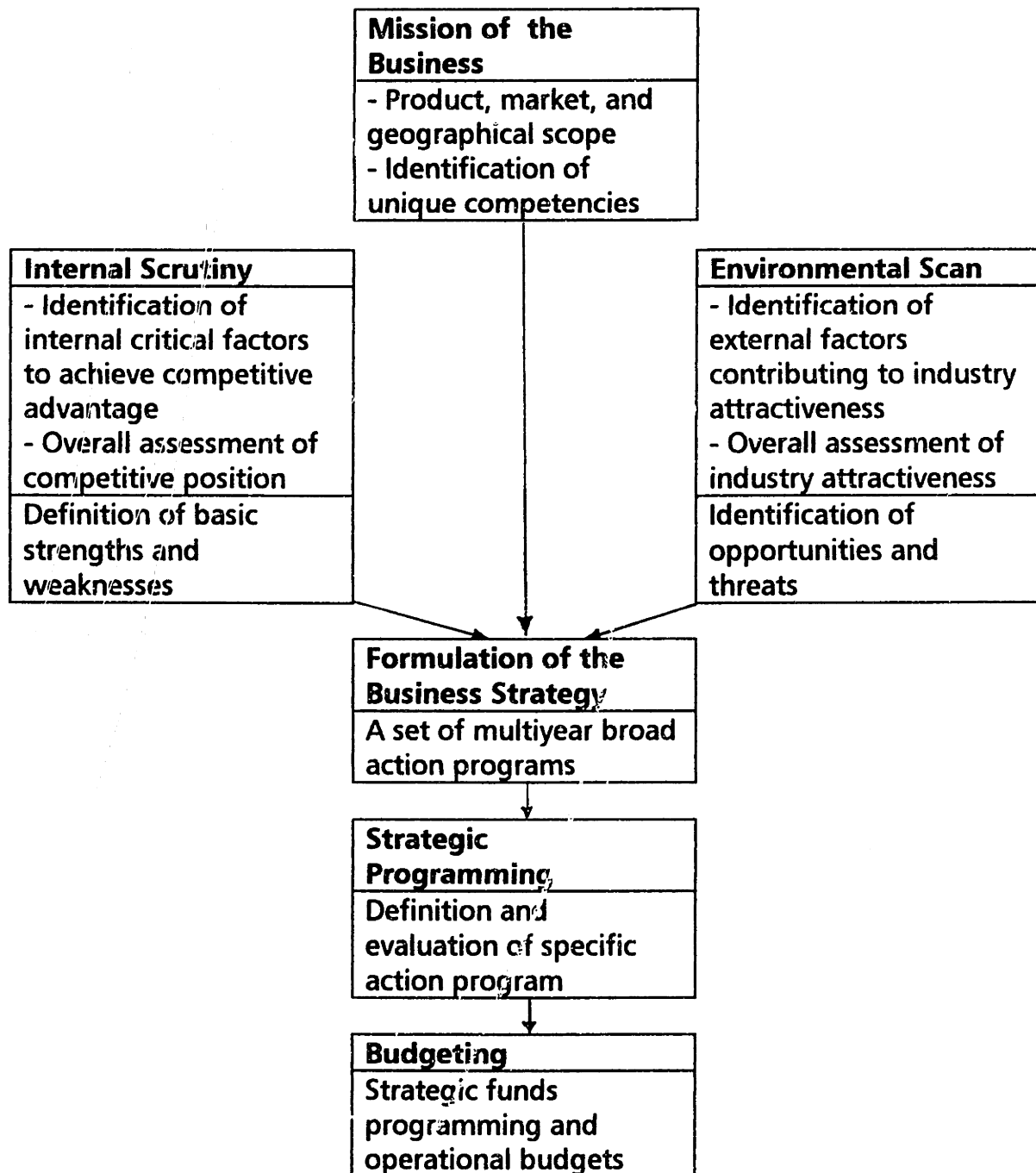
The main purpose of this thesis is to formulate a competitive business strategy for a leading life insurance company-- Cathay Life, which owns nearly 50% market share in Taiwan, to maintain its long term sustainable advantage in the market under the circumstances of increasingly changes of the society and the governmental policy with respect to the liberalization and internationalization

Business Strategy Methodology

In this thesis, the author has been granted the honor to adopt the methodology of professor Arnaldo C. Hax to formulate an ideal business strategy. In order to facilitate the analysis and formation of such a strategy, the author will also use a strategic planning software called Strategic Planner which is based on Professor Arnaldo C. Hax methodology for business strategic planning, and developed by EDS (Electronic Data Systems Corporation).

The main efforts of the business strategy are aimed at securing the long term competitive and sustainable advantage over the competitors. Business strategy is the core of managerial actions in the organization and normally attracts prime attention of the executives. As instructed by Hax and Majluf (1991), the fundamental elements in the methodology of deviating the business strategy is shown in Figure 1-1.

Figure 1-1. The fundamental Elements in the Definition of a Business Strategy¹



The framework of a business strategy consists the following major divisions:

1. Mission of the business
2. Environmental scan
3. Internal scrutiny
4. Formulation of the business strategy
5. Strategic programming
6. Budgeting

The methodology of the above six divisions for formal planning process will be developed in more details accompanying with the progress for this thesis in the following chapters to formulate a sound life insurance business strategy for the company. The Strategic Planner software will also be used as an efficient analytic tool to assist the utilization for the advantageous business strategy.

Background

There were only two life insurance companies in Taiwan market before the ban was lifted in 1960. Proper attention was not paid to the importance to life insurance companies until 1960. From 1962 through 1963, there was quite an expansion of the establishment, totally nine life insurance companies were permitted to start their business. This situation gradually became confusing to the local market which resulted in the government decision in 1963 to ban entry of new international and domestic life insurers into the local market. Between 1963 and 1986, no new licenses were issued.

The 1981 Trade Conference between Taiwan, (the R.O.C.) and the U.S. permitted American life insurers to provide coverage for local American citizens. The protectionism eventually melted away in 1986 through the Consulting Trade Talks between the U.S. and Taiwan.

By 1991, 12 U.S. life insurance companies had been allowed to build branch offices in Taiwan. After the revision of insurance laws, it is expected that the government will begin to issue licenses to the new domestic life insurers from 1993. Non-US life insurance companies, such as European, Japanese, and Canadian life insurers will also be expected to enter this market in the foreseeable future.

Continuously rapid economic growth and strong international trade has made Taiwan one of the world major trade forces. With the influence of strong foreign trade, the guiding policy of the government in recent years has adhered to the spirit of deregulation and internationalization. This tendency has resulted in the similar influence on liberalizing the domestic life insurance market. The life insurance market in Taiwan is full of potentiality. In 1982, the life insurance penetration rate (which is defined as the ratio of the whole nation's life insurance premium income to GNP, and is used as the measurement of the importance of the life insurance industry to the economic development) was 1.21%. At the same time, the insured rate (defined as the ratio of number of life insurance policies to total population) was 8.8%. In 1990, the penetration rate had reached 3.36%, a growth rate of 277%. That is, the GNP of 1990 compared with that of 1982 has grown 2.34 times, while the premium income has grown 6.49 times. This phenomenon shows that Taiwan's life insurance

market is still at the rapid growth stage. Meanwhile, the insured rate has only reached 31.95%, which shows that there is still a remarkable potential for the future growth. By conservative estimate, in 1996 the life insurance premium income will reach NT\$ 336.6 billions, while the GNP will reach NT\$ 7665.4 billions. At that time the penetration rate will be 4.39%². Therefore, we can see that the life insurance industry is getting more and more important to the economic development of Taiwan.

The main part of the business of life insurance industry in Taiwan is focused on the individual life insurance (which accounts for 97.5% of premium income in 1990)³. Almost all of the industry's resources are used in sales, training and various supporting activities. The executives of the top management and the combination of all relevant departments related to the activities of life insurance business would be appropriate to be defined as the Individual Life Strategic Business Unit (SBU) in the company. That means the company itself would be appropriate to be defined as a Strategic Business Unit.

Under this consideration, to develop a scenario of a management committee in formulating a competitive business strategy for the Strategic Business Unit would be the prime concern of the executives to challenge the future possible change to keep the company at "Number One" position in the long run.

¹ Hax, Arnoldo C., and Majluf Nicolas S., *The Strategy Concept and Process, A Pragmatic Approach*. 1991. p.30.

² *Life Insurance Quarterly*, No. 83. Taipei Life Insurance Association. 1992.

³ *Fact Book, '90 Life Insurance Business in Taiwan*. Taipei Life Insurance Association. 1991.

CHAPTER 2

MISSION OF THE BUSINESS

The first essential part of the business strategy, the mission of the business, is a broad statement of business direction with respect to the comparison of SBU's existing and expected new business scope within a proper time frame. Product scope, market scope, geographical scope and the unique competencies would be the main categories concerned. The informative message in these scopes tells not only what should be included, but also tells the degree of importance and also implies what should be divested or excluded in order to build a priority to utilize the company's resources more effectively and efficiently.

The Cathay Life's mission of the business is formulated as follows:

Definition of Time Frame

The time frame for developing the business strategy is set as five years.

It is thought to be appropriate to set five-year time frame due to the consideration that:

(1). The life insurance product development cycle will be shorten into five years because the perceptions of purchasing coverage will change more rapidly by the increasing consumers' consciousness.

(2). The market situation will have a significant change in the five years, the velocity of change in the life insurance industry would be faster than ever in this period. After a long term protection of the market (the eight domestic life insurers have occupied the local market for nearly twenty-five years without facing new competitors until the entrance of the American life insurers), new domestic life insurance companies will enter into the market very soon.

The government has already announced the liberalization of the life insurance market and next year will open it to the domestic entrepreneurs, then open it to the European life companies and Japanese life companies afterwards , and eight American life insurance companies will be getting more active in three to five years after their launching business in this very promising market. (The market has already been opened to the United States in recent years by the trade negotiations.)

The potential of the market can be seen from the insured rate which is defined as "the ratio of the number of life insurance policies to total population":

Taiwan: 31.95% in 1990

USA: 154.84% in 1990

Japan: 380.55% in 1990

Taiwan life insurance market in 1990: The total business in force at the end of 1990 stood at 16.5 million policies with a total sum insured of US\$ 299,075 million.

The detailed comparison is shown in Figure 2-1.

Figure 2-1. The Comparison of Insured Rate among Taiwan, USA and Japan.⁴

	Taiwan (R.O.C.)	USA	Japan
1981	7.47 %	173.82 %	192.48 %
1982	8.80	167.87	225.27
1983	10.36	165.61	259.30
1984	12.12	162.84	273.36
1985	13.32	161.71	288.60
1986	15.80	161.72	306.04
1987	19.01	162.00	316.61
1988	22.76	158.74	340.62
1989	27.22	158.37	359.53
1990	31.95	154.84	380.55

Business Scopes

The mission statement should allow for a broad definition of business scope, which would be expressed in terms of product scope, market scope, geographic scope and unique competencies; in order to detect modifications in the industry trends and other social development. The specification of existing and new business scope will be focused on the changes that the business would be expected to sustain.

Therefore, the contrast between existing and new scope as well as their priority assessment should be dealt with as an effective tool to establish far-sighted view for the life insurance business.

The life insurance business plays a very important role in Taiwan's financial service industry, and services have been an ever larger part in the economy. In order to meet the high saving propensity of consumers, endowment products, which main purpose is for saving more than for protecting, have been the mainstream in Taiwan's life insurance market for a long time. However, there also have been increasing types of products along with the social development. It is expected that there will be more sophisticated demands for new products in the future due to the progress of consumer awareness as well as the expansion of needs, such as more dependence on retirement pension, medical insurance, and investment-sensitive products.

The market trend will also indicate the increasing of small families, increasing of aged population, raising expectation of the professional qualification of sales agents, the strengthening notion of employer responsibility, and more diversified and segmented markets, etc.⁵

I would like to develop the following different scopes and the challenges from the changes of such scopes, and through the analysis, to combine the essential factors to formulate a thoughtful mission statement.

Existing Product Scope--

1. Traditional endowment:

with 1 time sum insured benefit if insured event happens during the coverage period and 1 time mature benefit if the insured survives at the maturity date.

2. Incremental endowment :

with yearly incremental sum insured benefit plan.

3. Whole life :

benefit paid only when the insured event happens during the whole life time.

4. Term life:

benefit paid only when the insured event happens during a certain covered period.

5. Combination type: (Endowment + whole life)

1). two times basic sum insured benefit if the insured event happens before the maturity date

2). maturity benefit is one time sum insured at maturity date

3). one time sum insured benefit after the maturity date

6. Children educational pension plan:

children would get educational expense by annuity if insured event happens to their parents.

7. Women increment plan:

with yearly increasing sum insured benefit attached with the medical rider for specific women diseases

8. Youth insurance plan:

five to ten times the basic sum insured benefit for young people from
15~27 years old

9. Medical rider:

hospitalization benefit attached to various plans as a rider

10. Accidental rider

accidental events benefit attached to various plans as a rider

11. Endowment with high protection:

high times death benefit and one time maturity benefit

12. Personal one year term insurance

13. Family protection insurance

14. Passenger accident insurance plan

15. Travel insurance plan

16. Accident insurance plan

Existing Market Scope--

- Youngsters
- Corporate employees
- Corporate employers
- Men of middle age
- Housewives (because they can influence their husbands or the main persons responsible for the family income)
- Medium income families
- High income families
- VIP
- Self employed people

- Families with children
- Traveler agencies
- Transportation companies

Existing Geographical Scope--

- North Region of Taiwan
- Central Region of Taiwan
- South Region of Taiwan

Existing Unique Competency--

- Strong computer technology (computerized nation-wide services system) utilized in service function
- Outstanding professional team in Product R&D and supporting services
- Very high level of employees commitment
- Excellent management efficiency and work performance
- There is a reputable medical institution to support the customers service
- Very strong and intensive sales and service network all over the country
- Attractive insurance plans
- Long term leading position in the life insurance industry prestige and worth trusting, biggest life insurance company in the market
- Active participation and frequent, substantial financial contributions in social welfare activities
- Efficient service functions and experiences
- Emphasis on the employee education and training
- Strongest financial positions is favorable for customers financial service

New Product Scope--

1. Retirement pension plan:
to fit with the tendency of prolonging life expectancy of people in Taiwan,
which results in much more demand for the protection of retirement life.
2. Complex insurance plan with multiple options:
insurance plan attached by multiple options. for example: hospitalization
rider, emergency coverage, etc.
3. Credit insurance
4. Health insurance of multiple options
5. Supplementary medical coverage products
6. Disability income insurance
7. Investment oriented plan

New Market Scope--

- Health sensitive people
- Investment sensitive people
- Non-life insurance policyholders
- Retirement sensitive people
- Customers of other financial institutions

New Geographical Scope--

- Mainland China (starting from Metropolitan Areas)
- United States (starting from California and New York States)
- Southeast Asia (starting from Malaysia)

New Unique Competencies

- To expand network with new sales distribution network to continue to strengthen the sales forces, such as exploring a new channel of payroll deduction system in the corporate market segmentation
- High professional standards of solicitors
- To keep the leading position and the superiority of the existing unique competencies
- Strongest capability in computerized service one-stop full service for the policyholders
- Expansion of the supporting facilities in medical service institution
- Strong financial power to develop Mainland China's market and international markets
- To have more competitive advantage in developing China's market because of the strong resources the company has owned and its long-term leading prestige, which would be favorable as soon as China's market is opened for Taiwanese insurers or other international insurers

After listing the above existing and new scopes of the product, market, geography, and the unique competency, all the items in the scopes should be prioritized in order to clarify how to allocate the SBU's resources and efforts.

The Strategic Planner defines five priority levels: [- -], [-], [E], [+], and [+ +]. The meanings of these priority levels are interpreted as in Figure 2-2.

Figure 2-2. Priority Assessment Scale for Scope of the Business:⁶

Scope	Priority	The product, market, geographical location, or unique competency...
Existing	--	... is being divested or exited from.
Existing	-	... will be assigned a low level of importance.
Existing	E	... will continue to receive the current level of resources.
Existing	+	... is assigned a high level of importance and additional resources needed to achieve a better competitive position.
Existing	+ +	... is assigned the highest level of importance and the resources needed to achieve as outstanding competitive position as possible.
New	--	... is very tentatively considered for business activity.
New	-	... is tentatively considered for business activity.
New	E	... will receive the necessary level of resources.
New	+	... will be assigned a high level of importance and the necessary resources to achieve a strong competitive position.
New	+ +	... will be assigned the highest level of importance and the resources needed to achieve as outstanding a competitive position as possible.

The priority assessment of existing business scopes and new business scopes including product, market, geographical scopes and unique competencies, are shown in Figure 2-3 through Figure 2-6.

Figure 2-3. Priority Assessment of Existing and New Product Scopes

Existing Product Scope	--	-	E	+	++
Traditonal endowment				●	
Incremental endowment					●
Whole life				●	
Term life				●	
Combination of endowment and whole life					●
Children educational pension plan					●
Women increment plan				●	
Youth insurance plan			●		
Medical rider				●	
Accidental rider				●	
Endowment with high protection				●	
Personal one year term insurance			●		
Family protection insurance				●	
Passenger accident insurance plan				●	
Travel insurance plan			●		
Accident insurance plan				●	

New Product Scope	--	-	E	+	++
Retirement pension plan					●
Complex insurance plan with multiple options				●	
Credit insurance			●		
Health insurance				●	
Supplementary medical coverage plan				●	
Disability income insurance			●		
Investment oriented plan					●

Figure 2-4. Priority Assessment of Existing and New Market Scopes

Existing Market Scope	--	-	E	+	++
Youngsters			●		
Corporate employees					●
Corporate employers					●
Men of middle age				●	
Housewives					●
Medium income families					●
High income families					●
VIP			●		
Self employed people				●	
Families with children				●	
Traveler agency			●		
Transportation companies			●		

New Market Scope	--	-	E	+	++
Health Sensitive people				●	
Investment sensitive people					●
Non-life insurance policyholders				●	
Retirement life sensitive people				●	
Customers of financial institutions			●		

Figure 2-5. Priority Assessment of Existing and New Geographical Scopes

Existing Geographical Scope	--	-	E	+	++
North region of Taiwan					●
Central region of Taiwan				●	
South region of Taiwan					●

New Geographical Scope	--	-	E	+	++
Mainland China (starting from metropolitan areas)					●
United States (starting from California and New York)				●	
Southeast Asia (starting from Malaysia)			●		

Figure 2-6. Priority Assessment of Existing and New Unique Competencies

Existing Unique Competencies	--	-	E	+	++
Strong computer technology utilized in service function				●	
Outstanding professional team in product R & D and ..				●	
Very high level of employees commitment					●
Reputable medical institution to support the customers ..			●		
Strong and intensive sales and service network all over..					●
Attractive insurance plans				●	
Long term leading position has gained prestige					●
Active participation and frequent, substantial contribution				●	
Efficient service functions and experiences				●	
Emphasis on the strongest employee education ..					●
Strongest financial positions is favorable for customers ..				●	
Excellent management efficiency and work performance					●

New Unique Competencies	--	-	E	+	++
To expand network with new sales distribution network					●
High professional standards of solicitors				●	
To maintain strongest capacity in computerized service ..				●	
To expand medical service supporting facilities			●		
To keep the leading position and the superiority of the ..					●
Stong financial power to develop Mainland Chinese ..				●	
To have moew competitive advantage in developing ..				●	

Segmentation

In order to cross check the relationships between different business scopes, the Strategic Planner further provides two segmentation matrices, each with four quadrants, to let the executives review the appropriateness of the assessments for the scopes:

(1). product vs market segmentation

Contains all the items listed for existing and new product and market scope so that the executives and the managers of the SBU can reassess the attractiveness of each product-market combination for the life insurance business.

(2). product vs geography segmentation

The purpose of this matrix is the same as that of product vs market segmentation, except that the market is replaced by the geography.

The matrices emphasize the different alternatives for growth within the product-market scope and the product-geography scope. Determination of the segments and alternative growth strategies are shown in Figure 2-7 and Figure 2-8. The eight quadrants of segmentation matrices are shown in Appendix A.

Figure 2-7.

Determination of Product vs Market Segments and Alternative Growth Strategies.

Market	Existing	New
Product	Market Scope	Market Scope
Existing	Market	Market
Product Scope	Penetration	Development
New	Product	Diversification
Product Scope	Development	

Figure 2-8.

Determination of Product vs Geography Segments and Alternative Growth Strategies

Geography	Existing	New
Product	Geographical Scope	Geographical Scope
Existing	Geographical	Geographical
Product Scope	Penetration	Development
New	Product	Diversification
Product Scope	Development	

Source: Strategic Planner, EDS. 1992.

Challenges From Changes in Business Scopes

After the existing and new business scopes with the priority have been developed and reviewed through the segmentation matrices, the SBU will face critical changes in terms of challenges with respect to product, market, and geographical scope, and unique competencies. These challenges should be carefully included in the consideration of developing more thoughtful strategy.

Challenges From Changes In Product Scope--

- To develop a thoughtful and competitive Retirement pension plan fit for consumers needs from every social level
- To develop efficient and satisfactory information technology to support the operations of the company
- To develop the relatively more complex and riskier investment-sensitive products to fit both the financial needs of customs and governmental regulations
- To have product proliferation to increase market share
- To develop attractive health insurance plan and supplementary medical coverage which is beneficial for the consumers and profitable to the company
- To improve the existing products including packages to fit the changes of the customers needs
- To improve products' profit margin from the aspects of mortality gain and expense gain
- To improve profitable products to be more attractive in the product appearance and contents so that such products can gain more market share
- To design the products to be easier understood by customers

Challenges from changes in Market Scope--

- To maintain the advantageous market share by expanding the sales network and strengthen service functions
- To gain more market share from its competitors by recruiting and training higher quality people and more attractive product
- To prevent the competitors (domestic and international) from extracting the existing customers by providing more satisfactory after-service
- To fit the tendency of customers' needs for faster one-stop full service
- To build and maintain the customers loyalty in strengthening conservation of the existing business in force
- To identify and explore the health sensitive customers
- To explore the customers from the non-life insurance companies
- To explore the customers from other financial institutions such as the customers of banks
- To try to reduce the costs both in penetrating existing market and in developing new market
- To allocate proper resources to the development of new markets
- To educate the sales agents to be more professional and to be more respectable and easier to be accepted by customers
- To face the challenge of more competitors that are entering the market because of the deregulation and more open attitude of the government

Challenges from Changes in Geographical Scope--

- To enter mainland China's market which is still of quite different social system from Taiwan
- To allocate proper human and financial resources in developing the market of China
- The opening of Chinese life insurance market is still uncertain (maybe in two years or maybe in five years or longer) before it's opening we have to put efforts on establishing liaison office
- To develop international markets by establishing branch companies for the first time and without international experience

Challenges from Changes in Unique Competencies--

- To keep the on going strongest position in the nation-wide computerized one stop full service system
- To allocate more resources in product R&D to raise the quality
- To continue to enhance the professional level of sales agents by devoting more financial, education and training resources
- To control the costs at a reasonable level in maintaining the unique competencies
- To maintain the marketing leading position and dominant power in major respects
- To keep the market share above 50% by expanding the strong sales distribution net work, enhancing the productivity of sales agents, increasing the persistency rate to keep more insurance policies in force, and raising the renewal rate of expiring or withdrawing insurance policies.

- To continue to actively participating in the social concerned events by encouraging more human resources to do so
- To continue to maintain the long term positive prestige and to improve public image
- To increase the profit margin of the product by improving insurance underwriting skills to reduce policyholders' mortality rate, and by administrating more efficiently to lower expense rate
- To strengthen financial management skills to get more profitable investing returns
- To be a leader in the segmentation of product development and diversification in the field of retirement pension plan and investment oriented plan, by strengthening (1). the education and training of sales agents (2). the advertising strategy to let the public understand the competitive characteristics of the new products
- To be more adaptable to the changing attitude of government and society in liberalization and internationalization
- To be adaptable to the international environment
- To be more adaptable and flexible to the Mainland China's government attitudes in the life insurance market
- To keep on maintaining and expanding the high quality human resources

Mission Statement

The formation of the mission statement is the final stage of completing the mission of the business. The mission statement is a comprehensive, compact and qualitative statement of the overall position and the direction of the business. It should contain the key features of the existing and new scope of product, market, geography, and unique competencies. The mission statement of the SBU is shown as follows:

Mission Statement

Cathay Life is devoted to pursuing the highest quality service for our customers with our strongest sales network and highly professional sales agents, and providing more innovation in the best insurance plans to our policyholders to secure and to fit their financial needs. We would try our best to maintain our "Number One" leading position in the industry by seeking for peak performance in management efficiency and effectiveness, to generate long term highest profitability and business growth to benefit our customers, shareholders, and employees. Through this way, we will be able to make more significant contribution to our society.

Product Scope--

Existing:

Emphasize on various types of endowment plan including children educational pension plan.

New:

Emphasize on retirement pension plan and investment oriented plan to fit the new trend of customers needs.

Improve the existing products including packages to fit the changes of customers needs.

Market Scope--

Existing:

Emphasize on corporate employees, employers, housewives, middle and high income families.

Maintain long term advantageous market share by expanding sales network to get new business and strengthen service functions to conserve the existing business in force.

New:

Emphasize on the investment sensitive market.

Allocate proper resources to the development of new markets.

Geographical Scope--

Existing:

Allocate more resources, such as having built educational centers at first and second priority, on the North and South regions of Taiwan, but would also have to pay much attention to Central region which has a significant potential.

New:

Broaden our view and expand our market to mainland China and international areas, and try our best to become a successful multinational organization.

Allocate more resources in entering and developing the market of mainland China. Set liaison offices before opening branches in China, USA, and Malaysia.

Unique Competencies--

Existing:

Provide sufficient educational training and emphasize their importance to encourage both our in-house employees and sales workers to promote professional knowledge in providing our vast customers with the most proactive attitude and the most satisfactory financial services.

Take the most advantages of our leading position and strongest sales and service network to satisfy our customers needs, so that through the "words of mouth" plus actually best service, we can gain more competitive position in the short term as well as in the long term.

New:

Expand network with new distribution channel by developing corporate payroll deduction system to strengthen the sales capability.

Delegate more power and responsibility to managers at all administrative levels and to strive for progress every year and to enhance our unique competencies.

⁴ *Life Insurance Statistics Annual Report*, Taiwan. 1991.

Life Insurance Fact Book, USA. 1991.

Life Insurance Statistics Report, Japan. 1991.

⁵ Lee, Kung-Shih. "Life Insurance Marketing Environment and Prospects in Taiwan, R.O.C." *15th Pacific Insurance Conference*, Taipei, Taiwan, R.O.C. 1991. pp. 276-278.

⁶ *Strategic Planner*, Electronic Data Systems Corporation (EDS). 1992.

CHAPTER 3

ENVIRONMENTAL SCAN

The environmental scan is aiming at clarifying the environmental trends, and better understanding the attractiveness of the industry where the business resides. Such scan can identify the external and uncontrollable factors which could impact the business. Therefore, it is important to look into those critical characteristics of the industry to find out key opportunities and threats for the firm's business so that we can generate a long term and high quality perspective in strategic planning.

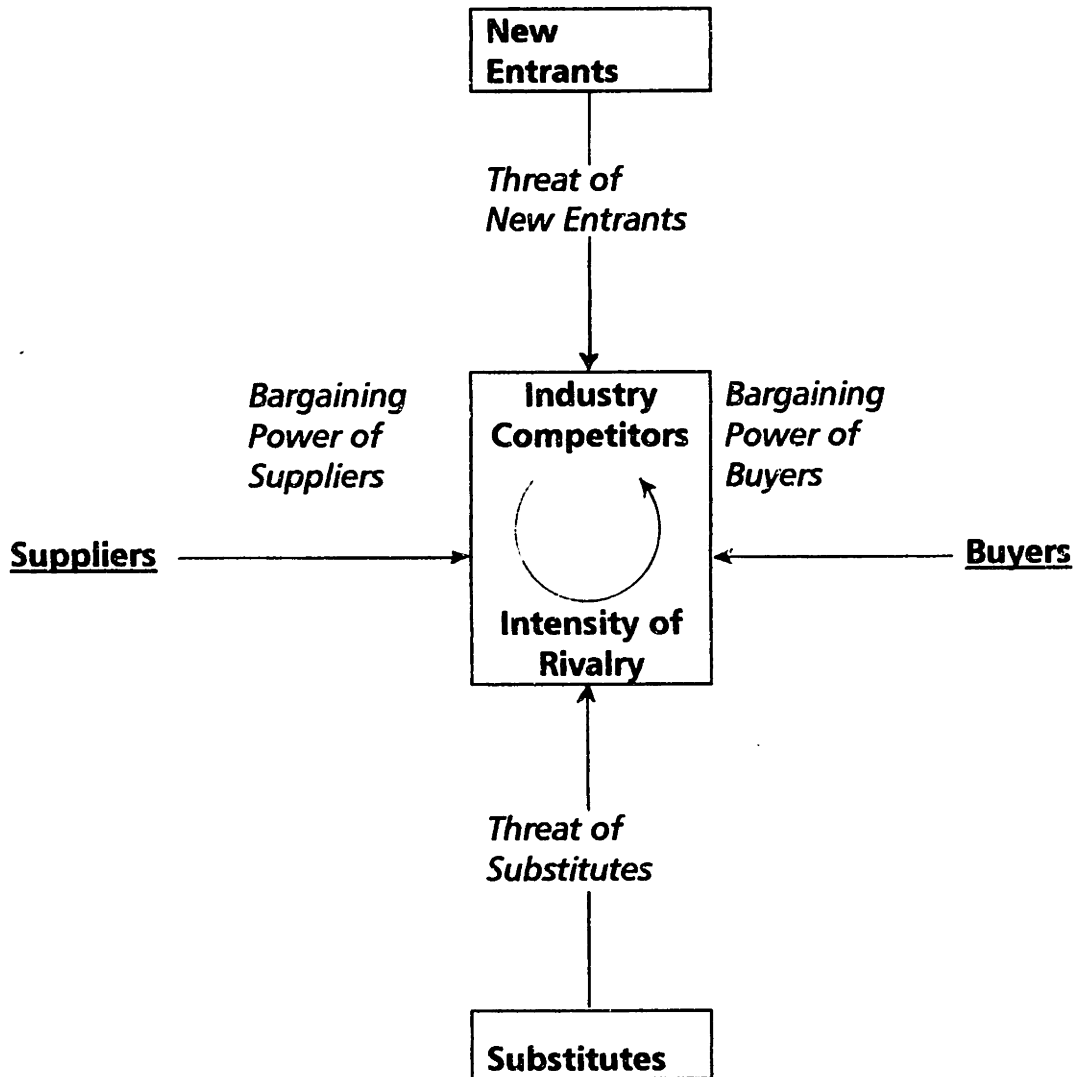
The Five-Forces Model-- Structural Analysis of Industry

The framework of Michael E. Porter's Five-Forces Model (shown in figure 3-1) would be used to evaluate industry attractiveness. Porter postulates that the first fundamental determinant of a firm's profitability is industry attractiveness. The rules of competition are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors.

In essence, "barriers to entry" are primary determinants in the threat of entry of new competitors, while "barriers to exit" are closely relevant to the rivalry among competitors. High entry barriers are essential to maintain high profits for the business, low exit barriers keep the profits stable. The impact of entry and exit barriers over industry profitability is shown in figure 3-2.

The strength of each of the five competitive forces is a function of industry structure. Structural change shifts the overall and relative strength of the competitive forces, and can thus positively or negatively influence industry profitability⁷.

Figure 3-1. Porter's Five-Forces Model



Source: Michael E. Porter, *Competitive Advantage*. 1985.

Figure 3-2. The Impact of Entry and Exit Barriers Over Industry Profitability

		Exit Barriers	
		<u>Low</u>	<u>High</u>
Entry Barriers	<u>High</u>	High and stable profit	High, but possibly unstable profits
	<u>Low</u>	Low and stable profits	Low and unstable profits

Source: Hax and Majluf, 1991

In addition to the use of Porter's five-forces model, the Strategic Planner also gives a choice of an alternative methodology based on External Factors Analysis proposed by Professor Hax to assess the attractiveness of the industry. I would like to adopt both methodologies to perform the analysis so that I can have more abundant thoughts from these two important but different perspectives.

By combining Porter's model, the Strategic Planner adopts the following seven steps plus an overall assessment to analyze and evaluate the industry attractiveness.

- **Barriers to entry**
- **Barriers to exit**
- **Rivalry among competitors**
- **Power of buyers**
- **Power of suppliers**
- **Availability of substitutes**
- **Government actions**
- **Overall assessment**

For each step, we should decide the current and future relevant factors in a chart and estimate the degree of attractiveness by picking up one of the five measurements: highly unattractive, mildly unattractive, neutral, mildly attractive, or high attractive.

Barriers to Entry

Several relevant factors are decided and interpreted as follows:

- **Economies of scale---** Both current and future economies of scale are expected to be rather large. This is due to the nature of life insurance business which tends to be capital intensive, and considerable accumulated volume of life insurance business in force is necessary to maintain and to develop a company. To get a license to establish a life insurance company requires a minimum capital of NT\$2 billion (nearly US\$80 million). A new entrant should plan not only to invest huge capital but also to endure the

deficits for roughly the first five to seven years after the establishment of a new company.

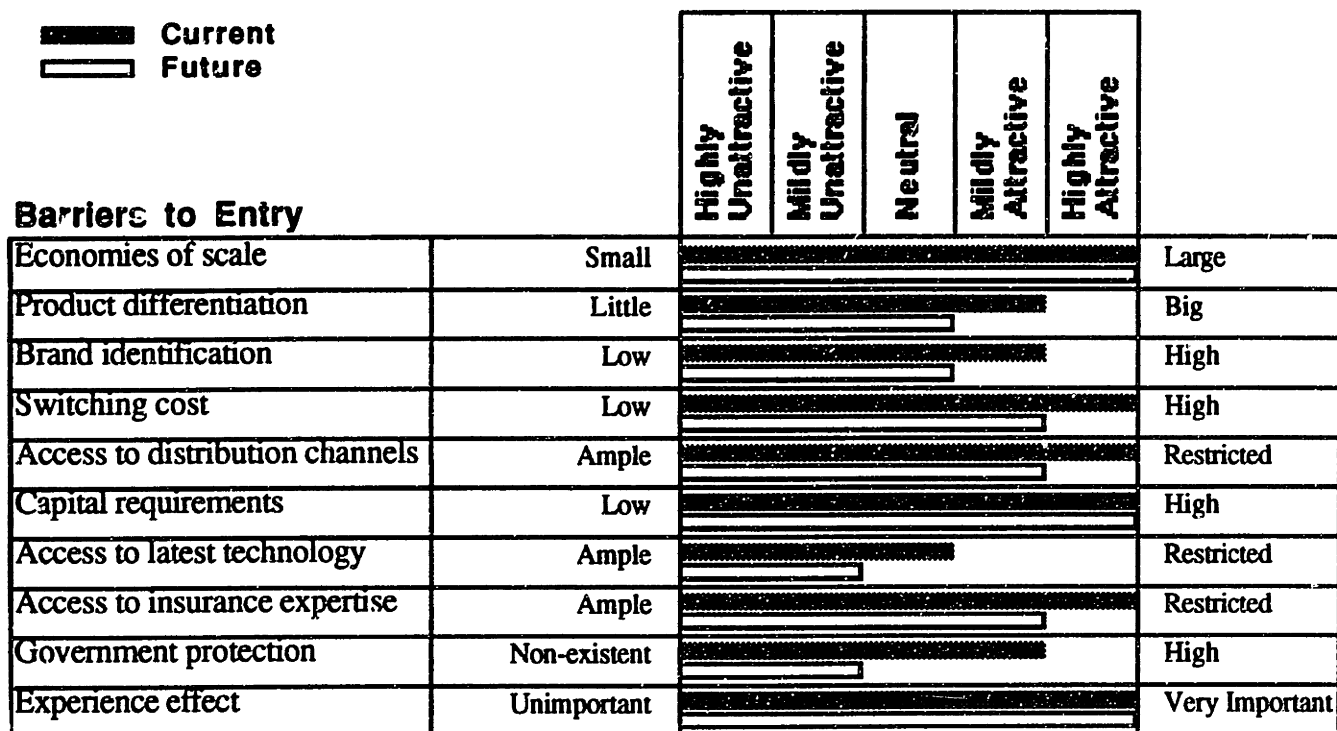
- **Product differentiation---** The current life insurance product differentiation is not very great. Besides, most insurers provide similar products which are not very difficult to be imitated. The actuarial frameworks for the R&D of new products are similar in many aspects.
- **Brand Identification---** Currently is mildly high. "Brand" tends to mean the trustworthy degree of life insurance company instead of the brand of the product itself, because customers normally deem life insurance policy as a financial instrument which is closely relevant to the financial strength reputation of a company. However, it is also expected that the customers will pay more attention to the product itself in the future due to more awareness of consumerism.
- **Switching cost---** The switching cost is high because of the high cost of life insurance policy lapse or withdrawal. Major portions of the policyholders' first and second year's premiums have been paid as commission and administrative costs according to the life insurance premium structure.
- **Access to distribution channels---** Most life insurance policies are solicited through salespeople's person-to-person canvassing. Access to effective distribution channels mainly means to recruit sufficient full-time salespeople, to train and to organize them. Therefore, it is quite difficult to access to distribution channels in this market by way of building enough strong sales power at the beginning. However, one of the new entrants has been successfully and aggressively established its own sales "army" (partly by recruiting employees from the existing life insurers). From a long term perspective, insurers had better establish their own sales force to set a

consolidated foundation instead of mainly rely on the utilization of insurance brokers.

- **Capital requirement---** Rather high. As mentioned before, to get a license of establishing a life insurance company requires a minimum capital of nearly US\$80 millions.
- **Access to latest technology---** "Technology" in life insurance industry would be defined as the expertise in the fields of planning plus R&D, actuarial mathematics, policy underwriting (including medical underwriting), claim administration, risk management (reinsurance), information system, human resource management, and financial management. The knowledge of the technology itself is not very difficult to get. However, experienced and well-trained experts in these fields are much more difficult to access.
- **Access to insurance expertise---** One of the requirements for establishing a new life insurance company is that the application should include at least three technology licenses, namely actuary license, underwriter license, and claim administrator license. Government authorities, industry, as well as universities have begun to pay more attention to the cultivation of experts in these categories. Currently, such experts resources are still very limited.
- **Government protection---** Currently is still high. However, the liberalization of the market is under processing. The admission licenses of the opening to new domestic insurers are expected to be issued in the mid of 1993. The authorities will probably allow the European, Australian, Canadian to set up branches in Taiwan. In the future, the government protection will be significantly lowered to consistently fit the deregulation policy.
- **Experience effect---** This factor is very important in each relevant expertise, especially in terms of marketing, educational training, product design, business planning, underwriting, and claim administration, etc.

The assessment of current and future barriers to entry is shown in figure 3-3.

Figure 3-3. Attractiveness of Barriers to Entry



Barriers to Exit

The following five major factors are very influential to barriers to exit:

Asset specialization, one-time cost of exit, strategic interrelationship, emotional barriers, and government and social restrictions. In life industry, the attractiveness in consideration of the current and future barriers to exit is rated as highly unattractive.

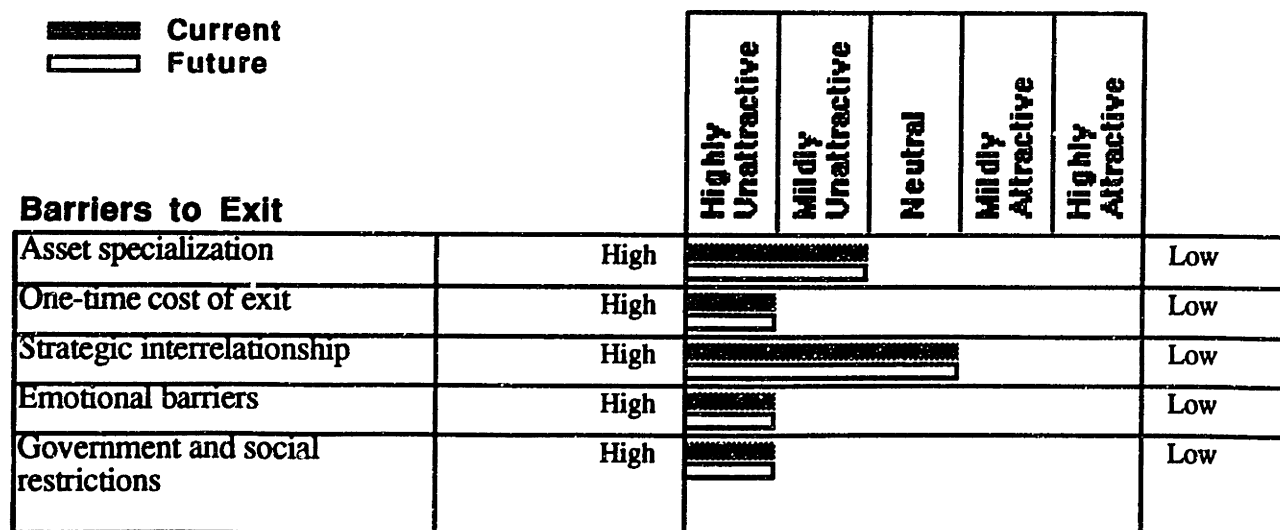
Asset specialization: Major part of the asset of life insurers are engaged in the long term investment such as real estate, mortgage loans, life policy loans, and long term securities. The asset specialization is considered between mildly high and medium.

One-time cost of exit : The life insurance industry bears the long term responsibility to the policyholders. The characteristics of long term investment would make the cost of exit very high.

Strategic interrelationship: There is a tendency that the strategic interrelationships with other businesses such as banks or other financial institutions will be closer. (utilized as new kinds of distribution channel, or credit cards attached with insurance coverages, etc.).

Emotional barriers, government and social restrictions: The exit of the industry will cause the public panic and deep concerns to the whole industry, hence the social costs as well as the insurer's financial costs of exit would be deemed as extremely high. This is also the reason why the life insurance industry is under the strict supervision of the governmental authorities. The governmental attitude has high impact on the industry. It is expected that government will have more strict supervision over the management of life insurance business along with the liberalization of this market. Hence the degree of difficulty of exit will be even higher in the future.

Figure 3-4. Attractiveness of Barriers to Exit



Rivalry among Competitors

The rivalry among competitors is at the center of Michael Porter's five-forces contributing to industry attractiveness.

The following contributing factors are important determinants of competitive rivalry.

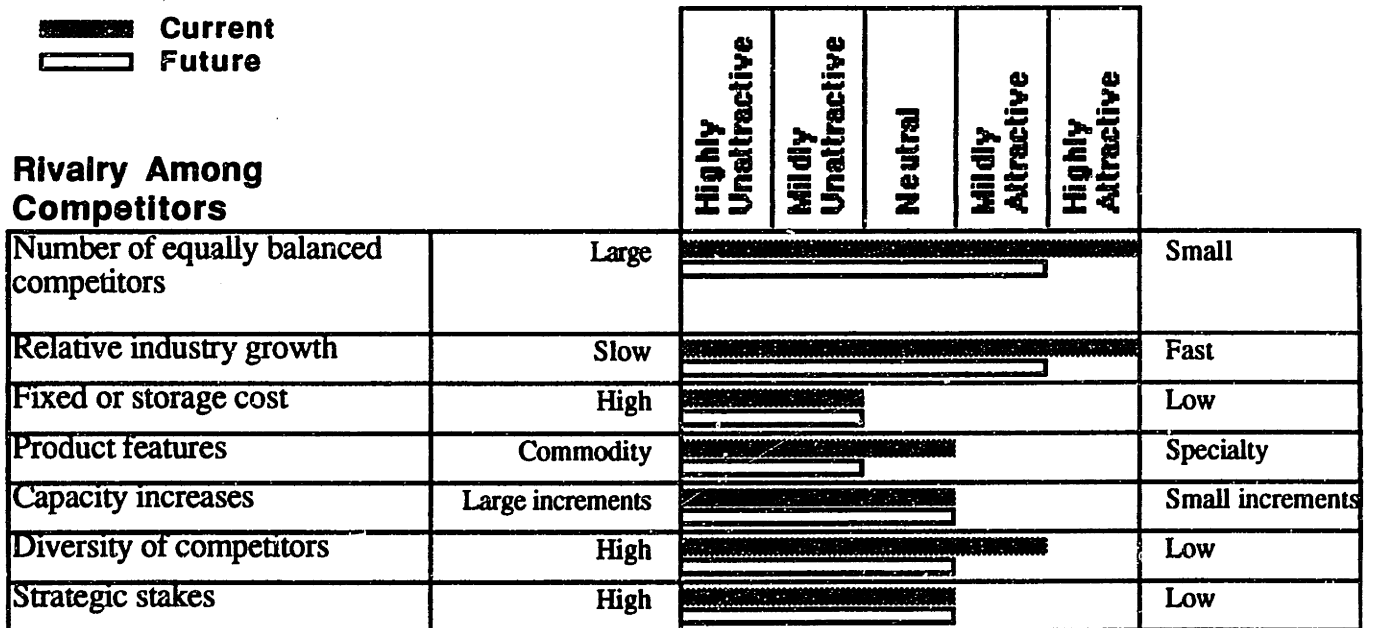
- **Number of equally balanced competitors---** Currently, there are eight domestic and eight American companies in the market. The leading company, Cathay Life, owns nearly 50% market share in terms of the volume of business in force. The second one owns nearly 24% market share, and the third one owns about 12%. These three big companies own nearly 86% market share. There are very few equally balanced competitors. Therefore, it is an oligopoly situation. As mentioned by Hax and Majluf in *The Strategy Concept and Process*, for the issue of concentration and balance, it is more desirable to participate in an industry with just four (in this case, three) major competitors capturing 85% (in this case, 86%) of the market, with a comparatively homogeneous competitors philosophy, than in an industry with hundreds of players, equally balanced, and with very different competitive perspectives. (as is the case of too many diverging international players).⁸ From this point of view, the Taiwan's current life insurance market is highly attractive. Along with the expansion of deregulation span, even if more new competitors and more diverging perspectives will dilute such attractiveness, it would not be diluted to a great extent in a few years because, by the nature of this industry, a new entrant need time to build a strong trustworthy image as well as to generate profits.
- **Relative industry growth---** The industry growth is very fast. From 1986 to 1990, the growth rate of business in force is 162%, the average annual

growth rate is about 40%. (The insured amount of business in force is NT\$3,072,212 millions in 1986, and NT\$8,048,104 millions in 1990)⁹.

- **Product features---** Product development and diversification is important in this industry. New life insurance products can be differentiated for a period of time, but can be also filled with similarity afterwards. Therefore, frequent new products introduced into the market with innovation adaptive to customers needs, or with revision to take advantage of the competitor's products can not be neglected. There is a tendency that the life insurance product's life cycle is getting shorter to avoid being like "commodity". On the other hand, to gain sustainable competitive advantage, the enhancement of service, responsiveness to customers' needs, company image, and marketing strategic management, are also getting more critical in linking with product attributes.
- **Capacity increases---** Although the life insurance industry has relatively high growth rate of business, the increase of capacity of in-house supporting employees and office space maintain in small increment. The installation of big computer system is sufficient to support high growth volume of business. On the other hand, life insurance industry is also "labor intensive" with respect to sales canvassing activities. High growth of new business volume could also mean large increments of field workers to a certain extent.
- **Diversity of competitors---** Currently the diversity has just emerged by the entrance of American life insurers, but still low and not very significant. In the future, the diversity in competitive perspectives will be getting higher and more specific new niches will be dug out. It is foreseeable that the pressure among the competitors will be more intensive in this industry from this determinant.

The overall assessment shows that the current situation of rivalry among competitors is highly attractive. In the future, it is expected to become less attractive than now, but still maintain mildly attractive. The weights of "number of equally balanced competitors" and "relative industry growth" are considered very heavy and influential in the assessment of the life insurance industry attractiveness.

Figure 3-5. Attractiveness of Rivalry among Competitors



Power of Buyers and Suppliers

The life insurance industry is pretty unique which is characterized as a financial industry, not a manufacturing industry. The meaning of buyers could be defined as insurance brokers, contracted agencies, or the customers. The sales people who are employed by the insurers should not be included. Most life insurers recruit their own sales agents which is the most prevalent type so far, form their own distribution channels and employ their own field workers instead of contracting independent insurance brokers or independent agents.

Suppliers is appropriate to be defined as reinsurance companies which provide the insurance risk sharing service, banks or other financial institutions which provide various investment services, computer companies which provide the maintenance of hardware system, paper and printing companies which provide the materials of insurance policies, and other miscellaneous suppliers.

In particular, due to the restriction of the Insurance Law of Taiwan, a life insurance company can not involve in the management activities of other companies which has been invested. That means the insurers can not have any affiliate company, hence legally can nor have backward or forward integration.

Buyers' threat of backward integration as well as industry threat of forward integration to them are both low. However, there could be the situation that suppliers' threats of forward integration are mildly high because of the market opening plus the strong financial power of some suppliers.

The bargaining power of buyers in terms of premium normally is weak, because the premium rates are not allowed to be negotiated by discount according to the regulations.

(The premium structure is constructed by three elementary tariffs: expected mortality rate which is regulated by a standard experience table, expected investment interest rate and expected expense rate both are restricted within certain ranges).

Figure 3-6. Attractiveness of Power of Buyers

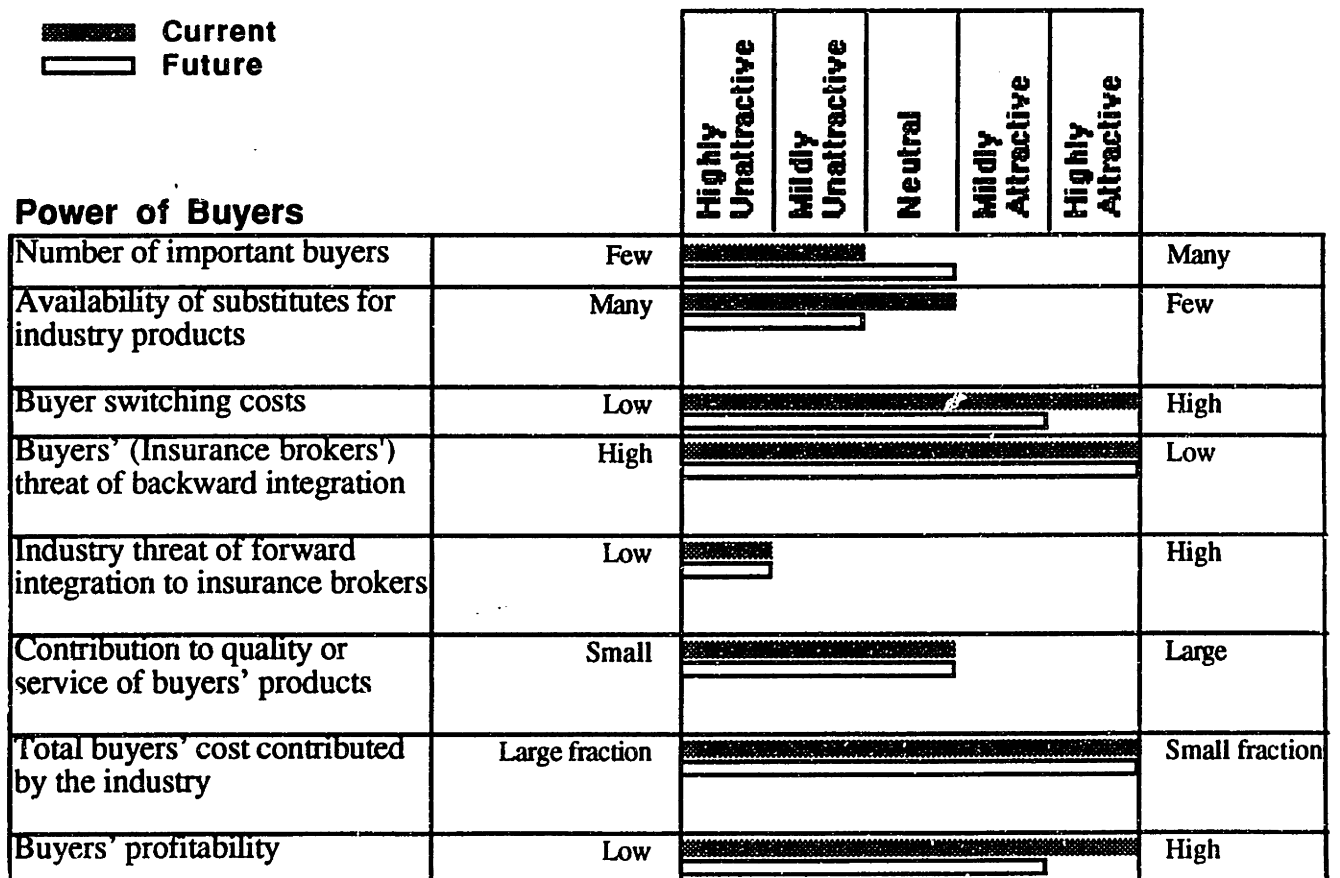
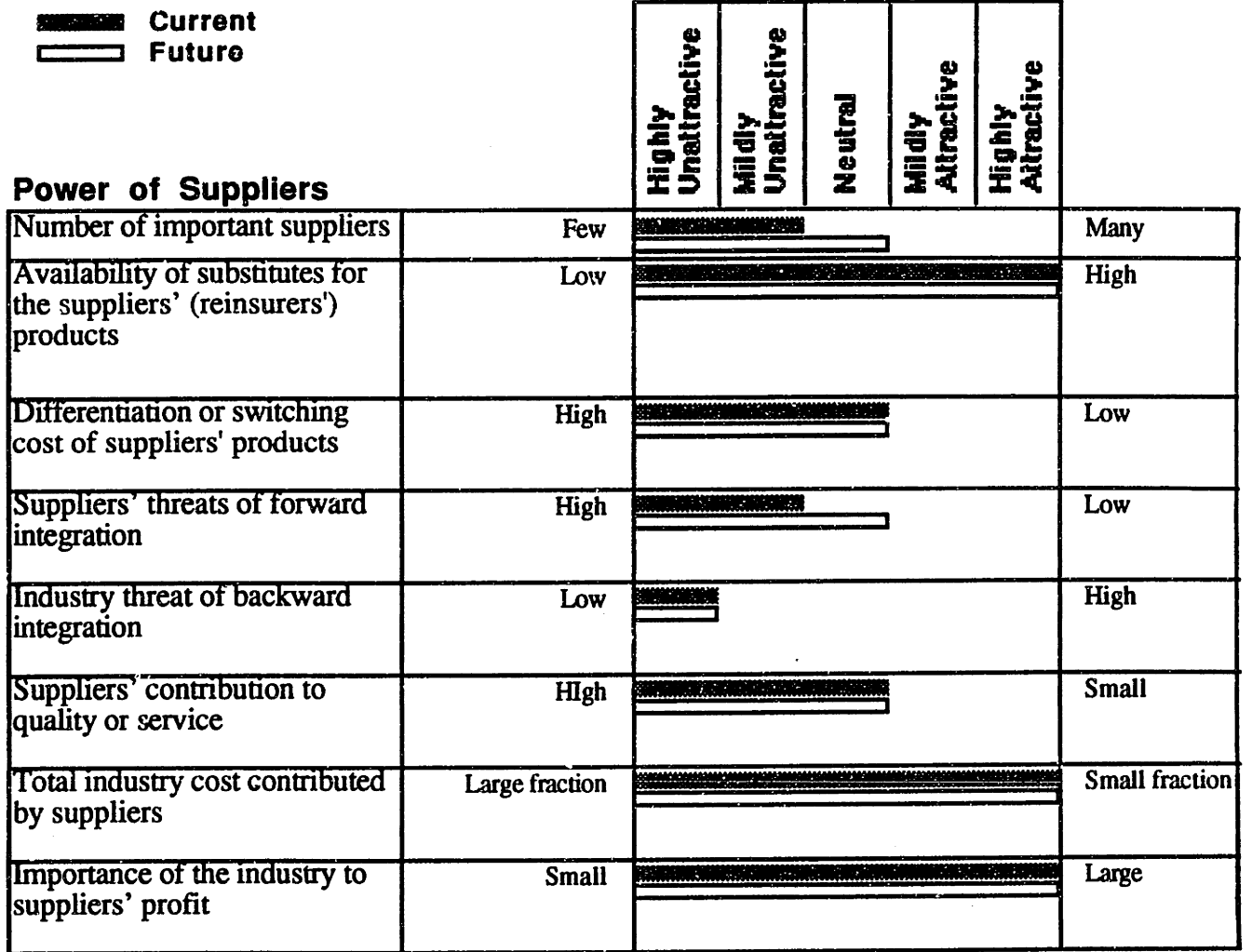


Figure 3-7 Attractiveness of Powers of Suppliers



Availability of substitutes

Substitutes are products that perform nearly the same function from customer's point of view. Substitutes stimulate the buyers with motivation to switch if they provide the buyers with more value or less future cost than that of the existing products being used.

The availability of close substitutes for life insurance products is not very high although for some products there are similarities, if we consider the weight of brand identity or company trustworthy degree which is very influential.

User's switching costs is high because of the major part of commission and administrative costs should be deducted from the initial premium in the first and second years. This will cause the loss of policyholders if a life insurance policy is withdrawn and switched to other substitute.

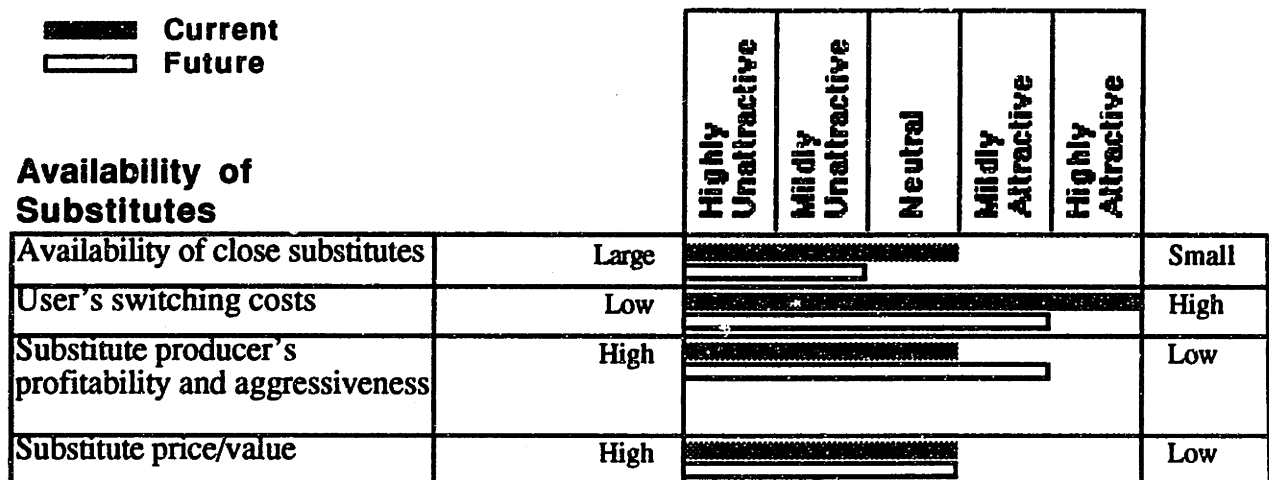
At present, labor insurance provides basic protection for nationwide population of blue and white collars' workers. This basic coverage is too low to be an effective substitute for the commercial life insurance. On the contrary, the commercial insurance can play an important role for complementary of the labor insurance.

Substitutes producer's profitability and aggressiveness is neutral so far. However, the competition is getting more and more intensive. Many sales people from different companies are trying to persuade the policyholders to switch their insurance policies. This aggressive activities will cause many misunderstanding and complaints from customers when they face a high

switching cost. The competitors' profitability by substitution will be lower along with their future higher aggressiveness.

There is a tendency that life insurers will allow the customers to switch their existing insurance policies to other more proper products in the same company with lower cost so as to discourage the substitutes persuasive activities from other competitors.

Figure 3-8. Attractiveness of Availability of Substitutes



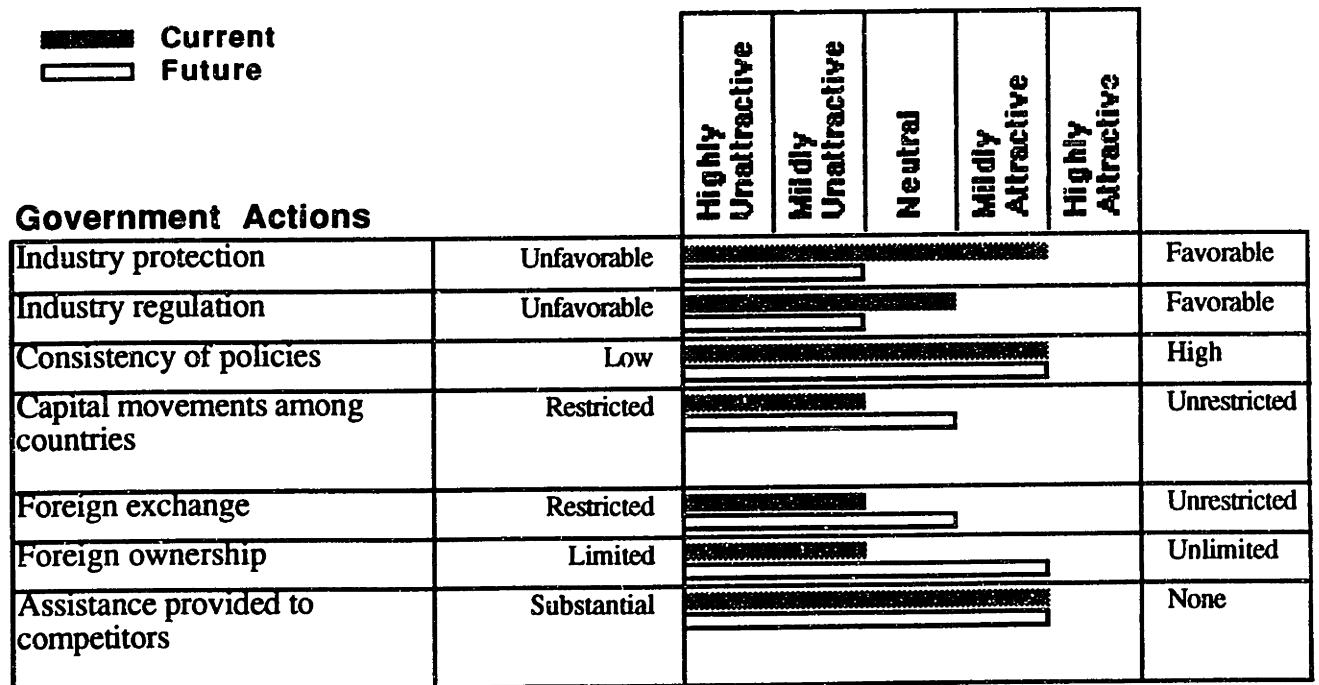
Government Actions

The actions from government authorities have a very substantial influence over the industry. The capital movement to invest in foreign countries is restricted. The applications for investing cases should be approved by the authorities in advance.

Industry protection will be completely lifted in the future. As stated before, the domestic market has been opened to the U.S. since 1986, opened to the domestic companies in 1993. After 1994, other non-American foreign companies will be issued licenses to enter this market.

Industry regulation will be fair to the new entrants. There will be more pressure put on the authorities to take new actions or proper restrictions that will help in the protection of consumers' interests and will not violate the spirit of deregulation. Meanwhile, the authorities is also expected to put more efforts to regulate the industry in a more reasonable manner. This tendency will raise the trust sense from the consumers toward the life insurance industry so that the market size will be easier to expand and more talented agents will be attracted to join in this field.

Figure 3-9. Attractiveness of Government Actions

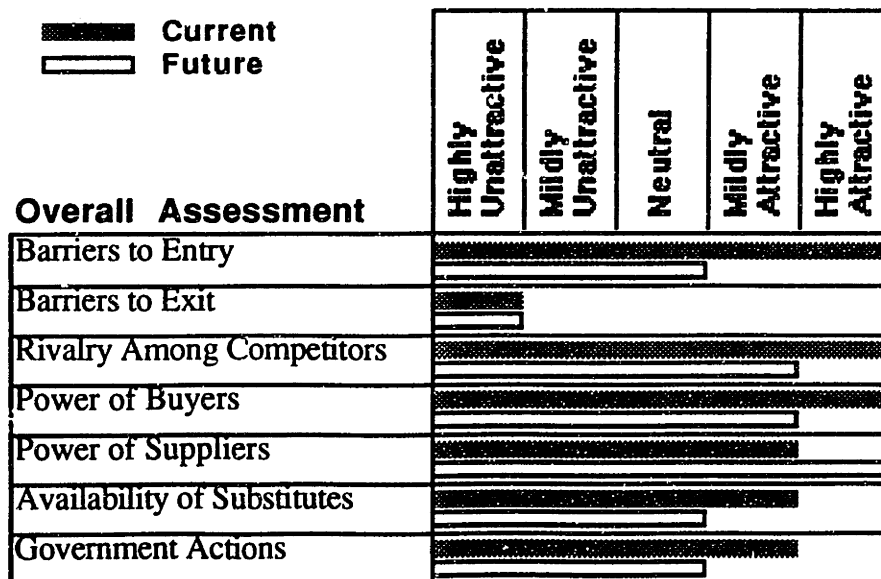


Overall Assessment of Industry Attractiveness

Overall speaking, the barrier to entry is currently high, the domestic insurers still can have a very short period of time to enjoy more favorable position. The preparation for establishment of a new company is very time consuming in life insurance industry, especially in respect of the recruiting and training of the in-house employees and field workers. In particular, the nature of industry shows that a new comer need time to be familiar with and trusted by the public. Therefore, the existing domestic firms can still have time to observe and adjust their strategies to cope with the new challenges.

Since the industry is still in growth stage and the insured rate is relatively low, there are still very high potential and large room for the new comers to explore this field. Hence high barriers can hardly be of heavy weight to influence the attractiveness of the industry. This is also the reason why there have been already seven domestic companies preparing to enter this market and share the big and delicious pie.

Figure 3-10. Overall Assessment of Industry Attractiveness



External Factors Analysis-- Alternative Methodology

An alternative methodology called External Factors Analysis suggested by Professor Arnaldo Hax allows us to determine which external factors shape our industry. It would be useful if we also try to analyze through this creative methodology to identify and assess critical external factors considered to be the central determinants of industry attractiveness. This will make us to reach a clearer understanding of our business position and then to set an ideal strategy.

External factors analysis is most suitable when we have had long term presence in the life insurance industry. It is accomplished by the following steps:

- (1). To identify critical external factors which impact the business attractiveness.
- (2). To evaluate the attractiveness of those factors on a five point scales.
- (3). To identify key opportunities and key threats. (This is the final step which combines both the five-forces model and the external factors analysis.)

Figure 3-11 through Figure 3-16 show the current and future external factors for analyzing the life insurance industry.

The main categories of external factors selected for the environmental scan are as follows:

- Market factors
- Competitive factors
- Economic and governmental factors
- Technological factors
- Social factors

Although there are several factors having discussed above are overlapped with those of the External Factors Analysis, the different perspective can be an effective way of cross checking the industry attractiveness.

Market Factors

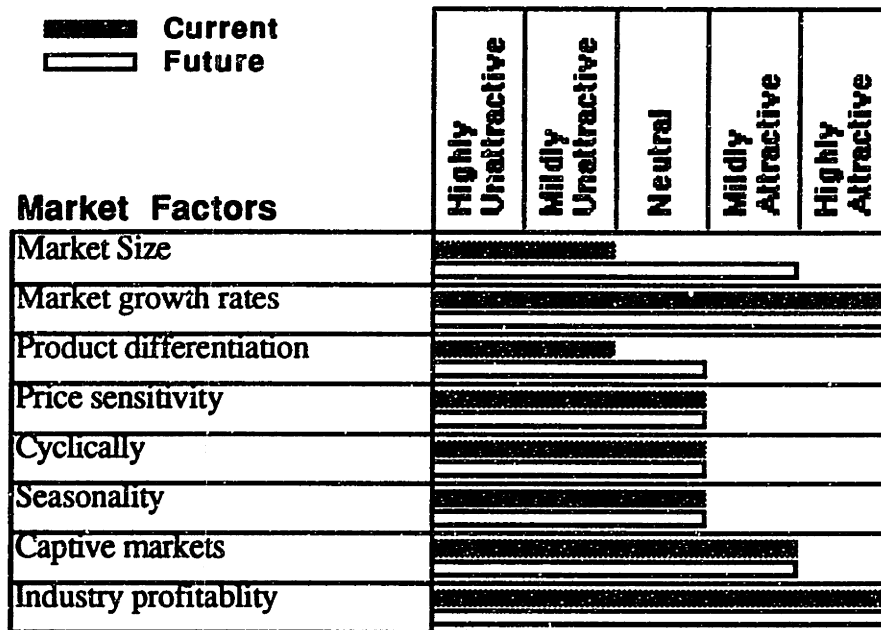
Market size is relatively low as discussed before. However, the future expected potential size is very large and hence rather attractive.

Since the growth potential is very significant and the income per capita is expected to grow persistently, both the current and future market growth rates are expected to be highly attractive.

Production differentiation will be more distinct in the future. The changes of various demands along with the changes of population structure, economic structure, educational distribution and professional distribution, etc.

The market segmentation divided by the difference of age will be emerged more distinctly, such as children, DINK (double income no kids), singles, single parent family, middle aged, and old aged segments.

Figure 3-11. Attractiveness by Evaluating Market Factors

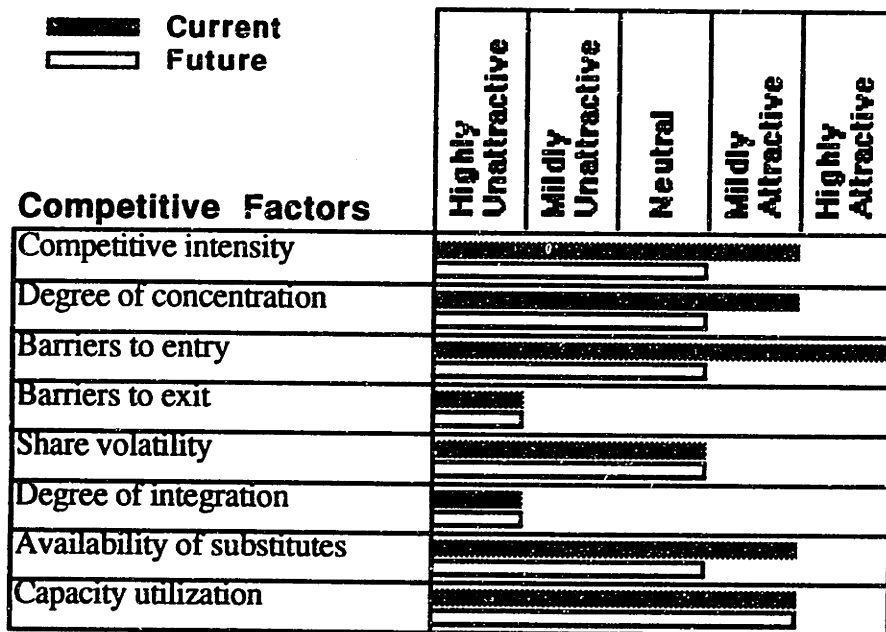


Competitive Factors

Several domestic big financial groups including the business unit of ruling political party, National Party, are going to establish new life insurance companies. The existing market is expected to suffer more significant impact from the new domestic entrants than from new international entrants, owing that the new domestic life insurers can take the advantage of being more familiar with the local culture and market, and also being easier to grab proficient employees from the existing life insurers.

The diversity of new management concepts from the new entrants will make competitive situation more complex. The tendency of service-oriented characteristics will be more obvious, which will result in enhancing service quality. The more drastic competition will also cause more products differentiation. However, in the meantime, more similarity and more diversity of products will be accumulated and be co-existing for a period of time, because by the service nature (instead of manufactured products) of the life insurance, the accumulation of previous product items (printed brochures) would have little influence on the costs.

Figure 3-12 . Attractiveness by Evaluating Competitive Factors



Economic and Governmental Factors

The Six-Year National Development Plan of Taiwan, with key goals of providing sufficient infrastructures and resources for future successful industrial growth and raising the national income and the quality of life, will ensure sustainable economic growth in the future.

The government has launched a series of related major public projects to stimulate demand, enhance overall productivity and promote efficient resource allocation to assure a stable targeted economic growth at an average annual rate of nearly 7% over the next several years, The targeted consumer prices are expected to rise by less than 3.5% each year.¹⁰

There will be a positive influence to the growth of market size in the coming years. In addition, the closer relationship between Taiwan and Mainland China will also play an important role in the future economic growth. The service industry is expected to have a better prospect to be admitted to enter China's market in a few years.

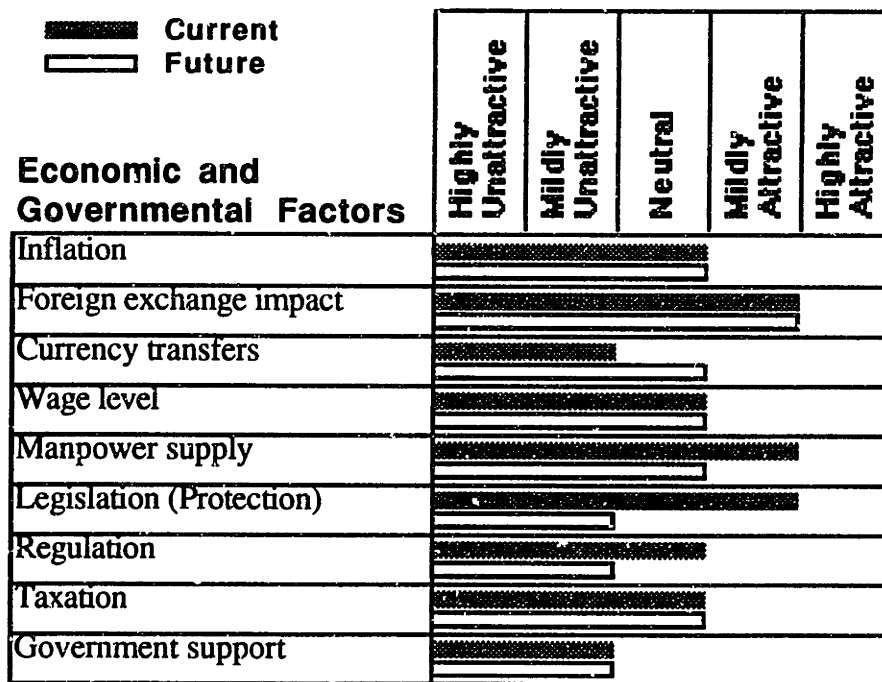
The National Health Insurance Project will be launched in 1994. The number of insured will greatly increase at that time. However, limited resources mean that the coverage provided to the public would be only very basic, hence there will be good opportunity for the commercial insurance to fill up the gap.

The latest revision of Life Insurance Law allows the addition of insurance business lines for annuity insurance, which will be favorable for the life insurers to expand the business pie.

Along with the steps of joining GATT, the government will accelerate the deregulation and internationalization movements and with discreet attitude. This will reduce the protection for the industry and decrease the attractiveness but not to a significant extent in the next several years because of the large potential of the market.

Manpower supply will be tighter due to more competitors, and considerable part of the human resources of new entrants might come from the existing life insurers.

Figure 3-13. Attractiveness by Evaluating Economic and Governmental Factors



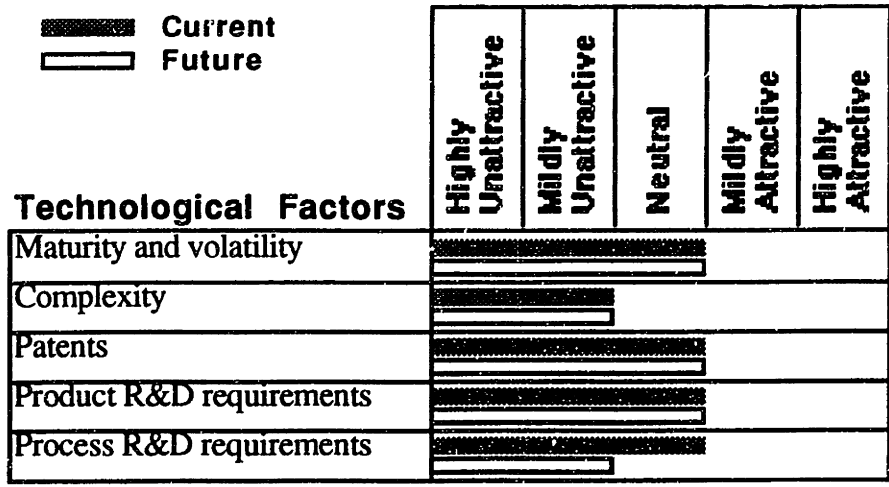
Technological Factors

The technological factors in life insurance industry means the following points:

- (1). The ability of R&D for product design through actuarial mathematics applications and survey to identify market demands.
- (2). The underwriting technology with respect to measure the medical and professional risks of the insured and to avoid moral hazards.
- (3). The various skills of investigation process.
- (4). The claim administration skills in identifying the reasonable claim payments.
- (5). The designing and executing skills of educational programs for training proficient sales people and in-house employees.

Regarding the process R&D requirements, in order to enhance the service level, the costs in improving the process of various service functions will be inevitably increased. On the other hand, the increase of costs might be alleviated through adopting new convenient process. For example, a new process of automated premium collection through bank account payments could offset the increase of R&D costs.

Figure 3-14. Attractiveness by Evaluating Technological Factors



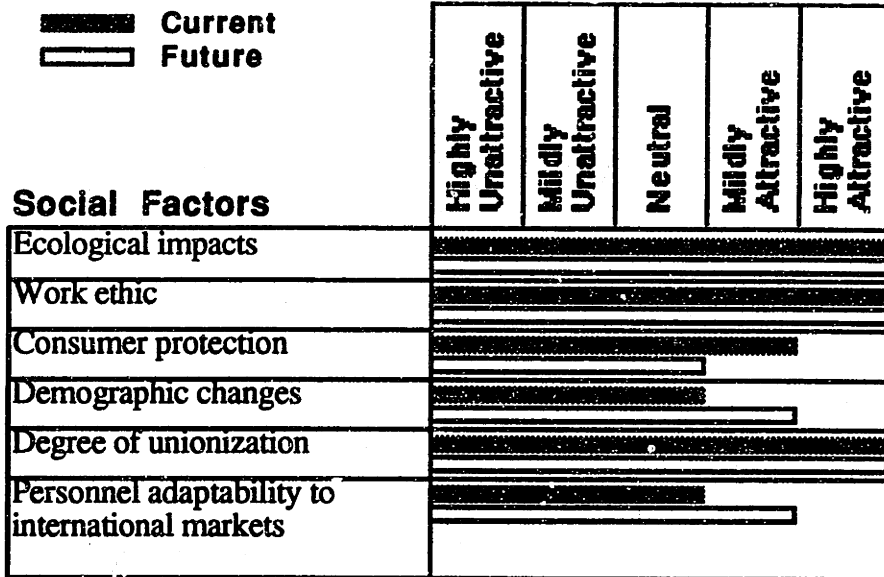
Social Factors

Along with more consumers' awareness of the social function of insurance and the higher standard of living quality, the ratio of the number of policies of policies to the total population will be expected to increase significantly. The demand for higher degree of consumer protection as well as the service expectation will be enhancing accordingly. The costs of the insurers to fit this tendency will also raise.

Demographic changes is favorable for the development of medical insurance and various kinds of retirement annuities. According to the standard published by the World Health Organization, an old-aged society is one with 7% of the national population over 65 years old. According to the estimation by the governmental Economic Construction and Development Committee, the ratio will reach 7.1% by 1996, which will make Taiwan march into the old-aged society. Therefore, old-aged medicare and annuity products will gradually become one of the mainstreams in the life insurance industry.

Adaptability to international markets will also tend to be favorable due to the consistency of the government policy of deregulation and internationalization. People will be more open-minded adaptable to foreign life insurers' image and products because of their characteristics of emphasizing on higher customer service oriented style.

Figure 3-15. Attractiveness by Evaluating Social Factor



Overall Industry Assessment

After completing each determinant's evaluation, it should be noticed that the SBU's overall rating had better be based on the understanding of which factors have more weight and more influential on the industry attractiveness.

Therefore, the result of overall assessment is not necessarily an average outcome of all ratings.

The overall industry attractiveness assessment by the methodology of External Factors Analysis is shown in Figure 3-16.

Figure 3-16. Attractiveness by Evaluating Overall External Factors

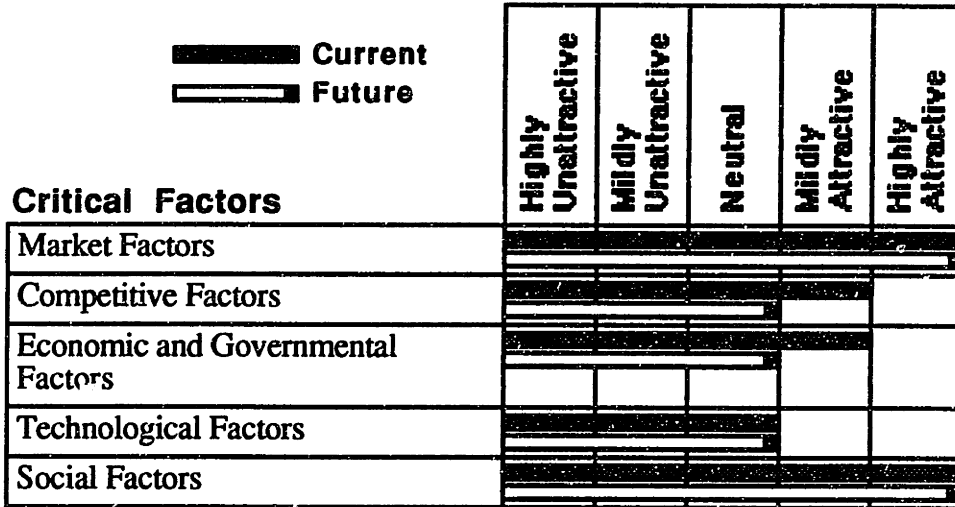
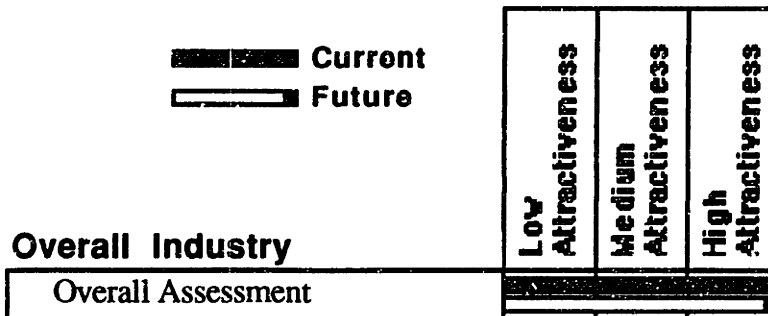


Figure 3-17. Overall Industry Assessment Combining Five-Forces Model and External Factors Analysis



Identification of Key Opportunities and Threats

After completing the profile of the life insurance industry of Taiwan, combining the Porter's model and the Hax's External Factors Analysis, the SBU had analyzed the favorable or unfavorable determinants to identify the key opportunities and threats.

These key opportunities and threats are described as follows:

Key Opportunities

1. The economic growth will be continuously booming through more frequent trade with China and the launching of National Six-Year Plan for infrastructure, which will stimulate the expansion of the insurance market.
2. Very high potential of market growth because the market size is still comparatively small.
3. High brand name recognition and company identification.
4. The perception of buying life insurance coverage is getting widely spread by the public through the opening of market and the rapid progress of economy.
5. More strengthening notion of employers' responsibility toward employees.
6. Large economies of scale.
7. Along with the democratic progress and pluralism of the society, the market demands tend to become more diversified and segmented, which would be helpful for product development and differentiation.
8. The government policy in internationalization is helpful for developing the international market.

Key Threats

1. The market has opened by the deregulation, more new entrants translate to more drastic competition.
2. Increasing consumers' awareness of the insurance sophisticated demands and raised costs through providing higher quality professional services in more complicated products.
3. The turnover rate of human resource is difficult to maintain at previous level because of more intense competition.
4. Profitability of life insurance to customers tends to be challenged by other financial instruments in terms of the investment perspective.
5. Tendency of more strict governmental supervision.
6. High availability of close substitutes.

⁷ Porter, Michael E. *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press, 1985. pp. 4-7.

⁸ Hax, Arnoldo C., and Majluf, Nicolas S., *The Strategy Concept and Process: A Pragmatic Approach*, 1991, p. 39.

⁹ *Fact Book, Life Insurance Business In Taiwan*, Taipei Life Insurance Association. Taipei, 1991.

¹⁰ *The ROC Six-Year National Development Plan in Brief*, Government Information Office, Taipei, 1991.

CHAPTER 4

INTERNAL SCRUTINY

The contrast between the environmental scan and internal scrutiny is in that the former focuses on external and uncontrollable forces which determine the industry attractiveness from the long-term profitability prospects, while the latter emphasizes the factors which determine the competitive position that the business firm can control in order to achieve unique competencies and sustainable advantages over competitors in the industry.

In the internal scrutiny, it is aimed at measuring the SBU's capabilities in terms of major strengths and weaknesses against its most relevant competitors through the following steps provided by Strategic Planner:

- Identify the most relevant competitors.
- Determine critical success factors.
- Develop a competitive profile for the SBU.
- Measure strengths and weaknesses against those of competitors.
- Determine an overall assessment.
- Identify overall strengths and weaknesses associated with the SBU.

Identify the Most Relevant Competitors

The SBU identified two relevant main competitors in the life insurance industry from the market point of view, Shin Kong Life and Nan Shan Life , with the characteristics that these two competitors have high market share, experienced a sustained market growth, high profitability, one of them has high level education's quality of sales agents, demonstrated an aggressive competitive attitude against the leading life insurance company. The market share of life business in force of these two relevant competitors is totally about 34% in 1991, and 36% (while Cathay Life owns about 50% market share) at the third quarter of 1992.

Figure 4-1 shows the comparison with the two main competitors. Although their annual sales are still far behind Cathay Life, their potential of growth should not be underestimated.

Figure 4-1. Relevant Competitors

(Unit: US\$ 000 millions insured amount for sales)

Relevant Competitors

Competitors	Market Point of View			
	Last Year's Sales	3 years average growth rate of sales	3 years average profitability (ROE)	Last year's Market Share
Competitor SKL	120.0	Very Low	High	21.0
Competitor NSL	75.0	Very High	High	13.0
Our Business	288.0	Average	High	50.0
Total for the Market	483.0	Average	Average	84.0

Identify the Critical Success Factors

Critical success factors are the essential capabilities which the company can control and mobilize to achieve long term competitive advantage and to gain a level of profitability above the industry average performance standards. The value-chain concept is adopted to help determine the critical success factors based on the characteristics of the life insurance industry. The Strategic Planner provides an initial list of possible factors, and the SBU can add or drop those factors to select and identify the real critical success factors needed by the company to get the competitive advantage. Since the life insurance is a service industry, the life insurance policies are not "visible" manufactured products, the categories of procurement of raw material and the manufacturing would be meaningless and had better be excluded. Therefore, the SBU would have to identify proper categories as follows:

1. Managerial infrastructure
2. Finance
3. Human Resource Management
4. Technology
5. Marketing and sales

The detailed critical success factors of the above critical categories are shown in the Appendix I for the SBU to contrast against the main relevant competitors, factor by factor, in order to get the competitive profile.

Competitive profile

The process of developing the competitive profile involve the detailed and time consuming evaluation by comparing the identified critical success factors between the SBU and the competitors. These factors of the competitors are

observed, collected and analyzed by R&D department through public and private information, as well as by the efforts from the branch offices where the sales managers and agents have taken the advantages of close encounters and observations through their abundant experience in the soliciting activities or customers' responses. Although some of the evaluation are inevitably subjective, the contrast of each capabilities has shown its valuable indication in getting a clear and close to facts' profile from the competitors, and also provided precious clues for judging the strengths and weaknesses of competitors.

The competitive profiles of SKL and NSL are shown in Appendix B.

Overall assessment for competitors

There are some noteworthy points in the competitors' profile:

Recently , having awarded that the business market share was decreasing, SKL has adjusted its managerial infrastructure to install more regional managerial offices to decentralize the authoritative powers so that the management can be more responsive to the market need and more competitive in raising service quality. The SBU should pay close attention to such development.

As to NSL, it has done its best endeavor to get high business growth in recent years by rapidly expanding sales organizations. Previously, the number of sales people of NSL was behind that of SKL, but it has caught up and begun to exceed since 1992. (The average monthly number of life insurance sales people in 1991: NSL-- about 15.0 thousand, SKL-- about 16.7 thousand, and the SBU-- about 23.6 thousand.) NSL had experience in very successful recruiting sales agents of high educational degrees, hence its individual sales service quality

and productivity were superior to other competitors before its rapid recruiting of sales for seeking high business growth in recent years, which has resulted in the decrease of its individual productivity. However, its marketing power seems to be strong in several main urban areas and weak in suburban areas. Besides, the whole organizational service performance is comparatively inferior to that of the SBU which has an extremely strong organizational support capability by nation-wide computer service system and more abundant manpower and dense branches network engaged in the policyholders' service.

The SBU also has the strongest financial power above the competitors SKL and NSL, and has the advantage to invest in many critical aspects such as R&D, human resource educational system, marketing organizations, etc.

As to the products combination and products conversion, NSL shows much more flexibility than that of the SBU and SKL. This flexibility strategy needs higher educational quality of sales people, who would be more capable of having sound and thoughtful considerations in the essence of every product and can provide better suggestions for satisfying customer's needs. The high quality individual service of NSL is also helpful for enhancing the corporate image. Hence the SBU would have to put more efforts on the improvement of sales people's quality.

The overall assessments for relevant competitors and the overall ranking are shown in Figure 4-2.

Figure 4-2. Overall Assessment for Relevant Competitors

Relevant Competitors	Critical Success Factors					Overall Ranking
	Managerial Infrastructure	Finance	Human Resource Management	Technology	Marketing and Sales	
Competitor SKL	+	++	E	E	++	2
Competitor NSL	++	++	+	E	++	3
Our Business						1

Definition of the assessment ranks:

++	means that SBU rates much higher than competitor.
+	means that SBU rates somewhat higher than competitor.
E	means that SBU rates about equal to competitor.
-	means that SBU rates somewhat lower than competitor.
--	means that SBU rates much lower than competitor.

Strengths and weaknesses of competitors

After completing the above competitive profiles and identifying each relevant competitor's ranking position, the SBU would use those information to identify each competitor's strengths and weaknesses which are relevant to the development of the SBU's business strategy. The related issues to be addressed resulted from the competitors' strengths and weaknesses should also be raised by the SBU in order to neutralize the strengths of the main competitors and to take advantage of their weaknesses.

The competitors' strengths and weaknesses are shown respectively in the following pages:

Strengths and Weaknesses of SKL

Strengths

- **Big organization in marketing**
- **Ample resources**
- **Good at promoting corporate image**
- **Expanding service facilities**
- **Improve managerial infrastructure to be more decentralized and responsive**

Weaknesses

- **Not successful in enhancing the quality of business**
- **Product strategy is not flexible**
- **Rigid managerial system**

Issues to be Addressed

- **Improve the business quality and persistency rate by strengthening competitive power of product and service**
- **Enhance human resource capability**
- **More flexible product strategy**
- **Strengthen management control**

Strengths and Weaknesses of NSL

Strength

- Higher sales agents' educational degree
- Strong in urban areas
- Flexible product strategy
- More attractive incentive system in recruitment

Weaknesses

- Human resources are not sufficient to sustain the continuous business growth
- Turnover rate of the middle and senior management is comparatively high
- Rather inferior sales forces in the suburban areas

Issues to be Addressed

- Improve and strengthen the education^{al} and training system to enhance human resource service quality and productivity
- Expand the sales organization and distribution channels
- Strengthen the competitive capability in urban areas
- Avoid the middle and senior elites being extracted to the new competitors
- Improve the rewarding and promotion system to be more incentive
- Sustain relatively high business growth
- More flexible strategy in product combination and conversion

Overall Assessment of SBU

The overall assessment of the SBU is weighed through comparing with the strength ratings of the competitors in terms of critical success factors. This is shown in Figure 4-3.

The result of overall assessment is **High Strength** both in current and future situations.

Strengths and Weaknesses of SBU

The essential purpose, as well as the final outcome of the internal scrutiny, is to derive an understanding of the SBU's strengths and weaknesses through measuring and comparing the SBU's capabilities with the competitors, and then to address these points with the development of the SBU's broad action programs. This is shown as follows:

Strengths and Weaknesses of Our Business

Strengths

- Long term dominant position in life insurance market
- Outstanding planning system
- Strongest computerized nation-wide customers service system
- Superior financial position
- Extensive marketing network in terms of sales people and branches all over the nation
- Abundant expertise in life insurance management
- Trustworthy brand image
- Big educational organization for human resources

Weaknesses

- **Relatively low price competitiveness**
- **The responsiveness to the change of demand is relatively slow**
- **Corporate image need to be enhanced**
- **Conservative with respect to flexibility in products combination and conversion**
- **The market target of being grabbed the share by new and existing life insurance companies**

CHAPTER 5

FORMULATION OF BUSINESS STRATEGY

Positioning in Attractiveness-Strength Matrix

As professor Hax mentioned, a business strategy can be defined as a well-coordinated set of action programs, aimed at securing a long-term sustainable advantage. The action programs are defined at two levels, broad and specific:

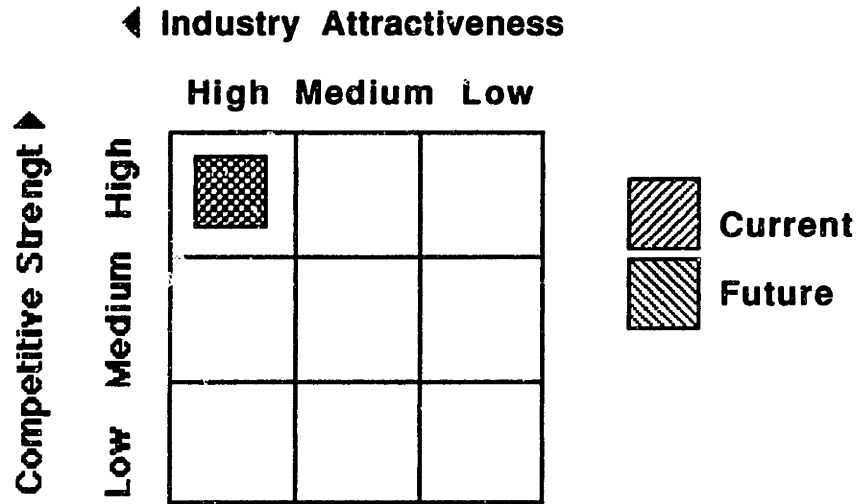
(1). Broad action programs establish the business direction and represent the long-term strategic objectives of the SBU.

(2). Specific action programs, normally cover a 6~18 month period, represent the tactical support for achieving the strategic objectives.

The action programs should be responsive to and derived by challenges in terms of the desired changes in the mission, the main opportunities and threats emerged in the environmental scan, and the critical strengths and weaknesses identified in the internal scrutiny. The SBU's position with *High* business strength and *High* industry attractiveness in Attractiveness-Strength Matrix based on the above-mentioned overall assessment is shown in Figure 5-1 which indicates the suitable generic strategies for SBU to adopt in such position would be growing, seeking dominance and maximizing investment. These strategies are going to fit the direction of the SBU's broad and specific action programs to be developed.

Figure 5-1. The Positioning of SBU in the Attractiveness/ Strength Matrix

Positioning in Attractiveness-Business Strength Matrix



Generic Strategies for:

Current: Grow, seek dominance, maximize investment

Future: Grow, seek dominance, maximize investment

Suggested Business Priority

The broad action programs should indicate a suggested business priority which is suitable for the SBU's current as well as future competitive position in the attractiveness-strength matrix. This business priority would be an important justification for the SBU to request for a reasonable and sufficient support from the corporate resources allocation.

According to the SBU's competitive position, the business priority selected is to **Maintain Aggressively** which means that the business is in a strong position in a currently attractive industry, and management is determined aggressively to maintain that position. This priority selection is especially significant in terms of the very high market share that the SBU endeavors to maintain such sustainable advantage in the market.

Definition of Broad Action Programs

Having positioned the SBU in attractiveness-strength matrix with a generic strategy and set the business priority as maintain aggressively, the SBU would have to define the following broad action programs, from to visualize the future business direction.

Linkage of Broad Action Programs

After defining the broad action programs, in order to assure the set of programs would cover the key relevant issues that the SBU has analyzed with respect to the challenges of business scopes, opportunities, threats, strengths and weaknesses, the SBU would build a table listing the linkage between the broad action programs and these key issues. The linkage is shown in figure 5-2-A, 5-2-B, 5-2-C, and 5-2-D, respectively.

Figure 5-2-A. Linkage of Broad Action Programs with (1).Challenges from Changes in Product Scope.

	Definition of Broad Action Programs (A). Strengthen competitive power of product and ... (B). Enhance human resource capability. (C). Market development strategy. (D). Explore opportunities in overseas markets de...			
Linkage of Broad Action Programs				
1.Challenges from Changes in Product Scope				
- To develop a thoughtful and competitive Ret... needs from every social level	●			
- To develop efficient and satisfactory informa... operations	●			
- To develop the relatively more complex and... to fit both the financial needs of customs an...	●			
- To have product proliferation to increse mar...	●			
- To develop attractive health insurance plan a... which is beneficial for the consumers and p...	●			
- To improve the existing products including ... customers needs	●			
- To Improve products' profit margin from t... gain	●			
- To improve pofitable products to be more at... contents so that such products can gain mor...	●			
- To design the products to be easier understo...	●			

Figure 5-2-B. Linkage of Broad Action Programs with (2).Challenges from Changes in Market Scope, and (3).Challenges from Changes in Geographical Scope.

2.Challenges from Changes in Market Scope			
- To maintain the advantageous market share ... strengthen service functions	●	●	●
- To gain more market share from its competi... quality people and more attractive product	●	●	●
- To prevent the competitors (domestic and in... customers by providing more satisfactory af...	●	●	●
- To fit the tendency of customers' needs for f...	●	●	●
- To build and maintain the customers loyalty ...	●	●	●
existing business in force			
- To identify and explore the health sensitive c...	●		
- To explore the customers from the non-life i...	●		
- To explore the customers from other financi... banks	●		
- To try to reduce the costs both in penetrating... new market	●	●	●
- To allocate proper resources to the developm...	●	●	●
- To educate the sales agents to be more profe... easier to be accepted by customers	●	●	
- To face the challenge of more competitors t... deregulation and more open attitude of the g...	●	●	●
3.Challenges from Changes in Geographical Scope			
- To enter mainland China's market which is s... Taiwan			●
- To allocate proper human and financial reso...			●
- The opening of Chinese life insurance marke... or maybe in five years or longer) before it's... establishing liaison office			●
- To develop internatinal markets by establishi... and without international experience			●

Figure 5-2-C. Linkage of Broad Action Programs with (4).Challenges from Changes in Unique Competencies.

4.Challenges from Changes in Unique Competenc...				
- To keep the on going strongest position in th... service system	●	●	●	
- To allocate more resources in product R & D...	●			
- To continue to enhance the professional leve... financial, education and training resources		●		
- To control the costs at a reasonable level in ...	●	●		
- To maintain the marketing leading position a...	●	●	●	
- To keep the market share above 50% by exp... work, enhancing the productivity of sales ag...		●	●	
keep more insurance policies in force, and ra... withdrawing insurance policies				
- To continue to actively participating in the so... more human resources to do so		●		
- To continue to maintain the long term positi...	●	●	●	
- To increase the profit margin of the product ... skills to reduce policyolder's mortality rate, ... lower expense rate	●	●		
- To strenghten financial management skills to...		●		
- To be a leader in the segmentation of produc... field of retirement pension plan and investme... the education and training of sales agents (2)...	●	●		
understand the competitive characteristics of...				
- To be more adaptable to the changing attitud... liberalization and internationalization	●	●	●	
- To be adaptable to the international environ...	●	●		●
- To be more adaptable and flexible to the Mai... the life insurance market				●
- To keep on maintaining and expanding the h...		●		●

Figure 5-2-D. Linkage of Broad Action Programs with (5).Key Opportunities, (6).Key Threats, (7).Strengths, and (8).Weaknesses.

5.Key Opportunities				
The economic growth will be continuously bo...	●	●	●	●
Very high potential of market growth because ...	●	●	●	
High brand name recognition and company id...		●	●	
The perception of buying life insurance cover...	●		●	
More strengthening notion of employers' resp...	●		●	
High economy of scales.		●	●	
Along with the democratic progress and plural...	●			
The government policy in internationalization ...				●
6 Key Threats				
The market has opened by the deregulation, m...	●	●	●	
Increasing consumers' awareness of the insur...	●	●		
The turnover rate of human resource is difficu...		●		
Profitability of life insurance to customers ten...	●			
Tendency of more strict governmental supervi...		●		
High availability of close substitutes.	●	●		
7.Strengths				
Long term dominant position in life insurance ...	●	●	●	
Outstanding planning system	●	●		●
Strongest computerized nation-wide customer...		●	●	
Superior financial position	●	●	●	●
Extensive marketing network in terms of sales...		●	●	
Abundant expertise in life insurance managem...	●	●	●	●
Trustworthy brand image	●			●
Big educational organization for human resou...		●		
8.Weaknesses				
Relatively low price competitiveness	●			
The responsiveness to the change of demand ...		●		
Corporate image need to be enhanced	●	●		
Conservative with respect to flexibility in pro...	●			
The market target of being grabbed the share ...	●	●	●	

****Broad Action Programs:---**

[(A).--- Strengthen Competitive Power of Product and Service]

Description

Broaden product line to meet the tendency of more sophisticated demand and make the most of product differentiation. Improve the service quality and efficiency by expanding computerized service network, conservation and claim administration.

Responsible Manager

General Manager - Product R & D, Policyholder Service

Key Indicator(s) For Management Control

New business volume

Market share

Share among all products

Persistency rate

Number of complaint messages

Time to the market

Number of service facilities and locations

First Major Milestone Description

Conduct market research and analyze the customers' needs.

Formulate process of improving service facilities.

First Major Milestone Date

May 1993

[(B)--- Enhance Human Resource Capability]

Description

Review the existing recruiting criteria, revise selection requirement to meet the future need. Improve the current educational and training system to enhance the quality of human resource. Examine the rewarding system to prevent the outgoing of talented and well performed people.

Responsible Manager

General manager - Human Resource, Educational Center

Key Indicator(s) For Management Control

Employees' productivity

Employees' job satisfaction

Employees' turnover rate

Responsiveness

First Major Milestone Description

Issue a survey to all employees inquiring their opinions about the pros and cons of the current educational and training system, recruiting system and rewarding system in detail. Analyze the information to engage in the improvement.

First Major Milestone Date

July 1993

[(C).--- Market Development Strategy]

Description

Study the new segmentation, feasibility of building new sales distribution channels. Expand sales organizations by increasing branches and sales forces to make the network more dense. Also adjust the sales organizations to be more sound.

Responsible Manage

General Manager - Planning and research, Marketing.

Key Indicator(s) For Management Control

Number of new organizations

Number of adjusted organizations

Type of new distribution channels

Market share

New life insurance business sales volume

First Major Milestone Description

Make market research to identify the potential market needs and the possible segmentation, study the proper channels to fit with suitable strategies.

First Major Milestone Date

March 1993

[(D).--- Explore Opportunities in Overseas Markets Development]

Description

Study the market environment, demands and attractiveness of overseas life insurance markets including the U.S., China, and Southeast Asia. Find out the niche markets, apply to set up liaison offices at the first stage. Apply for the license and launch the new business at the proper time.

Responsible Manager

General Manager - Planning & Research

Key Indicator(s) For Management Control

Establishment of Liaison office
Governmental approval of business license at niche markets
Permission of new products to the markets

First Major Milestone Description

Identify the most potential niche and the main cities in the U.S., China and Southeast Asia which would attract the company to launch the life insurance business. Set up the liaison offices at the right timing.

First Major Milestone Date

May 1994

CHAPTER 6

STRATEGIC PROGRAMMING & BUDGETING

Strategic Programming is a process of translating the broad action programs into a series of specific action programs with concrete and measurable tasks in support of achieving the long term strategic objectives.

Definition and Evaluation of Specific Action Programs

In order to facilitate later evaluation and management control, the following standard format is suggested by the Strategic Planner to state the characteristics and the necessary information of specific action programs:

Specific Action Program-- Title
Description
Statement of Priority
Statement of Costs
Statement of Benefits
Scheduled Completion
Responsibility
Procedure for Controlling Completion
Statement of Performance and Goals

For the item "Statement of Priority", it indicates the importance of the specific action program to gain advantage in the SBU's competitive position. Definition for the different priority levels is shown as follows:

Statement of Priority	Definition
<i>Absolutely first priority</i>	Postponement will hurt the competitive position significantly.
<i>Highly desirable</i>	Postponement will affect the competitive position adversely.
<i>Desirable</i>	If funds were to be available, the competitive position could be enhanced.

Source: Strategic Planner, EDS. 1992.

The SBU has develop a set of specific action programs as follows to support the broad action programs:¹¹

Broad Action Program--

(A). Strengthen Competitive Power of Product and Service

Specific Action Programs of (A).--

(A-1). Assess and improve the current product line.

Description

Review the product line by using market survey for customers satisfaction and each product's attractiveness. Estimate the tendency and degree of its growth or shrinkage. Assess the competitiveness and profitability. Improve the flaws to fit the market need.

Statement of Priority

Absolutely first priority

Statement of Costs

\$200,000

Statement of Benefits

To get sustainable position in market penetration and expansion

Scheduled Completion

October 1993

Responsibility

General manager - Planning & Research

Procedure for Controlling Completion

Monthly reports by contrast of schedule and actual progress

Statement of Performance and Goals

To make the products more customers oriented to really fit customers need instead of sales people oriented as before.

To make the contents of products easier to read and understand, i.e. to translate legal terms into reader friendly style.

To adjust cost structure, to increase the flexibility of combination and convention of the products to be more competitive.

(A-2). Develop Retirement Pension Plan

Description

Study the tendency of aged population, conduct a market survey and design properly to make up the gap between social security and the satisfactory need of the aged by providing sufficient coverage after the government opened the business of annuity insurance.

Statement of Priority

Highly Desirable

Statement of Costs

\$200,000

Statement of Benefits

Increase product differentiation, product development and diversification.
Gain more market share.

Scheduled Completion

February 1994

Responsibility

General Manager - Planning & Research,
Manager - Marketing Research, Manager- Product Design.

Procedure for Controlling Completion

Quarterly progress reports, meeting and discuss the results of survey.

Statement of Performance and Goals

To achieve a persuasive survey result and get a guiding direction of the product design. To gain a leadership position in this product.

(A-3). Design More Attractive Health Insurance Products

Description

National Health Insurance Project will be established in 1994, which can provide basic coverage only. The company should design more attractive health product and fit with the improving hospital accounting system in the future.

Statement of Priority

Highly desirable

Statement of Costs

No others additional resources are required for the R&D. \$200,000 for promotion and sales training.

Statement of Benefits

Increase product differentiation and increase market share.

Scheduled Completion

March 1994

Responsibility

General manager- Planning & Research

Procedure for Controlling Completion

Quarterly meeting to discuss the design style and costs of product.

Statement of Performance and Goals

Accuracy of estimating the cost sensitivity of designing health products.

Develop popular health products with low costs.

(A-4). Research Investment-Sensitive Product

Description

Match the consumers perception of taking the insurance as a financial investment instrument, study to develop the investment sensitive products which deal with the investment account separately from the mortality part.

Statement of Priority

Highly desirable. (Depend on the future rectification of authorities regulations)

Statement of Costs

No other additional resources are required for R&D. \$200,000 for promotion and educational training.

Statement of Benefits

Product development and diversification, favorable advantage to gain significant market share.

Scheduled Completion

March, 1994

Responsibility

General Managers- Planning & Research, actuarial, financial management

Procedure for Controlling Completion

Quarterly progress reports. environment changes monitor reports.

Statement of Performance and Goals

Potential new business volume and premium income, establish an advantageous position in expanding the life insurance market.

(A-5). Improve the Service Efficiency of Business Conservation

Description

Review and improve the existing service operation system. Strengthen the computerized nationwide service network with respect to the conservation of business and claim administration.

Statement of Priority

Absolutely first priority

Statement of Costs

\$1,200,000

Statement of Benefits

Improve company's image. Strengthen brand loyalty. Decrease the lapse ratio of insurance policies in force.

Scheduled Completion

March 1994

Responsibility

General Managers - Policyholder Service, Computer Information.

Procedure for Controlling Completion

Monthly progress and status reports. Monitor the improved service items by quantified measurement.

Statement of Performance and Goals

Simplify the process of insurance policy's conservation such as premium collection, conversion, changes of the insurance amount, beneficiary etc. Extend the service functions by computer system to shorten service time and raise the customers' satisfaction.

Broad Action Program--

(B). Enhance Human Resource Capability

Specific Action Program of (B).--

(B-1). Improve the Educational & Training System

Description

In order to match strict requirements for sales people regulated by the authorities, such as mandating the registration license through qualification examinations, review and improve the existing educational & training programs is essential. Expand the facilities from the existing northern part to middle and southern parts of the nation to enhance the professional level of the field and in-house workers.

Statement of Priority

Absolutely first priority

Statement of Costs

\$360,000

Statement of Benefits

Enhance the professional quality of employees. Improve the productivity.

Improve the competitive position significantly. Enhance the company's image.

Schedule Completion

December 1993

Responsibility

General Managers- Educational & Training, Human Resource, marketing (Proper System, Debit System)

Procedure for Controlling Completion

Progress monitor meeting held at least every two months.

Statement of Performance and Goals

Increase productivity. Maintain at least 50% of market share. Enhance the quality of professional service level. Set up a more solidified foundation for long term competitive advantage.

(B-2). Evaluate the Rewarding and Promotion System

Description

Review and evaluate the rewarding, performance criteria, and promotion system through conducting survey and communications between different management levels, in order to establish more reasonable and more incentive systems. Keep the employees morale in high level. Make the human resource management more efficient and effective.

Statement of Priority

Absolutely first priority

Statement of Costs

No other additional resources are required.

The costs due to the revisions of system depend on the results of review.

Statement of Benefits

Improve the relationships between employees and the company. Increase the productivity. Lower the turnover rate even confronting the new entrants' competition.

Schedule Completion

October 1993

Responsibility

General Managers - Human Resource, Marketing.

Procedure for Controlling Completion

Monthly progress review meetings. Monthly progress reports. Cost and effectiveness reports for different revisions suggestions.

Statement of Performance and Goals

To achieve high productivity, comparatively high satisfactory, high loyalty and low turnover rate of employees. To maintain the existing high market share in the short and long run.

Broad Action Program--

(C). Market Development Strategy

Specific Action Programs of--

(C-1). Build New Distribution Channels to Dig Into Targeted Market

Description

In order to strengthen the sales forces, the SBU finds some niche markets to develop the corporate life insurance business and mass marketing business. New distribution channels will be built to develop this field.

Statement of Priority

Highly desirable

Statement of Costs

\$2,000,000

Statement of Benefits

To set a strong foundation for expending market share. The corporate business would have much better quality with higher persistency rate. The company would build a good and long term interrelationships with a variety of corporates. The mass marketing business might be full of potential to meet the future social trend and can make the most of the existing resources.

Scheduled Completion

July 1993

Responsibility

General Managers-Planning & Research, Marketing,
Team Leader-Senior Vice President

Procedure for Controlling Completion

Cost analysis reports. Market size estimation reports. Progress monitoring meetings. Recruiting progress reports.

Statement of Performance and Goals

To build a high-quality sales force to gain high-quality corporate employer and employees business, significantly favorable to sustain long term competitive advantage. To develop the extensive and the ignored market by trying a new distribution channel in mass marketing.

<u>(C-2). Adjust Management Structure In the Organization</u>
--

Description

In order to make the whole origination's Management more responsive and efficient, overall evaluation of the existing management structure will be proceeded. Internal survey will also be conducted by SBU. Main issues would be on the extension range of decentralization and how many regional home

offices would be appropriate in the adjustment. We also need to plan the number of branches to be expanded to meet the future business growth.

Statement of Priority

Highly desirable

Statement of Costs

\$920,000

Statement of Benefits

To improve the organizational communications and responsiveness. To be able to have much bigger capacity for speedy business volumes growth. To build a more flexible structure and to enhance the satisfaction and loyalty of employees as well as customers. To enhance company image and brand loyalty.

Scheduled Completion

February 1994

Responsibility

General managers-Planning & Research, Human Resource, Underwriting, Claim Administration, Marketing, Etc.

Team Leaders-Executive Vice President.

Procedure for Controlling Completion

Evaluation and analysis of internal survey with respect to the pro and con. Cost analysis of the adjustment of management structure. Meeting to discuss the possible scenarios after the adjustment. Monthly reports of progress and costs.

Statement of Performance and Goals

To set up regional home offices, which include all the necessary functions such as human resources, marketing, underwriting, conservation, claim administration, policyholders service, separately in the middle and southern parts of the nation to make the delegation of power more localized, and more responsible to the external and internal needs. This re-organization should be critical to cope with the future challenges of more drastic completion, hence to maintain the major market share and dominant position in the industry.

(C-3). Assess the Inclusion of Contracted Agents and Brokers

Description

Besides the existing employed sales people, the market has another two kinds of systems: independent insurance brokers, and contracted agents who are not employees of insurance companies. In order to maintain the sustainable competitive, it would be about time to consider the feasibility of contracting with independent brokers and agents to secure more business and market share.

Statement of Priority

Highly desirable

Statement of Costs

The assessment needs no additional resources. The inclusion of independent solicitors would be on variable costs basis plus operational subsidy.

Statement of Benefits

Increase market share. Very low fixed costs. Broaden sales forces scale and distribution channel. Averagely higher professional level.

Scheduled Completion

December 1993

Responsibility

General Manager-Planning & Research, Marketing, Human Resource management,

Team Leader-Senior Vice President

Procedure for Controlling Completion

Quarterly evaluation meetings. Cost analysis reports. Quarterly progress reports.

Historical market performance reports.

Statement of Performance and Goals

To strengthen sales forces and distribution channels. Adopt experimental steps in hunting and contracting with high potential independent agents and brokers. To sustain the strongest position in market share.

Broad Action Program--

(D). Explore Opportunities in Overseas Markets

Specific Action Programs of:

(D-1). Plan the Future Entrance Into China's Market.

Description

Although Taiwan's life insurance companies have not been allowed yet by either Taiwan or China authorities to enter into China's market, it is expected that the restriction will be lifted at the proper time in the foreseeable future. The China life insurance market is full of potential and attraction. The business has been growing yearly at average of 50% per year. At present, the supervisory regulation is not complete yet. Premiums are still too high. It is advisable that the company sets up liaison office in China (or in Hong Kong , if temporarily not available in China) to observe the development of the market, to establish the public relationships and wait for the opportunities to enter in and take advantageous position.

Statement of Priority

Highly desirable

Statement of Costs

\$180,000

Statement of Benefits

Take the first move to understand more clearly the China market progress so that the SBU can identify critical successful factors and make the best preparations before building sales forces and channels in there.

Scheduled Completion

May 1994

Responsibility

General Manager-Planning & Research, Marketing, Human Resource,
Team Leader- Senior Vice President

Procedure for Controlling Completion

Marketing monthly research reports. Ongoing evaluation meetings. Visiting observation reports. Governmental authorities' inclination reports.

Statement of Performance and Goals

To make sure there will be a sound preparation before entering into the market. Emphasis is put on the long term perspective.

(D-2). Set Up Base In the U. S. Market

Description

Although the U.S. market seems to be mature in some perspective. Due to the large market size, there are some niches the SBU expects to find out. The

American Asian people could be the first target market. It would be prior to initiate the business from California and New York. The first step would be establishing liaison offices and conduct market research in these two states. Design the products fit the needs of this market tastes is essential, the characteristics of human resource in the U.S. should be carefully assessed. Strategic alliance with the reinsurer in forms of joint venture could be a good strategy in finding the right channels and experiences in the U.S. market.

Statement of Priority

Highly desirable

Statement of Costs

\$250,000

Statement of Benefits

To take the advantage of governmental encouragement to expand the geographic scope. To develop in a new market with limited experience would be become easier under the alliance strategy. To establish liaison offices in advance would be important in matching the steps with the market development.

Scheduled Completion

October 1994

Responsibility

• General Manager-marketing, Planning & Research, Human Resource.

Chief Director - Management Research Committee

Procedure for Controlling Completion

Market survey reports. Strategic alliance evaluation reports. Quarterly progress reports. Strategy assessment meetings.

Statement of Performance and Goals

To decide the most suitable partner in the alliance strategy. To design proper life insurance product line favorable for the U.S. market. Build company image. Expect to have 70% of the revenue mainly from the Asian communities at the first stage.

(D-3). Study the Feasibility of Developing in Southeast Asia Market

Description

In southeast Asia, Malaysia and Thailand are the markets with high governmental restrictions placed on foreign ownership, but are attractive for possible opening in the foreseeable future. Indonesia is also attractive for international life insurance by high growth market share in recent years.¹² Therefore, it is getting important to study the feasibility to enter these markets. Continuous relaxation of regulations is expected and entering into Malaysian market with joint venture would be the first phase of developing in Southeast Asia.

Statement of Priority

Highly desirable.

Statement of Costs

\$100,000

Statement of Benefits

To watch the progress of the society, build public relationship, seek for possible partners and get a position in a high potential Southeast Asia market. Hold a proper opportunity to gain market share.

Scheduled Completion

July 1995

Responsibility

General Managers - Marketing, Human Resource, Planning & Research,
Team Leader - Senior Vice President

Procedure for Controlling Completion

Quarterly market survey and monitoring reports. Evaluation reports and meetings of strategy and possible partners. Quarterly progress reports.

Statement of Performance and Goals

To get the right schedule for the progress of opening Malaysian market, the expansion of market size. To decide the most proper partners in the market. To decide the feasibility and priority of entering the other areas of Southeast Asia. To stand a position and build company image in this market.

Budgeting

Having completed the above specific action programs through thoughtful consideration by the SBU for strategic programming, these envisaged programs need to be associated with sufficient budgeting support from the corporate budgeting committee to finalize these programs. It would be expected that these plans be carried out by well organized steps in the future to gain a long term competitive advantage. Therefore, the final stage for the business strategic planning should lead toward an "intelligent budget". As instructed by Professor Hax, this budget form is not a straight extrapolation from past budget figures into the future, but an instrument that contains both strategic and operational commitments. Strategic funds are required to carry out the commitments of developing new opportunities, while the operational funds are required to effectively maintain the existing business base.

The budgeting process in the SBU involves rather complicated negotiation and reconfirmation among different executives and managers concerning the appropriate allocation of the corporate resources.

Strategic Planner provides a chart for strategic funds programming and operational budgets, shown in Figure 6-1, which contains financial information related to the operating base as well as strategic funds of the SBU. This chart is divided into three sections: (1). History (1988~1992)-- five years prior to the first year of the strategic planning, (2). Current year (1993)-- the first year of the SBU's strategic planning, and (3). Projections (1994~1997)-- additional years beyond the current year and within the time frame previously defined by the SBU. In Figure 6-1, the column of actual figures in the current year is still

blank at the beginning of the year, however, the SBU should evaluate the actual performance and compare with the budget when the actual figures come out later on.

Figure 6-1. Strategic Funds Programming and Operational Budgets.

Unit: Millions	History					Current Year		Projections			
	1988	1989	1990	1991	1992	Actual	Budget	1994	1995	1996	1997
Total Market	4032	4994	5822	6722	7820	0	9266	11120	13123	16012	19312
Market Share (%)	52	51	52	49	49	0	49	50	50	51	52
Company Sales	2083	2568	3002	3316	3799	0	4502	5522	6577	8123	9966
- Operating Cost	1789	2138	2499	2771	3165	0	3760	4612	5492	6789	8336
Gross Operating Margin	294	430	503	545	634	0	742	910	1085	1334	1630
- Operating SG&A	62	103	110	121	138	0	162	199	241	295	366
Operating Margin	232	327	393	424	496	0	580	711	844	1039	1264
- Strategic Expenses	130	165	204	213	251	0	321	396	497	626	789
SBU Margin	102	162	189	211	245	0	259	315	347	413	475
- Taxes	5	18	23	27	32	0	35	43	56	70	93
SBU Net Income	97	144	166	184	213	0	224	272	291	343	382
+ Depre.	18	21	26	32	38	0	46	56	67	82	100
- Capital Investments	32	57	87	128	115	0	150	195	169	202	183
Contribution Request of Funds	83	108	105	88	136	0	120	133	189	223	299

¹¹ The information of costs are estimated on the annual basis. In this thesis, most of the figures are disguised or modified for protecting the company's proprietary and confidentiality. However, such modification would not influence the effect and value of using the strategic planning methodology.

¹² Apps, Victor. "The Operations of Non-Asian Life Insurance Companies in Pacific Asia," *15th Pacific Insurance Conference*. Taipei, Taiwan, R.O.C. 1991. pp. 128-130.

CHAPTER 7

CONCLUSIONS

Having completed the business strategic planning through the use of Strategic Planner, I have a wonderful experience in exercising such a powerful and pragmatic instrument as well as in learning and practicing a lot from the methodology of professor Hax. The results come out so plentiful and meaningful. In particular, this is the first time that Hax methodology is implemented in the life insurance industry of Taiwan. I can deeply feel it is essentially significant for a leading life insurance company to develop sound business strategic planning in such a systematic way when the industry is confronting the unprecedented strongest challenges under the environment characterized by very dramatic changes from the opening of the insurance market and the social vitality due to political progress in democracy. Although we might already have experience in long term and short term planning for many years, it would be definitely more beneficial if we build a team, utilize this excellent and well-advised systematic framework in business strategic planning process, review and evaluate the planning on a regular basis.

The Strategic Planner has been proved a very powerful strategic management tool for the interpretation and implementation of Hax methodology. The utilization of this pragmatic software can improve the communication effect, provide thoughtful analysis through very well defined step by step process, save much time in repeated works, and facilitate each kind of information

processing and assessment. It is especially helpful in maximizing the benefits of learning by analyzing various simulated scenarios, attracting much higher attention and more discussions among the executives and managers in the management team of SBU.

The successful achievement of strategic planning depends not only on the sound business strategy but also on the efficient and effective management in the implementation and control stages. Hence it is very important that the top management can get a clear perspective concerning the strategic planning through participating in the workshop and create a vision for meeting the future challenges. Only with open-minded attitude can people be adaptable to each kind of change and be more supportive to carry out the commitment of the strategic planning. This human issue would definitely play a key role to guarantee the wonderful success of the business strategy.

APPENDIX A

PRODUCT VS MARKET SEGMENTATION

A-1

Existing Product Scope vs Existing Market Scope

Existing Product Scope	Existing Market Scope											
	Youngers	Corporate employees	Corporate employees	Men of middle age	Housewives	Medium income families	High income families	VIP	Self employed people	Families with children	Traveler agency	Transportation companies
Traditional endowment	○	●	●	●	●	●	●	●	●	●	○	○
Incremental endowment	●	●	●	●	●	●	●	●	●	●	○	○
Whole life	●	●	●	●	●	●	●	○	●	●	○	○
Term life	●	●	●	●	●	●	●	○	●	●	●	●
Combination of endowme...	○	●	●	●	●	●	●	●	●	●	○	○
Children educational pensi...	○	●	●	●	●	●	●	●	●	●	○	○
Women increment plan	○	●	●		●	●	●	●	●	●	○	○
Youth insurance plan	●	○	○			●	●		○	●	○	○
Medical rider	●	●	●	●	●	●	●	○	●	●	○	○
Accidental rider	●	●	●	●	●	●	●	○	○	●	●	●
Endowment with high pro...	○	●	●	●	●	●	●	●	●	●	○	○
Personal one year term ins...	●	●	○	○	○	●	●	○	●	○	●	●
Family protection insurance		●	○	●	●	●	●	○	●	●	○	○
Passenger accident insura...	●	●	●	●	○	●	●	○	●	●	●	●
Travel insurance plan	○	●	○	●	○	●	●	●	○	○	●	●
Accident insurance plan	○	●	●	●	●	●	●	●	●	●	●	●

APPENDIX A

PRODUCT VS MARKET SEGMENTATION

A-2

Existing Product Scope vs New Market Scope

Existing Product Scope	New Market Scope				
	Health Sensitive people	Investment sensitive people	Non-life insurance policy...	Retirement life sensitive p...	Customers of financial ins...
Traditional endowment	●	●	●	●	○
Incremental endowment	●	●	●	●	●
Whole life	○	○	●	●	○
Term life	○	○	●	●	○
Combination of endowme...	○	●	●	●	●
Children educational pensi...	●	●	●	●	●
Women increment plan	●	●	●	●	○
Youth insurance plan	○	○	○	○	○
Medical rider	●	●	●	●	●
Accidental rider	●	●	●	●	●
Endowment with high pro...	●	●	●	●	○
Personal one year term ins...	○	○	●	○	○
Family protection insurance	●	○	●	●	○
Passenger accident insura...	○	●	●	●	●
Travel insurance plan	○	○	●	○	○
Accident insurance plan	○	○	●	●	●

APPENDIX A

PRODUCT VS MARKET SEGMENTATION

A-3

New Product Scope vs Existing Market Scope

New Product Scope	Existing Market Scope											
	Youngers	Corporate employees	Corporate employers	Men of middle age	Housewives	Medium income families	High income families	VIP	Self employed people	Families with children	Traveler agency	Transportation companies
Retirement pension plan	○	●	◐	●	○	●	◐	○	●	●	●	●
Complex insurance plan ...	○	●	◐	◐	◐	●	●	◐	●	◐	◐	◐
Credit insurance	○	◐	◐	◐	○	○	○	◐	◐	○	○	○
Health insurance	○	◐	◐	●	◐	◐	○	○	◐	◐	○	○
Supplementary medical co...	○	●	◐	●	◐	●	○	○	●	●	●	●
Disability income insurance	◐	◐	○	◐	○	◐	○	○	●	◐	○	○
Investment oriented plan	○	●	●	●	●	●	●	●	◐	◐	○	○

APPENDIX A

PRODUCT VS MARKET SEGMENTATION

A-4

New Product Scope vs New Market Scope

	New Market Scope				
New Product Scope	Health Sensitive people	Investment sensitive people	Non-life insurance policy ...	Retirement life sensitive p ...	Customers of financial ins ...
Retirement pension plan	●	●	●	●	●
Complex insurance plan ...	●	●	●	○	○
Credit insurance	○	●	●	○	●
Health insurance	●	○	●	●	●
Supplementary medical co...	●	○	●	●	●
Disability income insurance	●	○	○	●	○
Investment oriented plan	●	●	●	●	●

APPENDIX A

PRODUCT VS GEOGRAPHY SEGMENTATION

A-5

Existing Product Scope vs Existing Geographical Scope

Existing Product Scope	Existing Geographical Scope		
	North region of Taiwan	Central region of Taiwan	South region of Taiwan
Traditional endowment	●	●	●
Incremental endowment	●	●	●
Whole life	◐	◐	◐
Term life	◐	○	◐
Combination of endowme...	●	◐	●
Children educational pensi...	●	●	●
Women increment plan	◐	◐	◐
Youth insurance plan	◐	○	○
Medical rider	◐	○	◐
Accidental rider	◐	○	◐
Endowment with high pro...	◐	◐	◐
Personal one year term ins...	○	○	○
Family protection insurance	◐	◐	◐
Passenger accident insura...	◐	◐	◐
Travel insurance plan	◐	○	○
Accident insurance plan	◐	◐	◐

APPENDIX A

PRODUCT VS GEOGRAPHY SEGMENTATION

A-6

Existing Product Scope vs New Geographical Scope

Existing Product Scope	New Geographical S...		
	Mainland China (starting f...	United States (starting fro...	Southeast Asia (starting f...
Traditonal endowment	●	○	◐
Incremental endowment	●	○	○
Whole life	◐	◐	○
Term life	○	●	◐
Combination of endowme...	◐	◐	○
Children educational pensi...	●	○	
Women increment plan		○	
Youth insurance plan			
Medical rider			
Accidental rider			
Endowment with high pro...			
Personal one year term ins...			
Family protection insurance			
Passenger accident insura...			
Travel insurance plan	◐	◐	
Accident insurance plan	○	○	

APPENDIX A

PRODUCT VS GEOGRAPHY SEGMENTATION

A-7

New Product Scope vs Existing Geographical Scope

New Product Scope	Existing Geographical...		
	North region of Taiwan	Central region of Taiwan	South region of Taiwan
Retirement pension plan	●	●	●
Complex insurance plan ...	◐	◐	◐
Credit insurance	○	○	○
Health insurance	◐	◐	◐
Supplementary medical co...	◐	◐	◐
Disability income insurance	○	○	○
Investment oriented plan	●	◐	●

APPENDIX A

PRODUCT VS GEOGRAPHY SEGMENTATION

A-8

New Product Scope vs New Geographical Scope

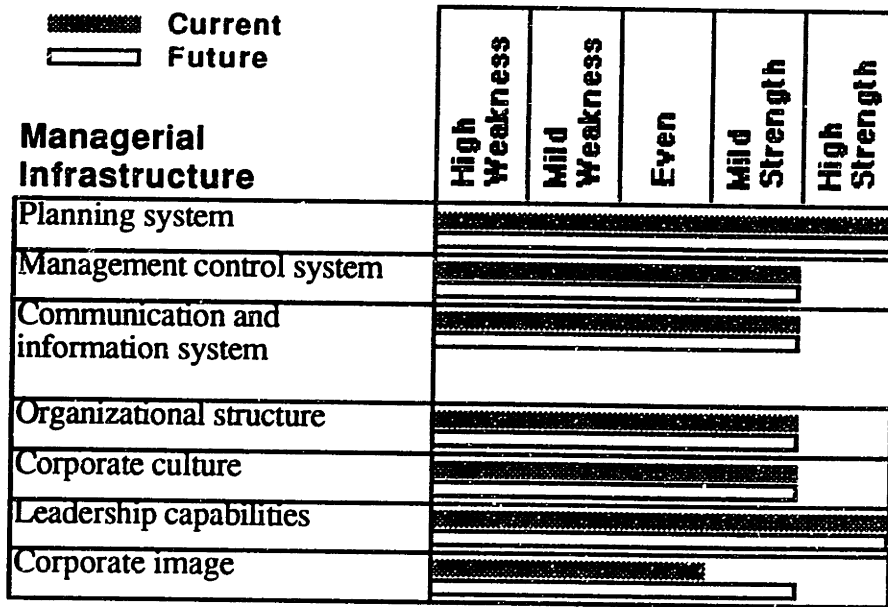
	New Geographical S...		
New Product Scope	Mainland China (starting f...	United States (starting fro...	Southeast Asia (starting f...
Retirement pension plan	● High	● High	
Complex insurance plan ...			
Credit insurance			
Health insurance			
Supplementary medical co...			
Disability income insurance			
Investment oriented plan	● Medium	● Medium	

APPENDIX B

COMPETITIVE PROFILE

B-1

SKL: Managerial Infrastructure



APPENDIX B

COMPETITIVE PROFILE

B-2

SKL: Finance

	High Weakness	Mild Weakness	Even	Mild Strength	High Strength
Finance					
Capital budgeting	██████████				
Equity management and dividends policy	██████████				
Long term debt financing	██████████			▬▬▬▬▬▬	
Pension fund management	██████████			▬▬▬▬▬▬	
Tax management	██████████			▬▬▬▬▬▬	
Risk management	██████████			▬▬▬▬▬▬	
Relationship with financial community	██████████				
Financial organization and managerial infrastructure	██████████				

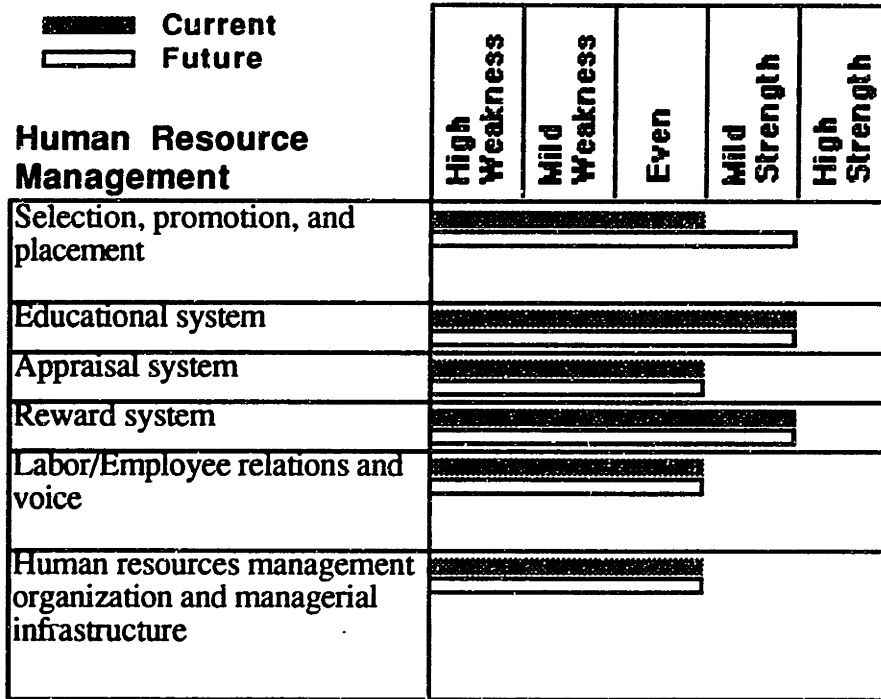
██████████ Current
 ▬▬▬▬▬▬ Future

APPENDIX B

COMPETITIVE PROFILE

B-3

SKL: Human Resource Management

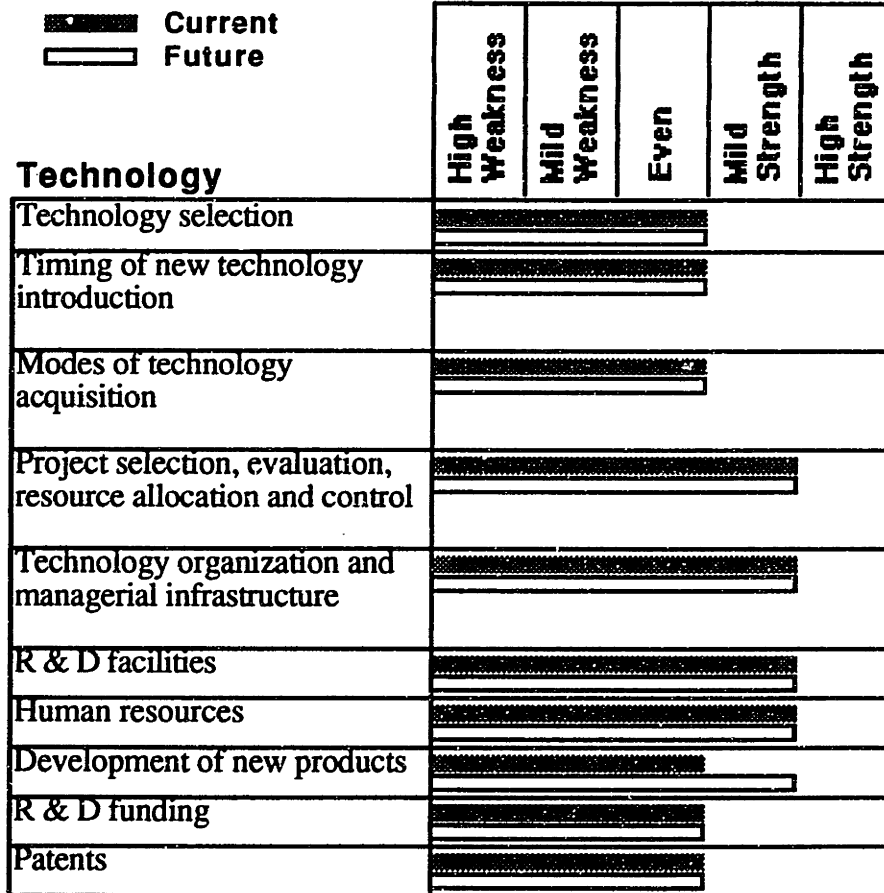


APPENDIX B

COMPETITIVE PROFILE

B-4

SKL: Technology



APPENDIX B

COMPETITIVE PROFILE

B-5

SKL: Marketing and Sales

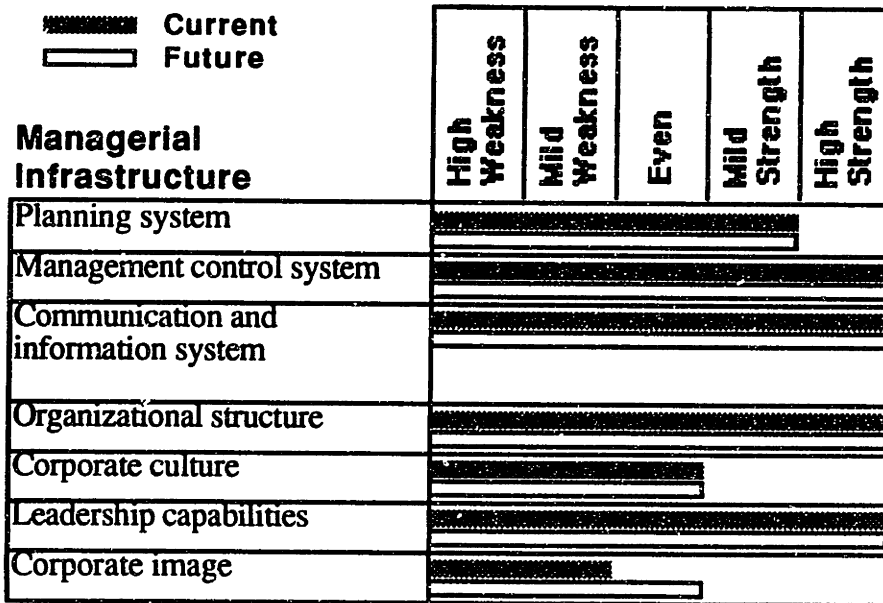
	High Weakness	Mild Weakness	Even	Mild Strength	High Strength
Marketing and Sales					
Defining and analyzing markets	Current	Future			
Product strategy	Current	Future			
New products development and introduction	Current	Future			
Flexibility of products combination	Current	Future			
Flexibility of products conversion	Current	Future			
Distribution strategy	Current	Future			
Price strategy	Current	Future			
Promotion and advertising strategies	Current	Future			
Persistency of business in force	Current	Future			
Marketing organization and managerial infrastructure	Current	Future			
Location and number of sales offices	Current	Future			
Location and number of service facilities	Current	Future			
Human resources	Current	Future			
Distribution system	Current	Future			
Service system	Current	Future			
Market research	Current	Future			
Key accounts	Current	Future			
Price competitiveness	Current	Future			
Breadth of product line	Current	Future			
Brand loyalty	Current	Future			

APPENDIX B

COMPETITIVE PROFILE

B-6

NSL: Managerial Infrastructure





APPENDIX B

COMPETITIVE PROFILE

B-7

NSL: Finance

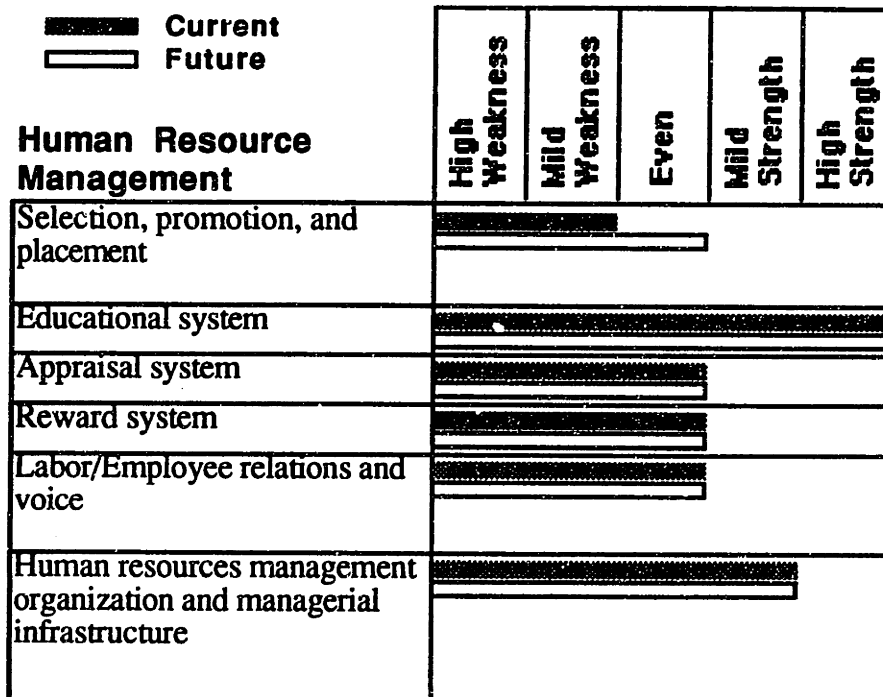
	 Current  Future	High Weakness	Mild Weakness	Even	Mild Strength	High Strength
Finance						
Capital budgeting						
Equity management and dividends policy						
Long term debt financing						
Pension fund management						
Tax management						
Risk management						
Relationship with financial community						
Financial organization and managerial infrastructure						

APPENDIX B

COMPETITIVE PROFILE

B-8

NSL: Human Resource Management

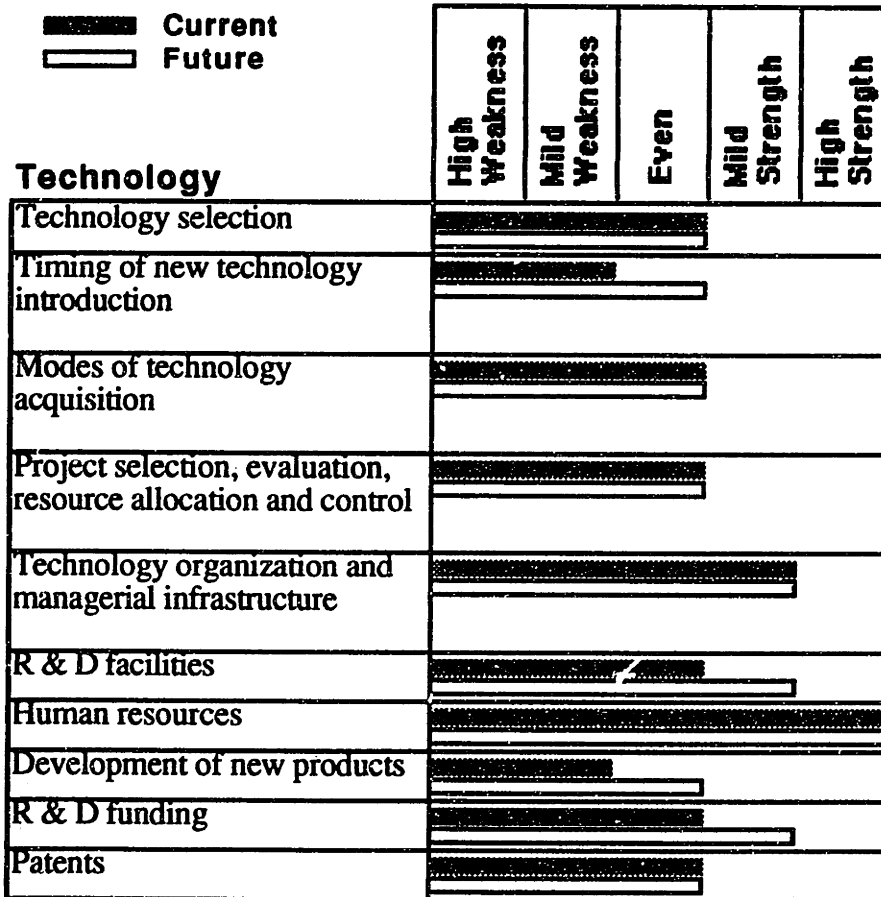


APPENDIX B

COMPETITIVE PROFILE

B-9

NSL: Technology

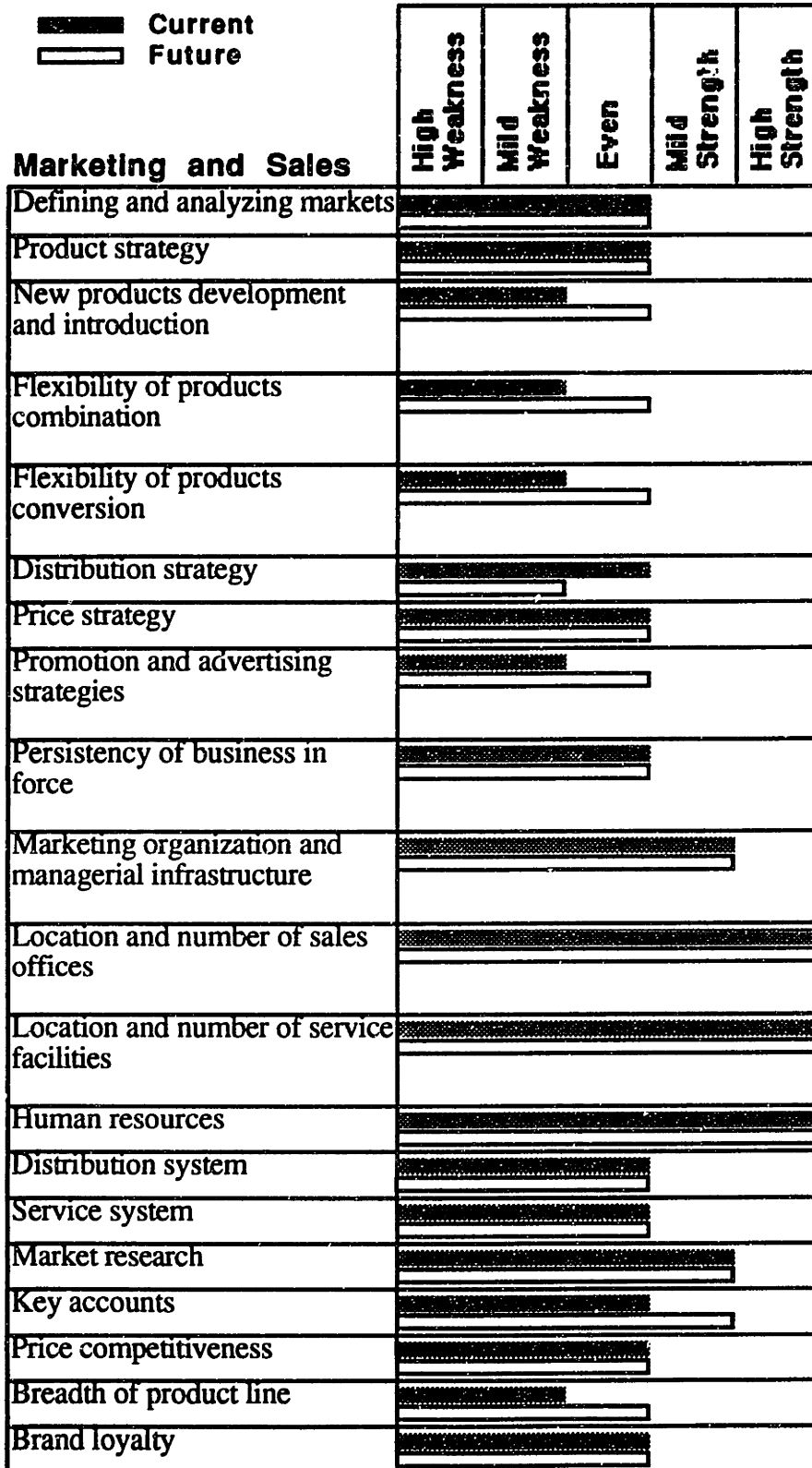


APPENDIX B

COMPETITIVE PROFILE

B-10

NSL: Marketing and Sales



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