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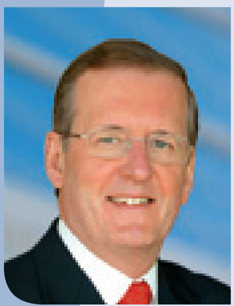

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The Making of an Insurance Giant

A Mature Western Industry "New" in China

中国平安：打造保险业巨子与领先的中国综合金融服务集团

The insurance industry is over 200 years old in the West, but only 20 years old in China. It is now emerging on the regional and global stage as China's most competitive industry, growing at double digit rates per year.

While companies like Lenovo, Hon Hai and Foxconn in the high tech industry get a lot of Western media attention, we believe that companies in "new" industries in China like insurance, consumer and corporate banking may be the ones to look out for. Haier is already a well-known, global Chinese company in the white goods and appliance industry (refrigerators, freezers, washers, cookers and air conditioning units, etc.)[1]. And, if you track the "smart money" investment strategies of Morgan Stanley, Goldman Sachs and the HSBC group over the last 10-15 years, you will discover, surprisingly, Ping An of China in the life, property and casualty insurance business.[2]

Ping An adopts a customer-centric business approach, using high touch and high tech for organic growth and an aggressive view of cross-selling insurance, investment and banking products through targeted acquisitions. Creatively combining Western business and management knowledge with Chinese commercial spirit and Confucian beliefs, these Chinese companies are paving their way to emerge as strong domestic players in China as well as competing regionally and globally. We believe that there are important business lessons to learn from Chinese companies like Ping An in industry sectors considered "mature" and "boring" in the developed markets, but that are evolving rapidly in China.

The story of insurance and Ping An in China

"I have not met a single Chinese who is not keen on saving. It doesn't matter if they are in Hong Kong, Singapore or mainland China. They all save like they were going to live for 1,000 years. Chinese don't even want to talk about protection. They like to talk about living benefits, such as pension and medical benefits, but loathe death benefits," says Dominic Leung, Chairman and CEO of Ping An Life, China's second largest life insurance company, discussing just one of the cultural differences in China compared to the Western world.

Ping An started in 1988 with 13 employees. The founder, Peter Ma, a 31-year-old former local government official, had to convince local Chinese officials and police that drivers needed car insurance in the "new economic zone!" In 19 years Ping An has grown to become the second largest life insurance and third largest property and casualty insurance company in China with 33 million customers, 40,000 employees and 200,000 insurance sales agents. The company's ambition is to become China's leading global integrated financial services provider within the next 10 years.

Let's look at the history, culture, and leadership of the company to decode what drives their success and global ambitions.

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> “The company’s culture evolved to what could be described as a Confucian ideology.”

Initial challenges

Ping An expanded into life insurance in 1993, an area in which it lacked experience. CEO, Peter Ma, brought in professionals from Taiwan to provide training. Because life insurance was an alien concept in China, Ping An had to educate customers and agents alike. “If you think changing the mindset of the Chinese consumers was difficult, imagine training the insurance agents, who did not even know what life insurance was, and expecting them to sell life insurance products and educate consumers!”, commented Dominic Leung.

From market share growth to quality growth

Traditionally, competition in the insurance industry in China had focused on market share. To do this, Ping An had offered a broad range of products to cater to its customers’ needs. Investment-linked products peaked in 2001 as world and domestic equity markets boomed. In 2002, however, the US economic downturn seriously affected the return from equity markets worldwide, causing losses on investment-linked products. The experience of selling new unit-linked products made Ping An realize the need to shift from market share growth to quality growth. By 2005, Ping An was one of the most profitable Chinese insurers. The group’s net profit increased 85% in the six months ended June 30, 2006 compared to the same period the previous year.

Foreign capital, organization, and knowledge

The opening up of the insurance industry in 1992 helped drive the Chinese market, and also attracted new competitors. To prepare Ping An for the anticipated competition by expanding its business operations and building its internal capabilities, Peter Ma saw the need to learn from the outside world.

In 1994, Ping An became the first Chinese insurer to have foreign shareholders (Goldman Sachs and Morgan Stanley). The foreign investors brought not only the capital injection the company needed to expand its operations, but also the practice of Western corporate governance. As a result, Ping An established a risk control and an investment committee.

Starting in 1997, Ping An hired McKinsey to start a series of high-impact programs aimed at improving operational skills and management expertise. McKinsey helped introduce key performance indicators (KPIs) for assessing staff and value-based management as the operating policy.

In 2000, the company hired Egon Zehnder International, a premier Swiss executive search firm, and other recruitment companies to start bringing in expatriates to its senior management team. Today, 62 of Ping An’s top 100 managers have experience in international finance and insurance.

Confucian ideology

In 1992, the company’s culture evolved into what could be described as a “Confucian ideology.” The work force had gone through a period of rapid growth, with people from all walks of life. There was also a societal trend of “making the big buck and leaving for another firm.” Peter Ma saw the need to use Confucius’ teachings (moral and social codes) to set a unique Ping An “Way” to address customers, co-workers and supervisors with respect, integrity and loyalty.

The “Four Pillars” of profitable growth

On a typical day in 2004, Ping An issued 34,417 policies, received 42,000 calls from customers, and paid out RMB 35 million (approximately CHF 5.5 million) in commissions and claims. During the 1990’s, the breadth and depth of daily operations exposed Ping An to significant operational risk and made it difficult to maintain consistent services and quality. Starting in 2000, Peter Ma adopted the “Four Pillars” approach to business capabilities. This included a customer-centric business model, rule-based operations, market-based performance management, and integrated information management and

IT platforms across the company. The company developed a single customer database across all business lines and channels. It pioneered tele-sales and internet channels for insurance. It adopted and placed operational rules on-line for how to conduct business for its 200,000 sales agents. It implemented results-oriented people appraisal systems and focused on growing and training its people through an on-line and state-of-the-art training center. It standardized, integrated and modernized its IT systems and platforms through partnerships with H-P, Microsoft and Intel. It operated a 24/7 national call center and hotline in many of the Chinese dialects spoken across the country.

Strong value for merit

Coupled with the "Four Pillars", Ping An focuses intensely on building one culture. For example, every morning, Ping An's staff and sales agents across the country begin the day by singing the company anthem, "within the four seas, with our hands on our hearts, we sincerely wish that there is **ping an (peace)**." Then, they discuss their targets for the day. Team leaders critique their strategy and give guidance to new recruits. Ping An's strong company culture focuses on promoting a 16 Chinese word operating policy (see Figure 1) that all employees understand relative to their roles. Ping An values merit over seniority and gives its employees a sense of achievement and loyalty through continuous job training and development.

Going forward

Since China's accession to the World Trade Organization in 2001, the insurance and financial services industries have opened up rapidly. But to reach its 10-year goal of becoming a leading global financial services provider, Ping An has to provide a full package of financial products through multiple channels, while maintaining consistency, high operating standards and excellent service quality. To achieve this ambition, Ping An has been gradually expanding into banking, asset management, health insurance, and the annuity business. In 2003, Ping An joined forces with HSBC to acquire 100 percent of Fujian Asia Bank and renamed it Ping An Bank in 2004. In July 2006 Ping An purchased an 89.24% stake in Shenzhen Commercial Bank, China's first city-level commercial bank, which is being merged into Ping An Bank Limited. Recently, Ping An won government approval to set up the first annuity insurance firm nation-wide. With its successful IPO on the Hong Kong Stock Exchange in 2004 and with HSBC as an equity partner holding 19.9% of the company since 2005, the trajectory of Ping An seems poised to achieve its vision of being" a leading global financial services group" during the next decade.

Business lessons from Ping An

For Western managers whose companies are in mature industries in the developed world, there are six important business lessons from companies like Ping An in China:

First, what look like established, mature industries in the developed world are new, fast growth industries within China. As companies like Ping An evolve and grow successfully in these new industries in China, their scale and scope of operations can make them "leaders" in these industries in the not so distant future. A "national franchise" in China may position these companies to be leading global players in

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品質優先，利潤導向，遵紀守法，重在執行

Quality as the first priority	Profit oriented	Law compliant	Focus on execution

Figure 1: Ping An Operating Policy for All Employees

“ Chinese save as though they will live 1,000 years. ”

their industries as well. The growth of Haier in the white goods and appliance industry into a global brand and franchise is a case in point. Selling appliances and white goods to a growing Chinese middle class has provided the foundation for regional and global expansion.

Second, founders and leaders like Peter Ma, who is in his early fifties, and his top 100 managers, who are mostly in their forties, possess the energy, international expertise and discipline to set a long term vision for growth and still be flexible year-to-year to realize their ambitions in rapidly emerging markets like insurance and banking in China. “Built to last” is a Chinese aspiration with deep roots in their culture and history. There is clearly a pattern that strong founders and CEOs who grow with the business are leading Chinese companies like Lenovo, Haier, Foxconn Technology Group and Hon Hai, who are now global players in their industries.

Third, the ability of Ping An and other leading Chinese companies to attract and retain high calibre senior leaders from the highly educated and successful off-shore Chinese community worldwide, is a competitive advantage. This, coupled with their recruitment of experienced non-Chinese executives who excel in their careers in Western companies, brings both depth of expertise and sophistication to their management cultures and competitive strategies. Moreover, these Western-educated and experienced managers are competitively compensated in China.

Fourth, companies like Ping An have adopted “their way” by taking the best of Western management practices and technology and blending it creatively with Confucian values and Chinese commercial spirit. There is no Chinese way or Western way, but the Ping An way! In September 2006, Euromoney, the respected London-based financial industry magazine, named Ping An as the best managed insurance company in Asia. Again, leading Chinese companies combine a unique flair for adapting modern Western management practices, with savvy technology use and Confucian values on top of a deep commercial and entrepreneurial spirit. This mix is at once contemporary in flavor, but deeply rooted in Chinese dynastic history.

Fifth, companies like Ping An can and do attract and partner with global players like HSBC, Intel, Microsoft and H-P to innovate and leverage their expertise. In the case of HSBC, there is significant transfer of banking expertise to Ping An that also contributes to the value of HSBC’s 19.9% stake in the company. How Ping An positions itself to partner with or potentially to compete with HSBC remains an open but interesting question in the evolution of the nascent banking and financial services industry in China. Cooperating with one’s partners and competing with them on other fronts is by no means new to Chinese managers.

Finally, dominating the Chinese market is not the “end game” for companies like Ping An, but the foundation for global leadership as China also develops as a global player. Remember – Chinese save as though they will live a 1,000 years! The rapidly growing capital base of China, coupled with its trillion dollar foreign currency reserve, may alter the landscape of the financial services industry as well as other industries in the next 10-20 years. So we must look more closely for the national franchise builders in new Chinese industries that are growing locally but thinking globally. “Made in China” may not be just the world’s dominant label for manufactured goods, but an interesting wave of Chinese companies building their “way” of competing on the global stage.

1 See Krishna Palepu, Tarun Khanna and Ingrid Vargas, HBS Case Study: *Haier: Taking a Chinese Company Global* (HBS 9-706-401, Rev. August 2006), 27 pages.

2 See Donald A. Marchand, Winter Nie and George Tsai, IMD Case Study: *PING AN OF CHINA: The Making of an Insurance Giant and Leading Chinese Integrated Financial Services Group* (IMD -3-1663), June 9, 2006, 32 pages.

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