

For Life or Death: Local Culture and State in Shaping Life Insurance Markets in Mainland China, Taiwan, and Hong Kong*

Cheris Shun-ching Chan University of Hong Kong

Based on a comparative analysis of the life insurance markets in mainland China, Taiwan, and Hong Kong, this article explores the interplay between local culture, the state, and economic actors' agency in shaping the characteristics of local markets. I ask why life insurance market in Hong Kong takes a trajectory different from that in China and Taiwan though the life insurance industry faced cultural resistance in all three Chinese societies. Available data suggests that with a strong state, both mainland Chinese and Taiwanese governments heavily protected domestic life insurance firms. These firms accommodated to local cultural resistance by re-defining the concept of life insurance to cater for local preferences. Life insurance was presented as savings to the mainland Chinese and Taiwanese populations, resulting in money management markets. The colonial Hong Kong government, on the other hand, adopted a *laissez faire* policy that essentially favored foreign insurers who attempted to lift the local cultural taboo in order to create a risk management market. My argument is that state policies mediate who the dominant players are in the field which, in turn, affects the extent of localization of a particular market. The Hong Kong market was localized to a lesser extent due to the absence of competitive domestic players. However, this characteristic resulted in a smaller market in Hong Kong, due to insurers' reluctance to compromise to culturally constituted local preferences.

Keywords globalization, varieties of capitalism, insurance, Asia, culture, state

I. Introduction

In what ways are varieties of capitalism possible in the age of globalization? Literature is burgeoning on the interplays of local histories, institutions, states, and cultures in forging divergent capitalist trajectories and practices (e.g., Fligstein, 2001; Guillen, 2001; Dore, 2000; Hall and Soskice, 2003; Amable, 2003; Campbell, 2004). Based on a comparative analysis of the market forma-

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tion of a capitalist enterprise in three Chinese societies (mainland China, Taiwan, and Hong Kong), the objective of this article is to explore how local culture, mediated by state policies, shapes the trajectory and features of a market. This paper is intended to contribute to one particular aspect of the debates over globalization and varieties of capitalism, namely, the role of local culture and the state.

Facing saturating markets at home, Euro-American commercial life insurance firms has intensified their global expansion since the 1980s. Nonetheless, as life insurance is a peculiar commodity that puts a price on human lives, this modern enterprise has always faced cultural resistance whenever it is introduced to a new population (Zelizer, 1979; Post, 1976). Commercial life insurance was brought to the Chinese population as early as the mid-19th century during the British imperialist expansion in China. However, this peculiar commodity remained unpopular on Chinese soils until the 1980s, when the life insurance industry began to take off in Hong Kong and Taiwan. In mainland China, it was not until the second half of the 1990s did a life insurance market begin to emerge. Intriguingly, the markets in mainland China and Taiwan share the same characteristics and follow the same trajectory that it first emerged as a money management market. On the other hand, the market in Hong Kong follows a different path as it first emerged as a risk management market. Furthermore, despite Hong Kong's stronger economy, the life insurance business in this territory was less impressive compared to that in Taiwan throughout the thirty years' development from the 1980s to the 2000s. For instance, life insurance premiums as a percent of GDP in Hong Kong in 1991 were only 0.98 percent, but they reached 3.3 percent in Taiwan. In other words, the penetration of life insurance as a percent of Taiwan's GDP was more than three times that of Hong Kong's. In 2006, life insurance premiums as a percent of Hong Kong's GDP climbed to 7.8 percent, but were still far behind the 13 percent in Taiwan. In this article, I compare the development of the life insurance markets in three Chinese societies, examining why they display a pattern of similarities and differences and why the Hong Kong market is smaller than the Taiwan market even though they emerged around the same time.

Data presented in this article comes from four different sources: (1) my interviews with life insurance sales agents, managers and clients in main-

land China, Taiwan, and Hong Kong;¹ (2) insurance associations' publications; (3) newspaper clips; (4) dissertations on related topics; and (5) my previous publications. My findings reveal that the local populations in all the Chinese societies refused to accept life insurance as a new form of risk management due to the Chinese cultural taboo on the topic of premature death. However, in both mainland China and Taiwan, domestic life insurers as the dominant players in the field redefined life insurance as money management to get around the cultural taboo. As a result, the market in China and Taiwan emerged as a money management market, which is distinct from the market trajectory in the Euro-American contexts. In Hong Kong, on the contrary, foreign life insurers dominated the industry and they insisted on promoting the risk management concept and attempted to remove the cultural taboo. Consequently, the market in Hong Kong follows more closely that in the Euro-American contexts as it emerged as a risk management market. Their difference, I argue, lies in the dominant players' strategic choices. However, who could become the dominant players depends on state policies. Both mainland Chinese and Taiwanese governments adopted protectionist policies that favor the growth of the domestic players; whereas the colonial Hong Kong government maintained policies that favor the foreign players. Thus, the variant form of life insurance markets in China and Taiwan is culturally produced through strategic economic agents, who themselves are capacitated by the local state policies.

In the section that follows, I present the cultural resistance to risk management life insurance products in all three societies, and briefly discuss how such resistance is rooted in the Chinese concepts of life and death. Next, I compare the state policies, the insurance players in the field, and the characteristics of the markets in these three places. The implications of this study for debates over globalization and varieties of capitalism are discussed in the conclusion.

¹ I have conducted 274 face-to-face interviews in mainland China (99 sales agents, 44 managers, 96 clients, and 35 prospects) from 2000 to 2004; 25 interviews in Taiwan from 2007 to 2008 (12 telephone interviews and 6 face-to-face interviews with sales agents, 7 face-to-face interviews with clients); and 20 face-to-face interviews in Hong Kong from 2002 to 2008 (9 sales agents, 4 managers, and 7 clients). All these interviews lasted for one to two hours.

II. Cultural Resistance to Risk Management Life Insurance

My data suggest that people in all the three Chinese societies generally did not welcome life insurance as a form of risk management because thinking and talking about premature death and fatal misfortunes was a cultural taboo (Chan, 2012a; 2012b). I traced the root of the cultural taboo elsewhere and suggested that it came from the Chinese concepts of life and death that portray early death as extremely horrifying (Chan, 2009; 2012a). Premature death is a deeply ingrained taboo topic. The collective observance of this taboo has diverted the Chinese's attention away from fatal misfortunes.

The prevalence of the cultural taboo on premature death among mainland Chinese, Taiwanese, and Hong Kong populations is reported by the life insurance sales agents in all three societies. Sales agents from all three cases reported the same challenge that people "do not want to talk about bad things," and "they don't like products without monetary returns while they are alive." Prospects in China and Taiwan perceived insurance products for managing unexpected death as "a waste of money," and those in Hong Kong felt that they were "not worth it." If the topic of "death" was touched upon, the prospects all referred to "mature death" when they were old, not unexpected early death. The products they favored, therefore, are those that make payments while they are alive, namely money management insurance products like whole life with endowment or whole life with annuities for savings purposes.

The local preference for money management products, however, is incompatible with the profitability of commercial life insurance. The operation of commercial life insurance follows the central institutional logic of capitalism, namely, "accumulation and the commodification of human activity" (Friedland and Alford, 1991: 248). In addition, insurance belongs to a category of commodities requiring a specific logic of operation to make profits and capital accumulation possible. As insurance is an exchange of money now for money payable contingent on the occurrence of certain events in the future, the basic principle on which insurance operates is a probabilistic calculation of risks. For traditional risk management insurance products (typically term life, whole life, accident insurance, health insurance, and critical disease insurance), profits derive mainly from the profit margins that are calculated upon death and casualty rates. For money management products (typically products

with savings and investment functions, such as endowment or annuity insurance, participating policy, and variable life), profits principally come from the investment returns of premiums. Thus the profitability of money management products relies more on the investment environment, which is often less predictable. Moreover, defining life insurance as primarily a money management instrument undermines insurance's unique function of managing casualties that other financial institutions cannot provide. Thus, according to the profit-oriented principle, it is in the best interest of insurers to define life insurance primarily as risk management for a specific market niche, and secondarily as money management for diversification purposes. This has been happening in Britain and the United States, where the popularity of life insurance began with policies insuring against death.² Nowadays, life insurers in North America and Europe carry a wide range of risk and money management products. However, traditional whole life and term life remain the most widely sold.³

As I present in the next two sections, foreign and domestic life insurance firms in China, Taiwan, and Hong Kong display the same disparity in product development. However, mediated by differing state policies, the life insurance industry in China and Taiwan was controlled by domestic players whereas in Hong Kong it was dominated by foreign players. The difference in dominant players, consequently, produced different market trajectories.

² According to Zelizer (1979), burial insurance was the first widely accepted life policy in the United States in the mid-19th century, prior to the popularity of policies that carried savings and investment functions. For the British life insurance market, three waves of popularity were recorded: mortuary tontines in the 18th century with the primary motive of gambling; "other interest" life insurance policies in the first half of the 19th century for protecting creditors and lending parties' interests in case of premature death; and traditional whole life and term life policies in the second half of the 19th century for protecting family dependents in case of premature death. Savings were never the main motive for buying life insurance in the 19th century when the British market was emerging. See Clark (1999) for the 18th century market and Pearson (1990) for the 19th century.

³ For example, traditional whole and term life policies accounted for 77.1 percent of the number of life policies in force in the United States in 1998. See *1999 Life Insurance Fact Book*, Statistical Reference Index, Congressional Information Service, Inc. 2000, p. 8.

III. The Emergence of Life Insurance Markets in Mainland China and Taiwan

1. Protectionist State Policies

In Mainland China

As part of its market reforms, the People's Republic of China (PRC) government promoted the development of commercial insurance since the early 1980s. A state-owned insurer, People's Insurance Company of China (PICC), began to sell life insurance before the foreign insurers arrived. The general public at large, however, had no concept of life insurance. PICC did not launch any serious training for their salespersons about this new commodity called "life insurance." Thus, life insurance never became popular when PICC was the only insurance provider.

Since 1992, China has been permitting foreign access to the emerging insurance sector, due to both its new open door policies and pressure from the major players of the World Trade Organization (WTO). Unlike its crippled position in the face of foreign superpowers during the nineteenth through the early twentieth century, Chinese authorities in the 1990s maintained control to avoid falling prey to foreign forces. They kept a tight rein on the access of foreign insurers, especially those selling life insurance. They limited their regional access, first only to Shanghai and Guangzhou in 1992 and 1995, respectively. In 1992, American International Assurance Company, Ltd. (AIA) was the first foreign insurer granted a license to sell life insurance in the PRC, but it was allowed to operate only in Shanghai. A few more cities, including Tianjin, Dalian, Chongqing, and Shengzhen, were opened to foreign insurers in 1999. After China's entry into the WTO in November 2001, a dozen more cities were opened to foreign players, including the capital, Beijing. Between 1993 and 2000, six joint ventures were formed in the PRC. In 2004, the Chinese authorities lifted the regional restriction by opening the entire country to foreign entrance. However, except for AIA, all foreign life insurers had to join with a local partner and run their business as a joint venture.

In Taiwan

After securing the sovereignty of Taiwan from the Japanese, the Repub-

lic of China (ROC) government heavily protected the domestic insurance industry from falling prey to foreign players. Foreign firms were banned from entering the insurance market. Between 1962 and 1963, seven locally-formed private life insurers were approved by the government. These domestic life insurers were under the supervision of the Insurance Department of the Ministry of Finance. The Insurance Law was promulgated as early as 1963 to regulate various aspects of the insurance business. In the same year, a restriction on the formation of life insurers was again put in place, prohibiting new entrants starting in 1964 (Wang, 2004; Fu, 1995; Lin, 2002).

Based on the close relation between the Chinese Nationalist Party and the U.S. government, American insurance companies made various attempts to push their way in into Taiwan. Under the “Sino-American Bilateral Trade Agreement” signed by both parties in 1978, American insurers were allowed to set up branches in Taiwan. The Ministry of Finance, nonetheless, limited the scope of American firms’ business to American citizens and companies only (Lai, 1991). An agreement between the two governments was reached in 1986. Starting in 1987, four American insurers (two life and two non-life) each year were approved to set up branches in Taiwan. Then in 1990, as a consequence of a new round of trade talks, the entry restrictions were relaxed to permit six American firms per year (Lai, 1991). The Taiwanese life insurance market was not opened to other transnational players until 1994 (Lin, 2002; Sun and Affleck, 2000; Wang, 2004). Since then, foreign insurers from any country were allowed to open branches and operate directly in Taiwan. But again, to protect the domestic players, each foreign insurer was allowed to operate only a single branch office.

With the advent of foreign life insurers, the government lifted the restrictions that prohibit the emergence of new domestic insurers. In 1993, the Ministry of Finance reopened the market to new domestic entrants. Nevertheless, the authority still heavily regulated the number of players to prevent fierce competition. The insurance industry in Taiwan, particularly the life insurance sector, has been heavily regulated and protected throughout its development since the 1940s.

2. Domestic Insurers as the Dominant Players

In Mainland China

Besides PICC, other domestic insurance companies were founded in the late 1980s and began to sell life insurance in the mid-1990s. In November 1987, the Bank of Communication (Shanghai Branch) set up an insurance division. This division became independent and was named China Pacific Insurance Company Ltd. in April 1991. With its headquarters in Shanghai, China Pacific was the first private insurer to expand its business throughout the country. It started selling life insurance policies in 1995. Another domestic insurer, Ping An Insurance Company (Ping An), was founded in Shenzhen in March 1988. Ping An's business was initially confined to property insurance, mainly in Shenzhen and a few other cities. But in September 1992, it was renamed as Ping An Insurance Company of China and began to expand its business to the entire country. It opened a branch in Shanghai in November 1993, and started to sell life insurance in July 1994.

To everyone's surprise, Ping An as an inexperienced private insurer stood out to lead the market growth and captured a large market share. By the time Ping An entered the life insurance business, market share for PICC stood at 78 percent, AIA's at 12 percent, and China Pacific's at 9 percent. By the end of 1995, however, the PICC lost a substantial share to AIA and Ping An. Both AIA and Ping An experienced considerable sales growth in 1995, when AIA owned 23 percent of total life premium income. Nonetheless, this was AIA's greatest market share ever. Subsequently, its share dropped to 13 percent in 1996, and fell further to 8 percent in 1997. One reason for this decline was that the PICC, which used to sell group life only, was then restructured into China Life Insurance Company Limited (China Life) and began to promote individual life. But, the real competitor of AIA was Ping An. Ping An's market share rose remarkably from one percent in 1994 to 14 percent in 1995. It jumped to a staggering 33 percent in 1996, and further went up to over 40 percent in 1999. In 2001, Ping An captured up to half of the life insurance market share in Shanghai (Chan, 2012a).

While foreign life insurance companies were most active in Shanghai and maintained a comparable number with their domestic competitors during 1997 through 2004, domestic insurers consistently captured around 80 percent of individual life premium income in this city. The dominance of

domestic insurers was even more prominent in other cities where foreign insurers were either smaller in number or absent entirely.

In Taiwan

With the withdrawal of the Japanese after the Second World War, the ROC government brought all the remnants of the Japanese firms to form the Taiwan Life Insurance Company, Ltd. (Taiwan Life) in 1947. Taiwan Life collected capital from a number of provincial government institutions. The operation of this state-owned insurer was not commercially-oriented. Instead, it functioned like a social insurer, providing coverage for government employees, military personnel, laborers and students (Lai, 1991).

With the government's protectionist policies, eight locally-originated insurance firms enjoyed the privileges of exploring the market in a relatively non-competitive environment prior to 1987, and the business was highly concentrated in the hands of few major players. Founded in 1962, Cathay Life Insurance Company, Ltd. (Cathay), among the earliest private life insurers, consistently captured over half of Taiwan's ordinary life business from the 1970s up to 1990. Another one-third to one-fourth of the market went to Shin Kong Life Insurance Company, Ltd. (Shin Kong) during the same period. Thus, these two insurers together controlled up to 80 percent of the entire market for over two decades.⁴ As the government opened up the market to foreign players in the second half of the 1990s, it also welcomed new domestic insurers to emerge. By 2003, there were altogether 32 life insurers in Taiwan, half of which were locally-owned and the other half foreign-owned. However, the market has been dominated by domestic players.

With the entrance of foreign firms and the emergence of new domestic insurers, the market share of Cathay and Shin Kong gradually declined. For instance, from 1985 to 1995, the market share of Cathay dropped from 56.5 percent to 43.8 percent, and that of Shin Kong from 28.9 percent to 21 percent. The AIG-managed Nan Shan, on the other hand, was catching up. In 1985, this somewhat mixed domestic-foreign insurer wrote only 4.3 percent of the ordinary life business. In 1995, its share tripled to 15.4 per-

⁴ *Annual Report of Life Insurance Industry, the Republic of China, 1980 - 1997*. Taipei: Republic of China Life Insurance Association.

cent.⁵ As Nan Shan was bought by AIG in the 1970s, and its market share remained less than 10 percent up to 1990, its sudden expansion could not be attributed to the American ownership. In fact, the market share of foreign insurers remained low. In 1997, for example, there were 16 domestic insurers and 15 foreign insurers in Taiwan, but the foreign camp altogether captured less than 25 percent of the market, and 69 percent of which belonged to Nan Shan. In official publications, Nan Shan actually was placed in the “domestic insurers” category. In other words, the new transnational life insurers captured less than 8 percent of the market by 1997.⁶ The domestic firms were the leading player when the market experienced rapid growth from the mid-1980s to the mid-1990s.

3. Money Management Life Insurance Markets

In Mainland China

How did Ping An as a novice life insurer achieve the astounding success of capturing the largest market share in Shanghai where most transnational insurers were present? The answer lies in its willingness to accommodate local cultural preference. Instead of defining life insurance as risk management and selling the idea of early death, Ping An defined life insurance as money management and offered savings and investment products that match the local preference. Three products, all serving primarily a savings function, dramatically boosted its sales. These included a whole life endowment, a whole life annuity, and a child endowment-annuity policy. The products were designed according to the locals' habits of saving, their concerns about life during retirement, and their child-centered way of life. Furthermore, sales of these products did not have to address the troublesome topic of premature death and other misfortunes, and could instead focus on “savings,” “returns,” “child’s education,” and “retirement.” Witnessing Ping An’s miraculous growth, China Life began offering similar products to push its sales. These two domestic insurers,

⁵ *Ibid.*

⁶ Baoxian Nianjian, Zhonghua Minguo, Taipei: *Bao xian ye wu fa zhan ji jin guan li wei yuan hui (Insurance Yearbook, the Republic of China, 1997)*. Taipei: Insurance Development Funds Management Committee, 1997.

though competing against each other, simultaneously united to render life insurance a money management concept. This stood in stark contrast to AIA's insistence on a risk management concept.

Why did not AIA offer comparable money management products to get around the cultural taboo and accommodate the local preference for savings products? In fact, all other foreign insurers which arrived in Shanghai in the second half of the 1990s defended the risk management function of life insurance. The reason was that money management products were not as profit-guaranteed as risk management products. In fact, accommodating the local resistance came with a price -- most products that Ping An and other domestic insurers sold during 1996 - 1999 induced losses. During this period, there were seven consecutive interest rate cuts in China, resulting in financial losses for Ping An and other domestic insurers who sold large quantities of long-term savings products with fixed interest rates. By June 2000, Ping An's losses amounted to 10 billion yuan (US\$1.2 billion).⁷ Therefore foreign players were not ignorant about the local cultural taboo, but their profit-oriented model deterred them from fully localizing their products. Instead, the domestic players' market-share approach, though riskier, permitted them to yield to the taboo and to meet the local preference.

By the middle of 1999, the China Insurance Regulatory Commission mandated that domestic insurers to stop selling products with high interest rates, and set a ceiling rate for all life insurance products throughout the country. The disappearance of appealing savings products slowed the expansion of the market, resulting in below average growth of life premium income that year.

Nonetheless, Ping An insisted on its market-share strategy by launching an investment product, called "unit-linked," in which each unit of the premium paid is linked to an investment return. At the time, investing in the stock market had become very popular in Shanghai (Hertz, 1998). Ping An capitalized on this "stock fever" fad and the high stock index in 2000 - 2001 to aggressively promote the unit-linked product. By characterizing insurance as investment, Ping An was able to beat all its competitors. The unit-linked product brought another surge in Ping An's sales, and its market share in Shanghai rose to a peak of 49 percent at the end of 2001.

⁷ See "Insurers Lose on Rate Cuts," *South China Morning Post*, September 13, 2000.

Frustrated by the unit-linked fad, the foreign insurers pushed the idea of risk management even harder, and blamed Ping An for distorting the concept of insurance. Nonetheless, under the pressure of competition, they also began to offer participating policies that carried dividends, which therefore resembled investments. Their agents found it easier to talk to their prospects about “dividends,” “returns,” and “investments.” As a result, the unit-linked and participating policies together brought another surge of insurance market growth in 2001. An undesirable consequence was that the definition of insurance further veered from the concept of risk management. The unit-linked fad came to a halt with the downturn in the stock index toward the end of 2001. As the majority of unit-linked clients didn’t really understand the risks involved in this product when they bought it, they blamed Ping An for misleading them. A portion of angry clients appealed to Ping An for refunds, resulting in a so-called “unit-linked crisis” at Ping An. Ping An’s innovative, daring, and opportunistic strategies prevailed only in an environment that was relatively unregulated and volatile. Increasing regulations, coupled with the unit-linked crisis, left Ping An with little choice but to join its foreign counterparts in developing risk management products.

It was not by coincidence, nonetheless, that the growth of the market began to slow in 2002 as Ping An and other domestic insurers began modeling their product development more closely on their foreign counterparts. The growth rate declined from over 52 percent in 2001 to only about 20 percent in 2003, and dropped to -0.6 percent in 2004. Thus, the life insurance business took off in the PRC largely due to novice domestic insurers’ risky approach to getting around the cultural taboo. By emerging first as a money management market, it is characterized by features quite different from those found in Euro-American markets.

In Taiwan

Prior to the arrival of their foreign counterparts, the Taiwanese insurance firms defined life insurance as a savings instrument. In the first half of the 1960s, short-term (3 - 5 years) savings plans, combining an accidental death benefit, were the most common category of products offered by the domestic life insurers. This type of insurance was called “living insurance” (*shengcun baoxian*), as it gives payment to the living insured upon maturity

of the policy and it covers only casualty death, but not any other types of death. Then, from the late 1970s to the mid-1980s, a new product line called “dividend retirement insurance” (*fengbong xian*) was launched by the insurers (Fu, 1995; Wang, 2004). This product shared the same features as the “retirement insurance,” but instead of paying fixed interests to the policyholders, it paid dividends, with rates dependent upon the investment returns of the insurers. “Dividend insurance” was considered as a savings plus investment plan. It was well received by the public, despite the low insured amount that covered death.⁸

Starting in the mid-1980s, with the entry of American insurers, whole life insurance began to replace retirement insurance. There were two different sub-categories of whole life: one with endowment and one without. The former was similar to “retirement insurance,” whereas the latter was a traditional whole life that makes payment only upon death of the insured or gives cash value upon surrender of the policy. From the mid-1980s through the entire 1990s, whole life insurance was the common product line carried by both foreign and domestic insurers. Nonetheless, there was a noticeable difference in their priorities. Foreign firms promoted whole life without endowment, the so-called “death insurance”; whereas domestic firms sold primarily whole life with endowment, the so-called “living and death insurance.” I illustrate elsewhere that over 80 percent of the life policies sold by the foreign insurers by the first half of the 1990s belong to whole life (death insurance). In contrast, whole life with endowment (living and death insurance) and pure endowment (living insurance) made up 65 to 80 percent of the life policies sold by the domestic firms during the same period. As domestic firms controlled a far majority of the market share, endowment insurance was the most popular product from the mid-1980s through the mid-1990s. Whole life with endowment made up the majority of the policies in-force, up to the end of the 1990s (Chan, 2012b).

Prior to the opening up of the market to foreign players, a strategy common to the Taiwanese insurers was presenting life insurance as no different from savings. When selling the whole life policies, they highlighted the “living fund” and avoided touching on the taboo topic of premature death (Lin, 2001). Evidence shows that the Taiwanese population has long associat-

⁸ Telephone interviews in January-February 2007.

ed life insurance with money management. In a survey conducted in 1991 - 1992, Li and her colleagues found that 45 percent of the respondents considered life insurance as a saving or investment vehicle, and only 22 percent viewed life insurance as a safeguard for the beneficiaries. Even more intriguing is the finding that that being currently married was negatively associated with having life insurance (Li, Duberstein-Lindberg, and Lin, 1996). This finding reveals that life insurance was treated as a form of personal savings for individuals, instead of an instrument for protecting dependents.

AIG, Aetna and other foreign insurers played an important role in spreading the risk management concept of life insurance. They trained the agents to confront the taboo, instead of avoiding it as the domestic insurers did. They equipped their agents with risk management sales scripts by emphasizing “family responsibility” and drawing an analogy between life insurance and charity. These scripts were the common practices among the insurance sales in the United States, which were brought to Taiwan through the American insurers. They also put advertisements on television, promoting the idea that life is unpredictable, and all responsible persons should prepare for the worst.⁹

While the entrance of foreign insurers has obviously increased the proportion of risk management products sold, the life insurance market as a whole was still a predominantly money management market. Endowment policies still accounted for 45 percent of the policies in force, and 57 percent of office premiums, by 2006. During the interviews, the sales agents in Taiwan reported that the majority of their prospects still did not accept “death insurance.” Accordingly, people perceived this kind of insurance as “a waste of money,” as they did not believe that fatal misfortunes would happen to them. Instead, they preferred products with returns while they were alive. Among the seven insurance clients (aged from their late 20s to their early 60s) that I interviewed in Taipei, six reported that saving was the primary motive for their purchase.

Thus, life insurance has always been taken primarily as a money management vehicle in Taiwan, though the entrance of the transnational life insurers has led the market to move in a money-cum-risk management direction. Foreign insurers, mostly American, in the early 1990s did attempt

⁹ Interview, Taipei, December 2008.

to convert the market from one that served a predominant money management purpose to one that served primarily a risk management function. Nonetheless, because these insurers were relatively late to enter the market, this effort lasted for only a very brief period. Taiwanese clients continued to perceive life insurance as a money management instrument. It is the money management character of the market that contributes to the prevalence -- the high penetration -- of life insurance in Taiwan.

IV. The Emergence of the Life Insurance Market in Hong Kong

1. Colonial State Policies

As a British colony for a century and a half from 1842 to 1997, Hong Kong's economy had always been governed by a strictly *laissez faire* model. The British government upheld a principle of positive non-interventionism with minimum legislative constraints on the business community. The life insurance business, no exception, was subject to little legal control. Although foreign and domestic life insurance firms had appeared on the island since the late 19th century, no formal regulation of the insurance industry was in force, except that a life insurance company, under the Insurance Companies Ordinance, was required keep a deposit of a certain amount of capital as a basic standard and solvency margin for the industry (Lee, 1969; Chan and Fung, 1986). Due to the low barriers and lack of regulations, an extraordinarily large number of commercial insurers sprang up in the 1950s - 1960s. By 1971, there were already 214 insurers, of which about one-fifth wrote life insurance policies (Yeung, 1990).

Despite the presence of a large number of foreign insurers, they were not particularly aggressive in expanding their business in this colonial city prior to the 1980s. They set up branch offices in Hong Kong, but were selective in insuring only expatriates or high income groups. Two domestic life insurers, Wing On Life Insurance Assurance Company, Ltd. (Wing On) and China Underwriters Life and General Insurance Company, Ltd. (China Underwriters), were rather popular in the 1950s - 1970s. Their popularity came from the fact that their products matched well with the preferences

of ordinary citizens. Facing the taboo on premature death, these locally-founded insurers simply wrote whole life with endowment policies and presented life insurance as a household savings instrument (Lee, 1969). As a result, the market they created was primarily one with a money management flavor. Accordingly, over 95 percent of the policies in force sold by the domestic insurers in the 1950s were endowment plans (Kwok, 1961). Nonetheless, as I discussed above, money management insurance products yielded lower profit margins compared to risk management products.

The Insurance Authority was set up in 1980, and a new Insurance Companies Ordinance was introduced in 1983. Legislators of this new Ordinance were mostly British, and its content largely resembled a similar one in Britain (Chan and Fung, 1986). Under the new law, all insurance companies were to have a paid-up share of at least five million Hong Kong dollars (US\$ 643,000). In addition, life insurers had to pay solvency margins of two million Hong Kong dollars (US\$ 257,000).¹⁰ Due to their low profit-margin operation, many domestic insurers were unable to meet these criteria. Soon after the implementation of the Ordinance, the number of domestic life insurance firms began to drop.

Despite the implementation of the new Ordinance, there was still no licensing of insurance sales agents and brokers. Fearing that the government might impose a system on them, insurance practitioners founded the Hong Kong Federation of Insurers in 1988 as an industrial association serving self-regulatory measures (Yeung, 1990). This association began to propose a licensing system for the agents, but it was not until 1995 that insurance sales agents and brokers were required to register with the Insurance Authority. It then took another five years for a licensing system to put in place. It was not until 2000 that insurance sales agents in Hong Kong were required to sit for a qualifying examination.

The colonial government's attitude toward the insurance industry, therefore, was extremely lax compared to that in other countries. The minimal government intervention, with no protectionist policies whatsoever for domestic insurance companies, together with the fact that the Insurance Company Ordinance was drafted by British legislators, inevitably benefited

¹⁰ "Ten Insurance Firms Expected to Close Shop," *Hong Kong Standard*, May 18, 1983.

the financially-and technologically-advanced foreign players.

2. Foreign Insurers as the Dominant Players

The decline of the domestic insurance companies, however, was due only in part to the new Ordinance. Another important factor was the increasingly aggressive appearance of their foreign counterparts. AIA was the most prominent foreign insurer in Hong Kong early on. When Shanghai was taken over by the Chinese Communist Party in 1951, AIA moved its entire team to Hong Kong, where its regional headquarters have remained. Upon arriving in Hong Kong, AIA launched a large-scale distribution network through a personal sales approach.

Besides AIA, Canadian-based Manulife Insurance Company, Ltd. (Manulife) and Sun Life Insurance Company, Ltd., and Australian-originated National Mutual Insurance Company, Ltd. (National Mutual) came to dominate the market in the second half of the 1980s. British Prudential Life Insurance Company, Ltd. (Prudential) and American Aetna Life Insurance Company, Ltd (Aetna) also arrived on the scene. Unlike the domestic insurers, the foreign firms targeted the highly educated young people to be their sales agents and provided extensive training for them. With this intense competition, the untrained sales agents from the domestic firms were tempted to exaggerate or misrepresent their products to induce purchase. This strategy unavoidably hurt the reputation of the domestic insurers.¹¹ Failing to compete with the financially and technologically well-established foreign players, the domestic insurers were soon bought out by foreign corporations. For instance, the insurance policies issued by both China Underwriter and Wing On were finally bought by National Mutual.¹²

Although Hong Kong consistently has had the highest number of insurance companies in Asia, the market has been dominated by a few big foreign players since the mid-1980s. In 1988, for example, five top insurers wrote off 85 percent of insurance business (measured in terms of premiums) in Hong Kong.¹³ These top five were all foreign companies from the United

¹¹ Interviews with two former sales agents from AIA and Manulife respectively.

¹² Interviews with two ex-managers who worked for China Underwriter in the 1970s.

¹³ "HK's Insurance Industry Plans to Go for Self-Regulation," *Hong Kong Standard*, January

States, Britain, Canada, and Australia. The life insurance sector was even more askew. Three major foreign life insurers—AIA, National Mutual, and Manulife—captured over 70 percent of the life insurance business at the beginning of the 1990s.¹⁴ The domination of the foreign insurers in the field, as we will see, has created a market that is primarily serving a risk management function, despite the local taboo on the topic of premature death and misfortunes. However, it is also because of this cultural taboo that the market is relatively small in such an economically advanced capitalist city.

3. A Small Risk Management Market

Despite the popularity of savings products—whole life with endowment—sold by the domestic insurers, foreign insurers in Hong Kong insisted on promoting risk management products, mainly, traditional whole life without endowment during the 1950s–1970s. For more than three decades, from the 1950s to the early 1980s, foreign and domestic life insurers coexisted but captured different shares of the market. Foreign insurers offered products primarily for risk management purposes, targeting educated high income groups. Domestic insurers, on the other hand, offered endowment products for money management functions and sold to lower income groups. In 1968, for example, 99 percent of the policies sold by domestic insurers were endowment products. On the other hand, 90 percent of those issued by American insurers were traditional whole life (Lee, 1969). The endowment products proved to be better received by the majority of the local population, compared to traditional whole life.

Nevertheless, risk management products began to dominate the market starting in the mid-1980s when domestic insurers were defeated and began to disappear. Although potential clients still preferred products with a savings component, the foreign providers were unwilling to compromise.¹⁵ Instead, they provided extensive training for their sales agents, in an effort

16, 1989.

¹⁴ “Hong Kong Insurance Boom Shows Few Signs of Slowing,” *Best’s Review Property Casualty Insurance Edition*, 98(1): 26.

¹⁵ “Demand Grows for More Investment Linked Policies,” *South China Morning Post*, August 2, 1987.

to raise the public's sense of risk and to convince them of the necessity of purchasing risk management products. The concept of commensurating human life was passed from Caucasian expatriates to the local sales agents.¹⁶ Mr. Lau was one of the sales agents who learned to associate human life with an economic value through a formula developed by an American insurance expert. He recounted how he and his fellow agents of AIA convinced the prospects of the importance of life insurance in the 1970s - 1980s:

We used the concept of "human life value" developed by Dr. Solomon Huebner in the United States. The concept goes like this: Everything has a value. Our cars, our houses, and our commodities all have values. How about human life? ... Human life is valued at how much one can earn in her or his life after deducing taxes and expenses. This concept measures how much one can earn from age 20-something to age 60, when one retires.... What if death occurs during this period? What if disablement occurs?... If nothing happens and the person remains alive, we ask if the amount this person has saved is enough to meet his or her needs during retirement. "Isn't it good to have an extra amount of savings?" We asked our prospects. Usually no one will disagree with you when you ask if it's good to have an extra amount of savings for retirement.¹⁷

It is important to note that Mr. Lau and his colleagues' sales talks began with a risk management concept that is embedded in the commensuration logic of pricing human life. Nonetheless, the talks were concluded with a remark about the money management function of insurance. These mixed talks were by no means random. They aimed at educating the public about the "correct" concept of life insurance and accommodating to the local penchant for savings at the same time. Because a whole life insurance policy typically carries a cash surrender value, which means policyholders could receive some cash back when they surrender the policy. The sales agents tactically took advantage of this feature by highlighting the savings function of the policy. Clients in Hong Kong brought insurance primarily for savings and investment, rather than for compensation against

¹⁶ "Insurance Industry Targets Life Policies," *South China Morning Post*, November 25, 1987.

¹⁷ Interview, Hong Kong, December 2005.

unexpected death.¹⁸

The use of sales scripts based on Huebner's "human life value" concept continued into the 1990s. Creating a sense of insecurity and urgency, and applying a script about "human life value" and "family responsibility," to market life insurance was a consistent sales discourse exercised by the sales agents from foreign insurers in Hong Kong. The clients I interviewed also reported the same sales scripts that their agents deployed in their first meetings with them. This pervasive sales discourse in Hong Kong was possible, I maintain, only because there were no competitive domestic insurers that advocated alternatives. In turn, the consistent risk management sales discourse contributed to softening the taboo on death.

In the absence of domestic insurers offering alternative product lines, traditional whole life without endowment turned out to be the most common category of products in Hong Kong in the 1990s. Traditional whole life consistently constituted over 70 percent of policies in force of ordinary life business from 1991 - 1999. This feature is comparable to the market in the United States where whole life and term life together made up over 77 percent of the ordinary policies in force in 1998.¹⁹ With whole life as the predominant category of products, the market in Hong Kong can be described as a primarily risk management market.

The popularity of traditional whole life, however, by no means represents an acceptance of the risk management concept of life insurance by insurance clients in Hong Kong. In 1996, Caucasian lawyers in Hong Kong were still educating the public about the risk management concept of life insurance. From what they wrote, it suggests that the general public still treated life insurance as a savings instrument. To cite a lawyer, Mr. Tuohy, from a professional magazine, *Hong Kong Lawyer*: "The only reason to have a life insurance policy is to provide your dependents or beneficiaries with a cash sum in the event of your death.... I do not recommend that whole life policies be used as a substitute for savings..." (Tuohy, 1996).

Based on this quote, we may infer that people in Hong Kong bought whole life for savings, rather than for protecting against unexpected death.

¹⁸ "Ten Insurance Firms Expected to Close Shop," *Hong Kong Standard*, May 18, 1983.

¹⁹ *1999 Life Insurance Fact Book*, Statistical Reference Index, Congressional Information Service, Inc. 2000, p. 8.

This was confirmed by Mr. Leung, a sales agent of Manulife: “People didn’t object to the idea of human life value, but it didn’t drive them to buy. It was savings that drove them to buy.”²⁰

Mr. Tang, a computer science major, explained why he bought a whole life policy from AIA: “The agent told me that this product could give me a return when it matures. I feel that it’s good to have some returns. I feel that it’s not worth it to pay a premium without getting any money back.”²¹

The feeling that insurance policies with no cash surrender values, like term life or accident insurance, were “not worth it” resembles the feeling of “a waste of money” as reported by the insurance clients in mainland China and Taiwan. Not surprisingly, term life consistently accounted for only a very small proportion of ordinary life policies in force in Hong Kong, ranging from 4 to 7.6 percent throughout the decade of the 1990s, compared to 19 percent in the United States in 1998.²² This suggests that insurance for premature death was not well received by the Hong Kong population.

Following a similar trajectory as the life insurance development in Euro-American contexts, life insurers in Hong Kong began to promote money management products toward the end of the 1990s. One of the reasons was that insurers began to face a saturating market for risk management products. Those people who could afford life insurance, or who would accept life insurance, were likely to have already bought a whole life. To lure existing clients to buy a second policy on top of the existing one, insurance providers had to offer something different. Another reason was that there were many more investment channels for insurers’ premiums in the 2000s, as compared to those in the 1970s–1980s. The promising investment environment was likely to boost the profit margins for money management insurance products.

Thus, life insurance appeared in Hong Kong in the 1950s–1970s as money management when domestic players were active. However, during its booming period in the 1980s - 1990s when the industry was dominated

²⁰ Interview, Hong Kong, September 2000.

²¹ Interview, Hong Kong, January 2002.

²² 1999 *Life Insurance Fact Book*, Statistical Reference Index, Congressional Information Service, Inc. 2000.

by foreign players, life insurance was defined as a risk management vehicle, and products were designed to serve that purpose. The life insurance market in Hong Kong in the 1990s was primarily a risk management market, with products similar to those in the United States. It was not until recent years that it moved toward a risk-cum-money management market. The perception of life insurance among the general public, nevertheless, remained tied to the notion of money management. *The mismatch between what people wanted and what insurers offered has suppressed the overall popularity of life insurance.* The dominance of foreign players and their efforts to create a risk management market restrained the expansion of the life insurance industry in Hong Kong, resulting in a lower penetration level compared to Taiwan and OECD countries (Chan, 2012b).

V. Conclusion: Culture, State, and Globalization

Based on a comparative analysis of the life insurance development in three Chinese societies, this article investigates how different market trajectories are produced through the interplay between local culture, state policies, and economic actors' agency. Neither the population in mainland China, Taiwan, and Hong Kong was receptive to the commensuration logic of life insurance. The Chinese in all three territories refused to accept life insurance as a vehicle that manages unexpected misfortunes. Instead, they took life insurance as an alternative money management instrument and preferred products that serve primarily a savings or investment function. Their resistance to accepting risk management products was in tension with the profit-oriented institutional logic of commercial life insurance. However, foreign and domestic life insurers in all three territories displayed the same pattern of difference in handling this tension. Foreign players attempted to remove the cultural resistance by instituting a sales discourse about risk; whereas domestic players simply accommodated to the local resistance by re-defining the concept of life insurance to be compatible with the local preferences. As foreign insurers have been the dominant players in forging the Hong Kong life insurance market, this market follows a trajectory comparable to that in Euro-American contexts. It took off as a risk management market before moving toward a risk-cum-money management one. On the

other hand, since the mainland Chinese and Taiwanese markets were largely constructed by domestic insurers, they have taken on a different route. They emerged first as money management markets before moving toward money-cum-risk management ones. I have documented elsewhere that under the influence of Confucianism and Buddhism, the Japanese share the similar cultural taboo on death. *In the absence of foreign insurers* [emphasis added] in the 1960s, the Japanese life insurance market also emerged as a money management market of primarily endowment products (Chan, 2012). Thus, the nature of the dominant players is a critical factor that shapes the characteristics of the markets.

Despite operating under the same institutional and cultural settings, foreign and domestic economic actors enact their strategic agency in different ways. Nonetheless, the identity of the dominant players is contingent on state policies. The protectionist policies enforced by the PRC and the ROC governments critically boosted the competitive edge of the domestic firms. In contrast, the *laissez faire* policies adopted by the colonial Hong Kong government resulted in the domination of financially-and technologically-advanced foreign firms. However, precisely because foreign players dominated in Hong Kong and have been creating a risk management market at the outset, life insurance is not as popular in Hong Kong, due to its incompatibility with the local cultural preferences. Hence, *my argument is that the various forms of life insurance markets in these Chinese societies are culturally produced through strategic economic agents, who themselves are capacitated and constrained by state policies.*

By highlighting the role of culture and the state's varied strength in relation to global powers, this article illustrates how the global diffusion of life insurance is possible despite variation in local cultural traditions. My findings in mainland China, Taiwan, and Hong Kong all point to the fact that localization is a necessary strategic move to create local markets in the course of globalization. It is through localized interpretations and definitions that a particular capitalist mechanism can be grounded in a local context. However, localization is not always a straightforward path. When the pressure for localization is in conflict with the profit-oriented institutional logic of a particular business or industry, negotiations and power struggles between transnational and local players set in. The transnational insurers in Hong Kong took a firmer stand on defending a risk management definition

of life insurance, despite the local resistance, in the absence of competitive domestic players. On the other hand, the presence of competitive domestic players in Taiwan's life insurance industry has left the transnational players less room to maneuver the market into a certain character.

All the Chinese life insurance markets, I argue, are shaped by local culture, including the resistance to widely accepting primarily risk management insurance products. However, the weak political position of Hong Kong as a British colony entailed policies that favored transnational life insurance corporations. This weak local state resulted in an absence of competitive domestic players and a market with a lesser degree of localization. The strong protectionist policies adopted by the PRC and the ROC governments, on the other hand, significantly buttressed the competitiveness of the domestic players, and resulted in highly localized markets. Thus, whether there exist competitive domestic players affects the extent of localization of a particular economic practice. The possibility for varieties of capitalism, I propose, hinges on the relative power of local cultures and local states when encountering transnational corporations.

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