The Changing Middle Market For Life Insurance In China

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BACKGROUND

The economy of China has changed dramatically in recent decades, resulting in greater urbanization of its population and a growing middle class. These changes have been accompanied by changes in the middle class's attitudes toward the role played by life insurance, their preferred products, and their buying behavior.

Life insurance, of course, is not new to the marketplace in China. However, with the discussion of death traditionally being taboo in the country, the product has typically not emphasized death benefit features. Rather, most life insurance has been short-term, savings-oriented endowments, even though most of these products also provide a death benefit. Traditionally, many of these products have also been sold through banks as opposed to insurance agents.

Today, however, the life insurance industry in China is diversifying in terms of both a broadening of the types of products being offered in the marketplace, and an expansion of the distribution channels through which consumers can access life insurance products.

In a time of such transition in both the middle market in China and in the country's life insurance industry, it is essential that companies looking to capitalize on these changes be able to effectively segment this market. Different products, marketing messages, and distribution channels can then be directed to different market segments.

Moreover, this segmentation needs to go beyond traditional market segmentation methods employing demographics and/or life stage characteristics—for in a changing marketplace, consumers with identical demographic profiles and/or at identical stages of life can have very diverse attitudes and buying behavior. Toward this end, consumers are more effectively and efficiently targeted using an attitudinal and behavioral segmentation approach.

THE RESEARCH

To better understand this changing marketplace of middle-market consumers in China, the Society of Actuaries (SOA) commissioned WZ Research + Consulting, LLC to conduct an in-depth market segmentation study of this market in China. This research was supported by the International Section, the Marketing and Distribution Section, and the Research Expanding Boundaries pool at the SOA.

Supervision of the project was provided by a project oversight group (POG) comprising the following individuals:

Adam Vanevenhoven, Chair
Douglas Bennett
Kai Chen
Sharon Huang
Warren Rodericks
Rong Rong
Jan Schuh, SOA staff
Scott Sheefel
Ronora Stryker, SOA staff

The author would like to thank the POG for their guidance and support throughout this project.

The research was conducted among 1,989 family households, with approximately 125 in each of the following 16 cities across China:

Beijing	Shanghai
Chengdu	Shenzhen
Chongquing	Shijiazhuang
Dalian	Tianjin
Guangzhou	Wuhai
Hangzhou	Xiamen
Jinan	Xi’an
Nanjing	Zhengzhou

To qualify for inclusion in the survey utilized in this research, responding households had to meet the following criteria:

- Married couples
- At least one member of the couple between the ages of 25 and 50
- At least one child in the family age 0 to 18
- Annual household income of between RMB 60,000 and RMB 360,000 (this roughly converts to between 10,000 and 60,000 USD).

Survey respondents were recruited from the consumer panels maintained by Horizon Research in Beijing, who conducted the fieldwork for the survey in Standard Chinese. Mathew Greenwald & Associates in Washington, D.C., analyzed the data including the market segmentation analysis. The survey was conducted online lasting approximately 18 minutes, and the data were collected between Dec. 6, 2013 and Dec. 15, 2013.

The market segmentation approach utilized in the study was a standard (K-means) cluster analysis, which, in statistical terms, attempts to maximize variation *between* the identified segments and to minimize variation *within* each segment. This analysis was successful in identifying three segments in the young, middle market for life insurance in China today.

GENERAL FINDINGS

The entire results of the study, including detailed results for each of the three market segments, are summarized in an 84-page report titled “China’s Middle Market for Life Insurance, March 2014,” which can be found on the SOA website. The purpose of this white paper is not to rehash all of these detailed findings, but rather to discuss the major “themes” emerging from this research. As such, it attempts to: a) provide a perspective on the changing middle market for life insurance in China, b) provide an understanding of the market segments that currently exist in this changing marketplace, and c) offer suggestions as to how companies may best market to these different segments.

Before discussing the market segmentation results, however, there are some general findings from the research that are useful to discuss in the context of the purpose of this white paper. Specifically, the major thesis of this white paper is that the middle class for life insurance in China is undergoing change. This thesis was clearly confirmed by the survey respondents’ answers to several questions.

For example, 69 percent of the respondents agreed with the statement: “The basic purpose of life insurance has changed in my generation compared to that of my parents’ generation.” A similar 70 percent agreed with the statement: “It is more important now than it has been in the past to purchase death benefit life insurance[i] to protect my family in the event of my death.” So there is a clear sense that the role of life insurance has changed in recent generations.

However, there is also the sense that the role of life insurance is continuing to change, and will be different in years to come. For example, 61 percent agree with the statement: “Purchasing death benefit life insurance coverage will be either much more or somewhat more important for your children than it is for you,” and 67 percent say that death benefit life insurance is becoming much more or somewhat more important in their community.

Yet, 46 percent indicate that they still primarily use life insurance for “saving money,” and a little more than a third (36 percent) say that they purchased their life insurance from a bank. Fifty-seven percent report having purchased from an insurance agent.

These results clearly paint the picture of a life insurance market in transition. However, it is also important to note that, while a majority of respondents agreed with the various questions regarding the role of life insurance, these majority percentages are not overwhelmingly large. Thus, the market is not homogeneous in its views. The fact that the respondents were nearly evenly split when it comes to their primary use for life insurance also speaks to the fact that this is not a homogeneous market for life insurance.

Most importantly, though, these results point to the need to segment this market if one hopes to sell to it efficiently and effectively. Companies need to be able to identify different consumers, and direct different products, messaging and distribution channels to different groups. Market segmentation is crucial in a changing market such as this middle market for life insurance in China.

THREE SEGMENTS OF YOUNG, MIDDLE MARKET LIFE INSURANCE CONSUMERS IN CHINA

The market segmentation analysis utilized in this research resulted in three distinct segments of young, middle-market life insurance consumers in China. These three segments were titled: "Uninterested" (33 percent), "Life Protectors" (26 percent), and "Life Investors" (41 percent).[ii] Consumers can be categorized into one of these segments based on their answers to eight questions as listed in Appendix A, using the scoring algorithm shown in Appendix B.

These three segments can be briefly described as follows:

"Uninterested": The Uninterested segment is formed based primarily on a lower interest in death benefit life insurance and a diminished belief in the premise that everyone with financial dependents should own life insurance. The Uninterested tend to be of lower income than the other segments, and are less likely to have earned a college degree.

"Life Protectors": The Life Protector segment is formed based on an appreciation of the value of life insurance and its role throughout one's lifetime. Life Protectors are the most likely to consider owning life insurance for death benefit purposes as being very important. They are slightly more likely to be women, and a large percentage hold college degrees.

"Life Investors": The Life Investor segment is formed based on the belief that life insurance primarily serves a temporary need, and that retirement saving is more important than life insurance protection. Life Investors are slightly more likely to be men, and tend to be somewhat younger than Life Protectors.

The following is a discussion of each of these segments, including thoughts as to how companies might best direct their products and marketing efforts to each segment.

"Uninterested"

A full one-third of the market falls into this segment. Compared to the other two segments, the Uninterested:

- Are the least confident in all aspects of their financial well-being, including confidence in being prepared for retirement, and confidence in having enough life insurance, health coverage, or in being prepared financially in the case of a critical illness.

- Report the lowest levels of knowledge for all the financial products tested in the survey, including all the various types of life insurance tested in the survey. This may be in part due to the fact that they are the least likely of the segments to report discussing financial products with family and friends.

- Are the least likely, by a long margin, to be concerned with their families' financial security and overall well-being. By far, they are the least likely segment to purchase life insurance to protect a family member or to provide peace of mind.

- Are far less likely than the other segments to care about using life insurance to protect their families against premature death, and are also less likely to believe that people need life insurance.

- Are far less likely than the other segments to see life insurance as being more important to the next generation, nor see it as growing in importance to the community.

- Are much less likely than the other two segments to own life insurance, including endowments.

- Show no distinct purchasing pattern when it comes to buying life insurance, and tend to be less interested than the other segments in soliciting information about life insurance through various channels.

- Tend to report buying what they can afford rather than what they need.

- Are less likely than the other segments to trust the institution from which they purchase or to value the safety of the life insurance product.

These results for the "Uninterested" are perhaps not surprising given that the "Uninterested":

- Have the lowest annual household incomes of all the three segments. Sixty-one percent report an annual household income of less than RMB 180,000.

- Have the lowest self-reported net worth, not including their primary residence. Forty-four percent report a net worth of less than RMB 300,000.

- Are the least educated of the segments. A full third (34 percent) do not have a college degree.

- Thirty-two percent, by their own report, describe themselves as being lower income or lower middle income.

Marketing to the Uninterested. One's immediate reaction, upon viewing these results, is to simply avoid marketing life insurance to this group. This is certainly a valid conclusion if one can instead target one or both of the other middle-market segments. However, it also needs to be remembered that this segment accounts for the second largest percentage of this middle market, and, by ignoring it, one is stepping away from a full third of the middle market in the country.

Marketing to this segment, however, is a significant challenge. In addition to having fewer resources to spend on life insurance, this group also does not seem to possess the personal values that are typically found in a strong consumer market for life insurance.

If there is any hope of reaching this market, the key would seem to reside in education, and attempting to convince them of the value and peace of mind that life insurance can provide for them and their families. This is an extra-challenging task, however, because some in this segment may still be reluctant to discuss premature death. For those receptive to this message, though, this might be a market for small amounts of straight term life insurance, as this market has the need for basic family protection life insurance. As reported earlier, they also tend to buy what they can afford, and not what they need.

Education directed at this market segment would also need to address issues of trust, and the perceived safety and security of life insurance companies as a financial institution. The Uninterested have a surprisingly low image of the life insurance industry in this regard, significantly lower than that expressed by the other two market segments.

Finally, another challenge in marketing to the Uninterested is in determining how to reach them with messaging and product; for given their lower socioeconomic status, many agents might not find it worth their time to call on this segment. One possibility might be to market to this segment directly online or via call centers.

Nearly half of consumers in this segment (48 percent) indicate that they would seek information regarding life insurance products and costs through online sources. While this percentage was significantly lower than that reported by the other segments, among the Uninterested it was tied (along with agents also at 48 percent) for the most likely source of life insurance information that they would turn to. And, while it was low at 21 percent, the Uninterested were the second-highest segment to say that life insurance is best purchased over the phone.

Thus, while marketing to this segment is a great challenge given its demographics, the combination of basic life insurance as protection messaging, combined with inexpensive term life insurance, and delivered directly through an online or call center channel may be an approach worthy of consideration in reaching the Uninterested segment of the middle market. Unless agents are willing to call on this group and serve their life insurance needs, this may be the only option in reaching this group. Nevertheless, it is the second largest of the three middle-market segments, and might prove worthwhile for the company figuring out how best to reach it.

“Life Protectors”

This is the smallest of the three middle-market segments, with only one-quarter (26 percent) of consumers falling into this category. Compared with the other two segments, Life Protectors:

- Clearly are the most likely to view life insurance as a death benefit product. They are the most likely to say that the role of life insurance has changed from that of previous generations, and are the most likely to see the product increasing in importance to the community.

- Are differentiated from the other two segments based on their primary reasons for buying life. They are the most likely to buy life insurance for security, to protect their families, and to provide peace of mind. They have the strongest values when it comes to their families’ financial security and overall well-being.

- See a permanent need for life insurance, and are far less likely to acquire life insurance to fill a temporary need.

- Claim to have a better understanding of most financial products tested, and this may be related to the fact that they are more likely to discuss financial products with family and friends, especially friends. However, this self-reported knowledge wasn’t as strong when it came to permanent life insurance and unit-linked products.

- When using the proceeds from an endowment, are the most likely to purchase another endowment. So, it isn’t as if this group has moved beyond the traditional view of life insurance and now rejects endowments. They certainly have an expanded view of the role of life insurance, especially as it relates to premature death benefit protection, but at the same time seem to continue to embrace the role that endowments can play in their financial lives.

- Unlike the Uninterested, are more likely to buy life insurance based on what they need rather than what they can afford.

- See life insurance companies as being very trustworthy and offering safety, but not significantly more so than the Life Investors.

- Are most likely to report having purchased life insurance from an agent, and a high percentage say that they would turn to an agent as a resource for information about life insurance. Interestingly, though, an equally high percentage of the Life Protectors also say that they would use online resources for information about life insurance products and costs.

Some of the Life Protectors' attitudes and behavior regarding life insurance are understandable when one studies their demographics. Basically, this segment seems to be the most mature of the three middle-market segments. For example, Life Protectors:

- Are the best educated of the three segments. Eighty-three percent have at least a college degree.

- Are on the older end of this demographic, with 60 percent reporting that they are between 35 and 50.

- Skew toward the upper end of the household income range, with 49 percent reporting annual household incomes of RMB 240,000 or greater.

- Perhaps most importantly, are characterized by the highest percentage of females who responded to the survey, who likely are the financial decision makers in their households.

In spite of this more mature profile, or perhaps because of it, Life Protectors curiously express less financial security than the Life Investors, and are less likely than the Life Investors to say that they have enough life insurance coverage. Being more mature, they likely have had more life experience, and have a better understanding of the risks that can confront families of their age.

Marketing to the Life Protectors. Just as one might be tempted to avoid marketing efforts aimed at the Uninterested, one might also be tempted to avoid marketing efforts directed toward the Life Protectors, but for entirely different reasons. They are a more mature market that readily understands and appreciates the industry and its products, and embraces the role of death protection-oriented life insurance *without* rejecting the role that endowments can play in their financial lives. Moreover, at 26 percent, they represent the smallest segment of the young, middle market. So, the temptation might be to simply let this segment lie, and concentrate one's marketing efforts in another segment—obviously, the Life Investors segment.

If one could only pick one segment in which to market, this would be a reasonable strategy. Yet, there are some avenues by which companies would seem to be able to strengthen their relationships with the Life Protectors, and at the same time, serve their evolving needs, and make additional product sales.

Despite the fact that they have embraced the concept of protection-oriented life insurance, the Life Protectors do not feel financially secure and express a need for more life insurance. Obviously, this market segment is a target for periodic reviews of the adequacy of their coverage and additional life insurance sales and updates of their existing coverage amounts.

With their positive attitudes toward the life insurance industry, Life Protectors should be targeted with new life insurance products; for while they expressed greater understanding of term life insurance, their reported understanding of permanent life insurance and unit-linked products was not as strong. The fact that they are characterized by higher annual household incomes also suggests that they are the market segment most likely to have the disposable income to purchase such products.

The fact that the Life Protectors have the highest percentage of females is not surprising, and is very consistent with research conducted in other regions of the world. Assuming that the percentage of female financial decision makers in middle-market families in China is on the rise, the market would seem to be ripe for a company to develop and implement a women's marketing initiative. Such an initiative would emphasize the aspects of life insurance of greatest importance to women, and would communicate with them in a way different from that which has typically been directed to male heads of households. Such a program could be initiated through an agent sales force and/or through a direct sales approach utilizing online methods and/or call centers.

Finally, one interesting finding with regard to the Life Protectors is the fact that they are equally as willing to turn to online resources for information regarding life insurance products and costs as they are to turn to insurance agents. Other results, however, seem to indicate that, while they may be willing to use online resources to learn more about the product, they want to deal with an agent when it comes to actually buying the product.

While these results might mitigate the likelihood of their buying direct with no human involvement, they really don't address the concept of driving potential buyers via online methods to a call center staff by knowledgeable and well-trained sale representatives. In effect, the client is still dealing with an "agent," but that agent is talking to them over the phone rather than in person. This is a very different distribution model than that which is often thought of when one says "buying over the phone." Direct marketers in other countries are clearly moving to this call-center-mediated direct response model, and it would seem to be one worthy of some experimentation in this middle market in China.

"Life Investors"

The third, and perhaps the most intriguing of the three segments, is the Life Investors. If for no other reason, they are of great interest because they represent the greatest percentage (41 percent) of the young, middle market in China. One the one hand, one could say that they represent "everybody else" who does not qualify as Uninterested or as a Life Protector. Yet this is an oversimplification, as they do seem to have some unique characteristics that can be leveraged into a marketing strategy aimed at this segment. What makes them even more intriguing is that they, perhaps more so than the other two identified segments, seem to be undergoing the greatest transition in their thinking and behavior relative to the role of life insurance.

Some characteristics of the Life Investors are as follows:

- When it comes to finances and insurance, Life Investors fall in the middle of the three segments regarding their families' financial security and overall well-being. On most measures, they tend to be closer in their attitudes to the Life Protectors than to the Uninterested.

- They own both more endowment and death benefit policies than consumers in the other two segments, with close to three-quarters having multiple endowment policies, and almost two-thirds having multiple death benefit policies.

- Perhaps not surprisingly, because of their ownership levels, they are more likely than the other segments to say that they have adequate life and health insurance. Members of this segment are also the most likely to view themselves as being prepared for the possibility of critical illness.

- The key differentiator of the Life Investors exists in their reasons for buying and owning life insurance. They are, for example, less likely to say that life insurance is an integral part of their life-long financial planning. However, they have a much broader view of the role of life insurance than the Life Protectors. Specifically, they are more likely to see it as a commodity that they can use to borrow against, to protect a business, to ensure that their mortgage is paid off, or to pay for a child's education. They are less likely to view long-term death protection as important as do the Life Protectors. As their name implies, they have a much more diversified view of the role that life insurance plays in their financial lives. It is important to them, but just not in the premature death protection sense.

- Consistent with this is the fact that Life Investors are more likely to see life insurance as serving a temporary need, and are far less likely than the Life Protectors to buy a policy that they can hold for 10 years or more. Close to half purchase policies that will expire in less than 10 years.

- Life Investors, by far, are the most likely segment to say that they buy life insurance primarily as a savings vehicle as opposed to a protection product. Consistent with this, they are the most likely segment to say that their spouses can manage their finances without them. They clearly view saving for retirement as more important than life insurance.

- When buying life insurance, they are the most likely to purchase it from a bank, and are the most likely of the segments to seek out information from a banker. They are less likely than the Life Protectors to buy from an agent, and are almost as low as the Uninterested on this dimension. They fall between the Life Protectors and Uninterested in their likelihood to use online resources to obtain information about life insurance products and costs.

- They are more likely to buy what they can afford rather than what they need, and are less likely to place importance on product safety and trust of the institution from which they purchase than do the Life Protectors. This can be rationalized by the fact that they view life insurance as a more short-term product.

- Finally, the Life Investors are less likely than the Life Protectors to say that the basic purpose of life insurance has changed from the previous generation. However, they are more likely to see life insurance as becoming more important in their children's generation.

From a demographic standpoint, the Life Investors tend to also fall between the Uninterested and the Life Protectors on measures such as age, annual household income and education. For example:

- Fifty-five percent of the Life Investors are 25 to 34 years of age, compared with 40 percent for the Life Protectors. Consequently, while they are equally as likely as the Life Protectors to have more than one child, their children tend to be younger.

- Thirty-two percent of the Life Investors have annual household incomes of RMB 240,000 to RMB 360,000 compared with 49 percent of the Life Protectors.

- Seventy-three percent of the Life Investors have a bachelor's degree or greater, compared with 83 percent for the Life Protectors. Life Investors are better educated than the Uninterested, but are the most likely to report having completed "some college."

- Finally, Life Investors are more likely to be male than female.

<u>Marketing to the Life Investors.</u> Given that they tend to be younger, have less formal education, and lower annual household incomes than the Life Protectors, one "strategy" with regard to this segment is to also leave them alone. The thinking here would be to market to this group as we always have, and that they will evolve in their views of life insurance as have the Life Protectors. However, there is one major flaw in this thinking. Specifically, this research is not longitudinal in nature, such that we don't know whether today's Life Protectors were once Life Investors, and if Life Investors eventually morph into Life Protectors with more life experience, education, disposable income, etc. If so, we also don't know on what schedule this

evolution occurs. More importantly, Life Investors account for 41 percent of this young, middle market. They are too big a portion of this marketplace to be treated in a benign manner.

The encouraging thing about this market is that, unlike the Uninterested, they are already engaged with the life insurance industry. In fact, as mentioned above, they own more policies than do the Life Protectors. They simply have a different perception as to the use of life insurance and its role in life-long financial planning.

Perhaps obvious, the primary strategy with this group is to disturb them regarding their need for life insurance for the purpose of providing longer-term death protection. The fact that this segment already accepts various short-term uses of life insurance could be leveraged by marketing term conversions to them, especially as their financial resources grow. Since they seem to be favorably disposed to financial planning, another approach might be to reposition the role of life insurance as the “bedrock” of any financial plan. In any of these approaches, the adequacy of their life insurance for the long run should be a primary theme.

In addition to products and messaging, another interesting question involves how best to reach this group of consumers. One would think that this group would be well positioned to be approached by an agency force. However, the research shows that they are not as receptive to turning to agents for information about life insurance products and costs as one might think. While it was beyond the scope of this research to understand why this is the case, this might be a starting place for a company to better penetrate this segment. This is especially the case if one believes that the need for protection-oriented life insurance needs to be sold, and is not simply bought by consumers.

Specifically, this begs the question of the focus and training of the agent force in the country today. Much of the sales force today is currently characterized by low productivity and high turnover, and is still focused on selling savings-oriented products. A sales force still largely focused on selling endowment products is not likely to be successful selling protection-oriented life insurance, and this might be why consumers in this segment say that they would not turn to them for life insurance information.

Ironically, though, 75 percent of Life Investors agree that death benefit life insurance is best sold by an agent. This is significantly higher than the 49 percent of Life Protectors who agree with this statement, and the 34 percent of the Uninterested who agree. So while they might believe that protection-oriented life insurance is best sold face to face, they might not view most of today’s agents as up to the task.

Related to this, another reason might be that this younger segment is turned off by traditional commissioned life insurance salespersons. If so, companies might consider other approaches that retain the expertise of a salesperson, but without the actual or perceived high pressure that comes with a commissioned salesperson. Selling through salaried representatives in a call center may provide another way of successfully reaching this segment. In fact, 62 percent of

Life Investors agree that death benefit life insurance is best purchased over the phone, as compared with 21 percent for the Uninterested, and only 11 percent of the Life Protectors.

Finally, given their younger age, one surprise in the results is the fact that the Life Investors aren't more likely to turn to online resources for information about life insurance products and costs. One possible explanation is that companies aren't employing online marketing methods that appeal to this segment. This might represent another avenue for companies looking to increase their penetration of this market segment if companies could better understand what resonates with consumers in this area.

Clearly, technology will play an increasing role in the future of life insurance distribution in China, especially in the younger, middle market segment of the population. It will be interesting to see if this emerges as a pure direct marketing distribution model without any human intervention, or as a hybrid model in the form of call-center-mediated direct response.

GEOGRAPHIC DIFFERENCES

Given both the vastness and diversity of China, the POG overseeing this study suggested that a geographic analysis be built into the research. It was thought that the results of this analysis would not only be interesting in and of themselves, but could also be practically useful to companies looking to target this young, middle market.

It was for this reason that the research was designed to obtain completed surveys from at least 100 respondents across 16 different cities in the country. The specific cities chosen for sampling were specifically selected by the POG members on the ground in China. Data were analyzed by each of these individual cities, as well as by groupings of cities according to geographic location (i.e., east vs. middle/west) and city size. Results of this analysis are summarized in Appendix C.

One way to gauge the development of the life insurance business in various cities and regions is to simply look at the percentage of families who own individual life insurance. Looking at the results in Appendix C, it can be seen that there are two outlier cities, Xiamen and Wuhai, both the small cities that were sampled in the study. Putting these two aside, however, there is no significant difference in the industry's penetration levels between the eastern cities and those in the middle/west. In the east, we find results ranging from a high of 89 percent in Guangzhou to a low of 55 percent in Jinan. No similar variation was found among the cities in the middle/west.

In the east, this difference seems to clearly be a function of city size, with the mega and large cities showing higher industry penetration than the medium-sized cities. The glaring exception to this is found in Xiamen, which may in part be explained by its proximity to Taiwan.

A similar pattern is found in examining the percentages of the Uninterested segment across the various cities and regions. Of course, this is not surprising given that the Uninterested are the least likely of the three segments to own any life insurance at 63 percent, versus 71 percent for the Life Investors and 86 percent for the Life Protectors. This pattern also extends to endowment ownership where only about half of the Uninterested (49 percent) own the product, whereas 64 percent of the Life Investors and 76 percent of the Life Protectors have endowments. A similar pattern is found with death benefit life insurance where only 30 percent of the Uninterested have the product, compared to 53 percent for the Life Investors and 57 percent for the Life Protectors.

The largest incidence of Life Protectors is found in the mega cities, primarily Shanghai, although the city with the second-highest incidence is a medium-sized city in the middle of the country (Zhengzhou), and the third-highest incidence is found in Wuhai (a small city also in the middle of the country). These results suggest that while the industry penetration figures are a function of city size and likely socioeconomic differences, and differences in companies' marketing efforts, market segment membership is more a function of individual culture and values.

While these city and regional results are interesting in and of themselves, they can also be used by a company to "size" opportunities both for specific cities and regions, but also for the three market segments within both city and region.

PUTTING THIS MARKET SEGMENTATION APPROACH TO WORK

The development of a segmentation approach for purposes of better understanding the composition of the young, middle market for life insurance in China is not just an academic exercise or an end in itself. Rather, the ultimate goal of market segmentation is to develop a system that can be used prospectively in identifying groups of families in the market, and then approaching these families differently, with different products, and utilizing different messaging. In short, the end goal is to create more effective and efficient marketing approaches instead of the "one-size-fits-all" approach that has all too often characterized the life insurance industry's marketing efforts in the past. Such thinking is second nature in marketing outside of the life insurance industry.

The market segmentation scheme developed in this research is based on consumers' answers to eight attitudinal questions. Based on these eight questions, consumers in the Chinese middle market can be categorized into three market segments. These eight questions could be asked by an agent during an initial interview/fact finder, by a call center representative during an initial call, or answered directly by the consumer on a company's website when requesting life insurance information. After scoring each family, companies can then be more specific in their marketing efforts, directing targeted messaging and products to different segments of potential buyers. Such information could also contribute to the development of tools and training for agents, and the development of marketing materials that speak more directly to a specific consumer's mentality regarding life insurance.

Finally, while it is beyond the scope of this investigation, companies should also think about developing formulas to predict membership among the three market segments using various external databases. This is a classic application of predictive analytics, which has become of increasing interest to marketers both in and outside of the life insurance industry in various countries. Such an application would allow companies to identify members of the three market segments *without* having to ask the eight questions of the consumers themselves. Using such information would allow companies to target specific segments, or eliminate specific segments, from their marketing efforts prior to having any contact with the consumer.

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[i] In the survey, an attempt was made to differentiate endowments from life insurance products more oriented to providing premature death protection (e.g., term or permanent). This was done by referring to these latter products as "death benefit" life insurance. Unfortunately, this distinction didn't seem to work as originally hoped because of the fact that endowments have a death benefit component. Consequently, this terminology may have caused some confusion in the minds of the respondents. Using this term "death benefit life insurance" resulted in some differentiation in the results, but not as much as originally hoped for. Thus, results heavily dependent on this terminology are played down in this report.

[ii] Unlike the science used in creating market segments, the subsequent naming of segments is purely an art. An attempt is made to select a name that captures the essence or major theme relating to a segment, but everyday terminology will often seem to be contradictory with specific results in the research. This challenge, which exists in any segmentation analysis, can be compounded when language translation is involved.

In this study, "Uninterested," provides a pretty clear and straightforward image of this segment. The name "Life Protectors" was chosen because this is the segment whose values are consistent with the view of life insurance as a product emphasizing premature death protection. However, this segment is not mutually exclusive of those viewing life insurance primarily as a savings vehicle. Naming of the "Life Investors" segment was the most challenging because they, like the Life Protectors, have moved beyond the view of life insurance as primarily a savings product. As will be described, they tend to have a broad view on the various uses of life insurance. However, premature death protection tends not to be as salient to them as it is for the Life Protectors.

As with any market segmentation analysis, readers of this analysis are encouraged to concentrate more on the attitudinal and behavioral differences among the segments, and less on the names of the segments themselves.

APPENDIX A

Questions Used in Scoring of the Three Market Segments

Question 39: Please indicate how much you agree or disagree with each of the following statements.

		Strongly Agree	Somewhat Agree	Neutral	Somewhat Disagree	Strongly Disagree
b.	Life insurance serves only a temporary need until such time as the kids leave the house or the mortgage is paid off.	1	2	3	4	5
g.	There is little need for death benefit life insurance past age 55 or so.	1	2	3	4	5
h.	You would rather buy permanent death benefit life insurance that lasts a lifetime, even if it costs more.	1	2	3	4	5
i.	At your age, it is more important to put money toward retirement savings than death benefit life insurance.	1	2	3	4	5
j.	Everyone with someone depending on their income should have some form of death benefit life insurance.	1	2	3	4	5
m.	I am likely to consider purchasing a death benefit life insurance policy to protect my family.	1	2	3	4	5
n.	The purpose of death benefit life insurance is to provide for one's family in the event of a parent's premature death.	1	2	3	4	5
o.	Life insurance companies are financially more secure than other financial institutions.	1	2	3	4	5

APPENDIX B

Scoring Algorithm Used in Creation of the Three Market Segments

dist1 = (q39b - 2.3121)**2 + (q39g - 1.8613)**2 + (q39h - 3.8998)**2 + (q39i - 2.6609)**2 + (q39j - 4.0116)**2 + (q39m - 4.3198)**2 + (q39n - 3.9904)**2 + (q39o - 3.7283)**2.

dist2 = (q39b - 3.0262)**2 + (q39g - 2.9846)**2 + (q39h - 2.8364)**2 + (q39i - 3.0895)**2 + (q39j - 3.0494)**2 + (q39m - 3.0864)**2 + (q39n - 3.1327)**2 + (q39o - 3.0015)**2.

dist3 = (q39b - 4.0024)**2 + (q39g - 3.6010)**2 + (q39h - 4.0401)**2 + (q39i - 4.0973)**2 + (q39j - 4.0122)**2 + (q39m - 4.0754)**2 + (q39n - 4.0912)**2 + (q39o - 4.0523)**2.

IF ((dist1 ≤ dist2) & (dist1 ≤ dist3)) testcl = 1 (Life Protectors).
IF ((dist2 ≤ dist3) & (dist2 ≤ dist1)) testcl = 2 (Uninterested).
IF ((dist3 ≤ dist1) & (dist3 ≤ dist2)) testcl = 3 (Life Investors).

K-means clustering is an iterative segmentation process in which each respondent is assigned to a segment whose mean values on the eight questions most closely match the respondent's own answers.