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SUN LIFE FINANCIAL: ENTERING CHINA

Ken Mark and Jordan Mitchell prepared this case under the supervision of Professor Paul W. Beamish solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

INTRODUCTION

In early 2000, Dikran Ohannessian, Sun Life Financial's vice-president, China, was flipping through piles of consultants' reports on the plane from Toronto, Canada, to Beijing, China.

As Ohannessian got up to stretch, he thought about what had been achieved: a representative office in Beijing, valuable contacts with the Chinese government and business people, and an agreement to partner with a well-established Chinese financial services group. He knew there were many major milestones ahead, such as forming an entry strategy, choosing the geographical market area in which to operate, while keeping an eye on the financial viability as well as all the necessary hurdles to obtain a business license in China.

HISTORY OF SUN LIFE FINANCIAL

Sun Life Financial of Canada began in 1865, in Montreal, selling insurance policies to Canadians in the process of the country's creation. By the 1890s, Sun Life Financial had begun an internationalization process, by expanding into Nicaragua, Ecuador, Peru and Chile and later into Asia, including Japan, India and China. At the turn of the century, Sun Life Financial looked to diversify its investments and began expanding through growing industries, such as electric utilities and gas, telephone and transport. Sun Life Financial maintained private ownership and staved off a take-over attempt by a U.S. firm in the 1950s, allowing it to strengthen its roots within Canada.

In 1999, Sun Life Financial posted revenues of $14.7 billion,[1] of which $3.3 billion was life insurance premiums, $1.2 billion was health insurance, $3.5 billion was annuities, $4.1 billion was net investment income and $2.6 billion was fee income. Sun Life Financial's net income was $164 million in 1999, up from $54 million realized on revenues of $12.9 billion in 1998. Net income in 1998 and 1999 had been negatively impacted by the costs associated with pensions sales practices reviews and increased reserves for guaranteed annuity rates in the U.K. business, as well as a significant increase in reserves in the discontinued accident and health reinsurance business. By early 2000, Sun Life Financial was a month away from a $2.1 billion initial public offering (IPO) in Toronto, New York, London and the Philippines. Although there was pent-up demand for Sun Life Financial's shares in the Canadian marketplace, executives of Sun Life Financial and their advisers (RBC Dominion Securities and Morgan Stanley) had two tensions to balance — not letting the stock rise too quickly for those policy holders that had decided to take cash instead of becoming shareholders, while giving the investment community and those policy holders that were to become shareholders a strong initial stock price increase. The IPO would be the fifth in a string of Canadian life insurance companies that had gone public since the summer of 1999.[2]

Sun Life Financial had a six-pronged approach to its strategy:

1. Aggressively expand the wealth management business
2. Strategically grow higher return protection business lines
3. Achieve superior shareholder returns while maintaining financial discipline
4. Leverage strong brands across multiple product offerings
5. Capitalize on distribution strengths
6. Pursue expansion in key strategic markets

Exhibit 1 shows Sun Life Financial's sales by country. By early 2000, the majority of sales for Sun Life Financial were generated by sales in Canada and the United States. Although Sun Life Financial was not profitable in every country in which it operated, the company was not committed to any business that was not able to meet 15 per cent after-tax return on equity in the future.[3] This low return on equity was the case in the country's U.K. operations, which some industry observers believed Sun Life Financial would sell off. Sun Life Financial believed that it would drive revenue growth through its 80 per cent ownership of the

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[1] *All monies in Cdn$ unless otherwise specified.*
[2] *Andrew Willis, "Tension surrounds Sun Life Financial IPO," Report on Business, March 24, 2000.*
[3] *John Patridge, "Sun Life Financial IPO Shines Brightly in TSE Trading," Report on Business, March 24, 2000.*

Boston-based MFS wealth management business and, in the longer term, its foray into China.

PRODUCT AND SERVICES

Sun Life Financial's two principal businesses were wealth management and protection. Wealth management included all asset management, mutual funds, pensions, annuities, trusts and banking operations. The wealth management business primarily was based in Canada, the United States and the United Kingdom and made up 52 per cent of the company's revenues with $7.7 billion and 89 per cent of its assets ($268.9 billion) in 1999. The complete wealth management business served 2.9 million individual investors and 7,000 institutional investors around the world. Almost all of the company's wealth management products (97 per cent) were sold through independent third parties.

The protection business included Sun Life Financial's insurance products including individual insurance, group life insurance and health insurance making up 46 per cent or $6.8 billion of the company's revenues in 1999. Principally, the group life and health insurance was based in Canada, the United States and the United Kingdom, whereas the individual insurance business was in all the company's markets. Sun Life Financial was ranked second for group and health insurance in Canada and third in the United Kingdom. For individuals, Sun Life Financial offered whole life, term life, universal life, unit-linked life and corporate-owned life insurance products. For groups, life, health and disability insurance were available. Exhibit 2 shows definitions of insurance terms.

Sun Life Financial believed it had a winning formula in its protection business, due to its wide range of products backed by the company's financial strength and the effectiveness of it customer service and underwriting ability. In North America, Sun Life Financial was competing in a mature industry, however, the company needed to respond to the mounting pressures from banks, who had entered the insurance industry, often undercutting prices. Due to deregulation in the marketplace, direct marketers and telemarketers were becoming more common in insurance sales. With greater emphasis on retirement planning in the mature markets, traditional life insurance products were losing ground against universal life in Canada and the United States and unit-linked life insurance in the United Kingdom. This trend was not necessarily the case in Asia or South America, where traditional life insurance products were still popular.

Sun Life Financial's focus in the United States was on high net worth individuals with tailored packages for executive benefit plans. The company had restructured its sales force in 1997, in the United States, by moving away from a career agency sales force to general agents selling a wide variety of products. In 1999, 65 per cent of U.S. insurance sales were through general agents, and 35 per cent were through third parties, such as banks and investment advisers. The general shift of sales approach caused a decrease in the number of policies, but through focusing on the high net worth segment, Sun Life Financial was able to increase total premium revenues.

In Canada, Sun Life Financial believed that it had expertise in selling group life and health insurance to large businesses as it had more than 7,000 policies representing more than three million individuals. Sun Life Financial marketed and distributed its group life and health insurance through its own sales representatives and career agents, independent brokers and consultants, Canadian associations, such as professional and alumni organizations, and through the Internet.

For individual life insurance, Sun Life Financial had 627,000 individual life insurance policies in force with 450,000 policyholders. Sun Life Financial had experienced an increase in premium income, despite a decreasing number of policies, due to success in selling through independent agents who tended to focus on high net worth individuals, increasing the average size of the policy. Although Sun Life Financial increasingly sold through independent life insurance brokers, such as financial planners and investment dealers, it still distributed a large portion through career agents, meaning that costs of distributing the insurance were moving from fixed to variable costs. Four years prior, in 1996, third-party distributors accounted for seven per cent of sales for new individual life insurance, whereas in 1999, 30 per cent were created through independents. In March 1999, Sun Life Financial formed a distribution alliance with Great-West Life, London Life and Investors Group, where each organization could sell each others universal life and term life insurance products.

HISTORY OF SUN LIFE FINANCIAL'S INVOLVEMENT IN CHINA

In 1992, China opened two geographical market areas in the country to foreign investment — Shanghai and Guangzhou. To create a presence in China, a country that Sun Life Financial had operated in nearly a century earlier, Sun Life Financial opened a representative office in Beijing. (By 1920, Sun Life Financial had grown to be the largest foreign insurance company, but like all other foreign-owned insurance firms, it was forced to leave China in 1949, when the Communist party took power.)[4] The purpose of the office was to establish a presence, provide information to the Canadian headquarters, stay abreast of Chinese regulatory policies and lobby the local and national governments to acquire a license. In May 1999, the Chinese government granted the right for Sun Life Financial to apply for a license. Seven months later, Sun Life Financial signed a memorandum of understanding for a joint venture with China Everbright Group. Joint venture

[4] *August Chow et al., A Guide to the China Insurance Market, 1st ed., Watson Wyatt Worldwide, Hong Kong, 1996, p.5.*

agreements were required by the Chinese government to maintain domestic involvement in business expansion within the country.

Sun Life Financial's strategy was to partner with a respected and prestigious firm that had clout with the national and local authorities. The company wanted to create an entity that was "Chinese in operation in spirit with Western business practices, management and technology." Sun Life Financial aimed to enter into the "strategically higher return protection business lines," followed by plans to enter the wealth management business. This plan would mean creating a mutual fund and starting a fee-based asset management business. In the future, Sun Life Financial felt that the pensions business would be attractive. However, both wealth management and pensions domains were not yet open to foreign companies.[5]

China Everbright Group and the Joint Venture Agreement

China Everbright Group was founded in 1983, as part of China's open economic policy. It was a state-owned entity with direct control coming from the State Council. The group's primary business was financial services with several divisions including Everbright Bank (the sixth largest bank on a national level) and Everbright Securities, considered to be the premier brokerage company in the country. China Everbright Group controlled $40 billion in assets and posted profits of $675 million in 1999.

In making the decision to partner with Everbright, Sun Life Financial had to consider other alternatives. An executive from the insurance company Winterthur gave his opinion between one alternative and Everbright:

> Given a choice, I would prefer the alternative to Everbright. We know [the alternative] well and have done business with them for many years. We like them very much. They are very sophisticated and professional — and that is hard to find in China. Of course, [they] have on-going business in financial services that may compete with you later, and given [their] high-level political relations, you have to go forward assuming confidentiality is impossible. But, those high-level political relations could be very useful.[6]

An executive with AXA believed Everbright to be a better choice:

> Everbright is the best partner, bar none. Its management is tops, and even this recent blip with the chairman [his removal] does not

[5] *"Board of Directors' Meeting," Sun Life Financial Company documents, April 13, 2000, pp.3-6.*
[6] *Creating a Winning Vision, Riddell Tseng, September 9, 1999, p.62.*

> change that. They want to be in the insurance business, and they want a foreign partner to manage. They are aggressive, and not as bureaucratic as [some others]. Also not as arrogant. They are easier to deal with. AXA, in my view, made a serious mistake going with Minmetals . . .[7]

The decision to partner with Everbright was made and a memorandum of understanding with China Everbright was signed in December 1999. The working name for the joint venture was Guang Da Yong Ming, or Sun Life Everbright in English. The agreement called for both sides to own 50 per cent, with each partner contributing $18 million as an initial capital start-up. In year four, it was predicted that each partner would need to contribute an additional $3 million. Each side split decision-making duties, with four board members being appointed from each partner. All board-level decisions required their parent partners to give the nod. Everbright had the right to appoint the first chairman, with partners making the decision on an alternating three-year basis.

For the first five years of the venture, Sun Life Financial was responsible for the day-to-day operations. The foreign partner under Chinese regulations was required to provide its technology knowledge for free during the start-up period. Sun Life Financial had planned on providing insurance software for free, negotiating for the new entity to cover the costs of non-insurance software and hardware outlays. In addition to technology, Sun Life Financial was poised to provide management direction and the sales agent training. In doing so, any expatriate costs over the cost of a comparable local Chinese employee were required to be covered outside of the partnership by the foreign partner. Everbright was expected to share its distribution network and its management's local expertise and ability to deal with the governments in seeking approvals.

Sun Life Financial projected that the operation would show a profit in seven years. In the circumstance that profits were 10 per cent lower than expected, both sides would need to provide an additional $1.5 million in capital, with the first profit year being pushed back one year.

CHINA[8]

China was geographically the fourth largest country with 9.6 million square kilometres across 23 provinces and had the largest population in the world with 1.3 billion people. The average age was 31.7 years, and the population comprised 23.1 per cent aged zero to 14 years, 69.5 per cent aged 15 to 64 years and 7.4 per cent aged 65 years and older. On average, the country's residents were expected to live to 72.2 years, with the average life expectancy being 70.33 years for men and

[7] *Ibid.*
[8] *CIA Factbook, available at www.cia.org, accessed November 15, 2003.*

74.28 years for women. The total fertility rate was estimated at 1.7 children born per woman. The population growth rate was estimated at 0.6 per cent.

China's communist system had been put in place under Mao Zedong in 1949, and it placed tight controls on the country through political, social and economic policies. Eventually, some of the economic policies were relaxed in the late 1970s, allowing for some decentralized economic decision making and greater foreign trade. China was seen as a market with untapped potential due to its population size and under-developed business in some industries. Although its gross domestic product (GDP) per capita was wedged between Ukraine and Swaziland, ranked at 129th at US$4,400, the country was considered to be second to the United States on purchasing power parity basis. Ten per cent of the population was considered to be living below the poverty line.

China had quadrupled its GDP since 1978, driven through industry and construction (51.2 per cent of GDP), agriculture (15.2 per cent of GDP) and services (33.6 per cent of GDP) gains. Some of which was attributed to the involvement of foreign enterprises helping to increase domestic goods and exports. The current GDP was estimated to be more than $5 trillion, second to the United States, and growing at approximately eight per cent. The exchange rate for China's currency, the yuan or reminibi (RMB), was pegged at 8.28 to US$1 and inflation was slightly negative at –0.8 per cent. China was criticized for its bureaucracy as well as the growing disparity in income, due to the influx of new business. The government was seen to periodically loosen and re-tighten its controls, making for uneven operating conditions. The government had made progress but was not always successful at reducing corruption in business nor keeping its state-owned enterprises in check. Missing payments or not providing full pension amounts were not uncommon. Approximately 80 million to 120 million rural workers were considered to be surplus, moving freely between small towns and large cities — this movement was seen to add to problems of maintaining the country's living standards. While unemployment in urban areas was estimated to be 10 per cent, unemployment rates of migrant or rural workers was seen to be much higher. It was estimated that the workforce was 744 million people of whom 50 per cent worked in agriculture, 22 per cent in industry and 28 per cent in services.

Risks of Doing Business in China

Due to the country's population size and growing economy, management of many foreign firms were excited about the possibilities of benefiting from a largely untapped marketplace. However, many foreign business people were critical of China for the level of bureaucracy in obtaining the appropriate licenses and being heavily restricted as to the types of products and services allowed to be offered for sale. As well, corruption and piracy still existed.

China's pending WTO Membership

As of early 2000, China was not yet a member of the World Trade Organization (WTO). The WTO comprised 145 countries, with the responsibility to set up standards for international trade and commerce. Through its pending membership, expected to take place in 2001, observers felt that China would be further opened up, where potential growth could be harnessed. However, the membership also meant pressure on the country's tight political controls.

CHINESE LIFE INSURANCE MARKET

China's life insurance market was widely considered to be one of the insurance markets with the largest growth rates over the next 10 years, due to low penetration (an estimated 1.69 per cent of the population had life insurance, and general insurance was 0.63 per cent).[9] China was valued at US$16.8 billion per year in premium income in 1999. Exhibit 3 shows growth and penetration rates of both life and non-life insurance in China and Exhibit 4 shows comparative data for six cities. Industry analysts believed that low insurance penetration coupled with economic growth could produce annual compounded growth of 15 per cent over a 10-year period.[10] Within Asia, China was the fourth largest market in premium revenues behind Japan (US$279 billion), Korea (US$56 billion) and Taiwan (US$28 billion).

The Chinese insurance market was divided into life insurance and general insurance. Under life insurance, options were open to group insurance or individual. Group insurance was open to domestic firms only, while individual insurance was open to both foreign and domestic companies. Thus far, foreign firms were only permitted to operate in Shanghai (China's largest city with a population of 14 million), with the exception being American International Assurance (AIA) who was licensed to do business in Guangzhou as well. Foreign enterprises were able to open representative offices to investigate, research and make contacts with government officials. It was expected in early 2000 that, in addition to Shanghai and Guangzhou, four more cities would open: Tianjin, Shenzhen, Dalian and Chongqing. However, if no foreign company showed interest in opening up an office in those markets, the government was not likely to open it up. Furthermore, if a foreign insurer could make a strong case to open up in a particular city, it could enlist the help of the municipal government with a possibility that it would be granted a license.

China's entry into the World Trade Organization (WTO) called for the government to completely open up the market by 2005, permitting foreign companies to operate in any city or province. Some speculators believed that the Chinese

[9] *"Global Insurers in China," Global Equity Research, Nomura, April 1, 2003, p.4.*
[10] *Ibid., p. 5.*

government would ultimately control that decision, even after 2005. Domestic competitors were permitted to operate in 14 cities other than the state-owned People's Insurance Company of China (PICC), which was not restricted. An industry analyst talked about the WTO and the benefits for local firms:

> We believe existing insurance companies will benefit from the WTO. We do see foreign companies introducing a dose of competition, but, actually, quite a mild one. There are five significant national domestic insurance groups and around 25 foreign insurers in operation in China. Despite the competition, the five national players have a near-complete lock on market share, at about 98 per cent of the market. Foreign insurers still face restriction expansions. Nonetheless, their entry to the market should boost local standards.[11]

The insurance regulator was the People's Bank of China until November 1998, when the CIRC (China Insurance Regulatory Commission) was established. The aim of the CIRC was to approve new regulations and police insurance activity within the country. With just over one year of being in operation, the CIRC was still formulating its identity. One foreign insurance representative was complimentary of the new organization:

> The CIRC is receptive to new ideas. They may like the concept of limiting agency force and using the Internet to distribute products — if you show them how you are going to create jobs for Chinese.[12]

Another foreign insurance representative had a different view:

> I was chief representative in Beijing for more than five years, and in that time, China's regulators have not changed. No, maybe they have gotten worse, more bureaucratic. The new regulators just say "no" to requests, especially if they are about something that PICC does not want to change. [note: the CIRC is led by former PICC officials]. That said, I think the CIRC wants to implement regulation "by the book" but PICC does not want that if it encourages competition. Our strongest competitor is PICC.[13]

Foreign firms participating in life insurance sales were permitted to own up to a maximum of 50 per cent of the venture, forcing them to seek a partnership with a

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[11] *Ibid., p.14.*
[12] *"Creating a Winning Vision," Riddell Tseng, September 9, 1999, p.48.*
[13] *Ibid.*

domestic organization. In the general insurance category, foreign enterprises would be allowed to own up to 100 per cent in 2004.[14]

Chinese Consumers for Insurance

Generally, as a country's GDP per capita increases, a broader base of its population is more likely to have insurance.[15] China's consumers in the US$1,000 to US$10,000 GDP per capita bracket did not have enough to take a risk in the equity market, but still had disposable income, making China a ripe ground for insurance. By avoiding risk in playing the equity markets, Chinese consumers would typically increase savings in deposits or guaranteed return instruments (usually at 2.5 per cent). Although sometimes offering lower returns, insurance offered an alternative to these vehicles through greater protection to its policy holders.[16] Throughout the mid-1990s, the composition of an average Chinese household's financial assets were: savings deposits 67 per cent to 77 per cent, securities nine per cent to 11 per cent, cash 12 per cent to 21 per cent and insurance less than one per cent.[17]

The other major change that was occurring was the decreasing dependence on lifelong security through state-operated organizations. Known as the "iron rice bowl," this security was fading fast from the employer and moving into the direction of private enterprise. A study performed, in Shanghai, by Watson Wyatt in 1996, showed that 84 per cent of respondents purchased insurance for reasons of protection, while 10 per cent was for savings, five per cent because it was trendy and one per cent for other reasons.[18]

Types of Insurance Products

There were six general classifications for insurance products in China: personal life, property, liability, agricultural, reinsurance and foreign insurance (to cover persons or objects outside of China). The types of insurance products sold varied greatly on the area within the country. For example, Shanghai sold extensive individual life insurance, while group life made up less than 10 per cent of total life insurance market. In contrast, Guangzhou's group life policies represented more than 60 per cent of the total life insurance market.[19]

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[14] *Ibid., p.14.*
[15] *Ibid., p.6.*
[16] *Ibid.*
[17] *"Creating a Winning Vision," Riddell Tseng, September 9, 1999, p.11.*
August Chow et al., A Guide to the China Insurance Market, 1st ed., Watson Wyatt Worldwide, Hong Kong, 1996, p.175.
[19] *"Creating a Winning Vision," Riddell Tseng, September 9, 1999, p.13.*

COMPETITION

There were several hungry foreign firms that had signed agreements with Chinese domestic firms or were looking for partnerships to enter the insurance market. One of the differentiating factors would be the channel of distribution — the method of sale of insurance products via door-to-door sales force, telephone sales or through companies.

There were two distinct camps in the Chinese insurance market: domestic firms or joint-ownership between domestic and foreign companies. All the market leaders in life insurance in 1999 were domestic firms. PICC had 68.63 per cent of market share followed by Ping An with 20.24 per cent, China Pacific with 7.48 per cent, New China Life with 1.20 per cent and Tai Kang with 0.71 per cent. PICC was the oldest insurance firm in the country (established in 1949), was government-owned and provided its policy owners with the perception of stability and history. Its closest competitor, Ping An, was regarded to have strong business practices, a good asset base (30 per cent in cash and deposits) and was able to retain the right to offer financial services and insurance services, a feat that few other insurance firms were able to achieve. It was also the first Chinese insurance company to comply with international accounting standards. Although it was considered to be a domestic firm, Morgan Stanley and Goldman Sachs each owned six per cent of Ping An. China Pacific was attempting to prepare for international competition by signing a joint-venture agreement with Aetna for life insurance, as well as developing a specialty in insurance for large-scale projects.

Out of the five major established foreign firms, the estimated combined market share was under two per cent. The most established foreign life insurance firm was American International Assurance (AIA) founded in 1992, with 4,850 sales agents and RMB1,406 million in premium revenues. The following table depicts the other foreign firms operating joint ventures or companies with representative offices:

Company	Foreign Country Involved	License	Premiums US$ million	Number of Agents
AIA	U.S.	Shanghai, 1992. Guangzhou, 1995.	170.0	4,850
Manulife Sinochem	Canada	Shanghai, 1996	33.0	3,089
China Pacific-Aetna	U.S.	Shanghai, 1997	25.0	5,168
Allianz Dazhong	Germany	Shanghai, 1998	6.6	934
AXA-minmetal	France	Shanghai, 1999	7.7	1,334
China Life Colonial Mutual	Australia	Expected in 2000		
John Hancock – Tian An	U.S.	Rep Office		
Prudential CITIC	U.K.	Rep Office		
Sun Life Financial Everbright	Canada	Rep Office		

With licenses taking several years, the process of establishing an insurance business for a foreign firm was arduous. Companies needed to also engage in the difficult task of contracting qualified individuals as the insurance market in China was less than 20 years old. As such, companies were enacting training programs to attract strong agents. Actuary work could be outsourced, but selling insurance was seen to be a combination of understanding the products and having the personal ability to sell with the appropriate cultural manner.

As an employee from Aetna stated, "Under the current environment, Aetna may never make money for 20 years — but it does not matter because Aetna is limiting costs and waiting for change, and anyway, Aetna is really in China for the chairman's ego."[20] Opinions from the French firm, Axa, were not much different: "There is no profit to be made in China for decades or more, unless the regulations change."[21]

WHAT DO THE CONSULTANTS THINK SUN LIFE FINANCIAL SHOULD DO?

A consultant's report dated in September 1999 talked about the business opportunity for Sun Life Financial in China:

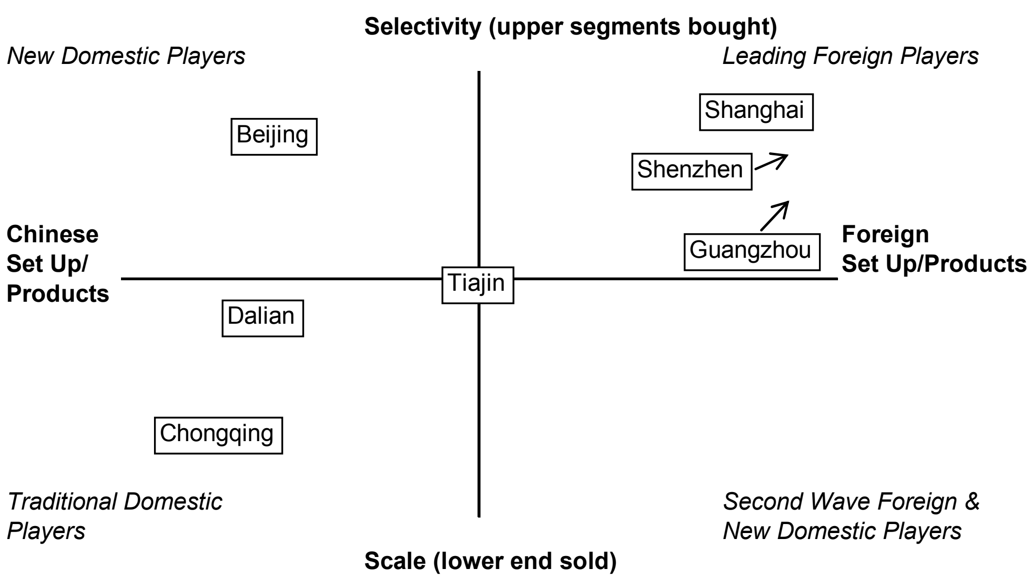
> Our starting hypotheses was that market constraints and other environmental factors make China a significant challenge to success for Sun Life Financial [as] the main business is currently the type we want to exit, market access and freedom of action is largely restricted, short-term rewards and economic success is illusionary and operating risks are high and difficult to control. While we believe that by and large our hypotheses still hold true today, in particular with respect to timing, signs of sustained and favourable change are evident:
>
> - continued attempts to break the regulatory product gauntlet with indications that the product licensing approach may be abandoned within the coming two years
> - two large and distinct segment markets are growing rapidly and offer opportunities in almost every location
> - large-scale social asymmetry and lack of long-term security are propelling selectively the health and pension businesses
> - distribution alternatives are being recognized by a number of players supported by solid growth in Internet users
>
> We still have to recognize that the industry as a whole [is developing], but governmental and business pressure indicate a move towards a better trained, qualified and rational participants. This trend does favorably support a player like Sun Life Financial with its ethical business approach.

[20] *China Insurance Yearbook 1998.*
[21] *Ibid.*

In the same consultant's report, three different strategies were outlined for Sun Life Financial's entry into China: the "Minimalist" approach, the "Full Speed" development or the "Model Citizen." The minimalist approach called for the selection of a less advanced city, focusing on traditional insurance products and containing the capital investment. The idea with this approach was to maintain a presence and "shift gears" when restrictions were dropped and the marketplace became more favorable. The full speed strategy involved selecting a high-growth city, building a large agency force and developing a full portfolio of products in the eventuality that regulations would change. The model citizen plan called for selecting a city based more on co-operation, with a focus on building government relations. This option also called for capital containment and the slow development of new insurance products beginning with the traditional portfolio.

City Selection

There were six cities about to be opened for foreign insurers: Guangzhou, Shenzhen, Tianjin, Dalian, Shanghai and Chongqing. Exhibit 5 shows some comparisons of the six cities. A consultant's report defined each market in terms of the foreign companies currently involved on the following grid:[22]



Based on government relations and market attractiveness, Sun Life Financial narrowed its options down to Shanghai, Guangzhou and Tianjin in order to start its insurance sales operations. The city selection was seen to be important for several reasons. Once the market opened, the Chinese government required that insurers have a minimum of RMB100 million (US$12 million) in premium revenues in its

[22] *"Creating a Winning Vision," Riddell Tseng, September 9, 1999, p.14.*

entry city before applying for a second license. As well, if the insurer was not successful in its city of choice, it would risk disappointing its partner, the municipal government and its headquarters. A poor city selection would also put the company further behind in its breakeven targets.

Sun Life Financial had hired another consulting company to do a complete investigation of Shanghai, Gaungzhou and Tianjin. Along with the consultants, Sun Life Financial had established the criteria of the city, based on market size, purchasing potential, market growth and market development. The consultants gave a greater weighting to market size and purchasing potential as they believed that a bigger market would provide a greater opportunity to carve out a niche. Shanghai had the largest market and strong market growth. Along with Gaungzhou, both were estimated to lead China's economic growth, while Tianjin would be in line with the national average. Shanghai and Guangzhou were equal in terms of market development, and Guangzhou was the clear leader for purchasing potential.

With the results of the findings, the consultants' report suggested that Sun Life Financial enter into the Shanghai market with the following explanations:

> Shanghai appears to enjoy significantly higher political support from the central government than does Guangzhou: their closely knit group of senior advisors includes many former bureaucrats in the Shanghai Municipal Government. Shanghai's cosmopolitanism should not be under-rated. The city was Asia's financial services centre before WWII, and governments and consumers clearly intend for Shanghai to regain that stature. This desire manifests itself in a much more cosmopolitan attitude in Shanghai, which translates into a greater willingness to experiment with foreign products and services.
>
> We also believe that a market presence in Shanghai is more replicable in other cities than if Sun Life Financial began in Guangzhou. Cultural differences are greater than those between Shanghai and other provinces: key staff trained in a Shanghai operation are more likely to be able to hit the ground running in other cities in the future. While there is far greater competition in the insurance industry in Shanghai, this could prove to be a benefit for the company. Competition focuses business strategy, promotes innovation, increases efficiencies, leads to greater tolerance of risk, and potentially leverages higher returns.
>
> There is no major cost differential between Shanghai and Guangzhou: rents in both cities for Grade A office space are US$40 to $60/m2/day, operating costs are about the same, local business

> taxes (eight per cent) and salary costs (US$300 to US$500 for administrative staff, $600 to $1,200 for department managers, and $1,000 to $2,000/month for senior managers) are also likely to be at par.

The same report assessed Tianjin, the lower cost alternative:

> We do not believe that Tianjin is a suitable point for market entry into China. Market conditions, under-investment, and structural economic problems will continue to drag the urban and regional economy of Tianjin with serious unemployment looming as a major challenge. In such a context, we do not believe that a significant number of consumers will divert comparatively lower discretionary incomes to purchase of insurance products. While establishment and operational costs will certainly be lower than in Shanghai or Guangzhou, we suggest that, ultimately, the purchasing power of regional markets should dictate the selection of market entry point. In establishing in Tianjin, Sun Life Financial would admittedly have a low-cost operation in a city with little competition; this is fully understandable given the inherent weakness in the Tianjin market.

Another consultant's report had a different view of the attractiveness of each market:

> From a supply side point of view, there is ample opportunity for a new player to gain market share in either city although the large incumbent agency base in Shanghai reduces the outlook for a new entrant. Under almost any growth scenario Tianjin quickly outpaces Shanghai in attractiveness. This can be explained by Tianjin still being on the "steep" part of the development curve while Shanghai is already on the "flatter" part. Guangzhou is a distant third given the Hong Kong offshore market factor. Even without a privileged position, Tianjin becomes the first choice under a balanced growth scenario.

Because Tianjin was on the "steep" part of the development curve, the consultant's report above argued that Tianjin's life insurance market would grow at a much faster rate than Shanghai's or Guangzhou's. The other part of the equation was the growth of GDP per capita, which was calculated based on historical figures for the next five years: Shanghai 15 per cent, Guangzhou 23 per cent and Tianjin 12 per cent. Exhibit 6 shows comparative data for the three cities.

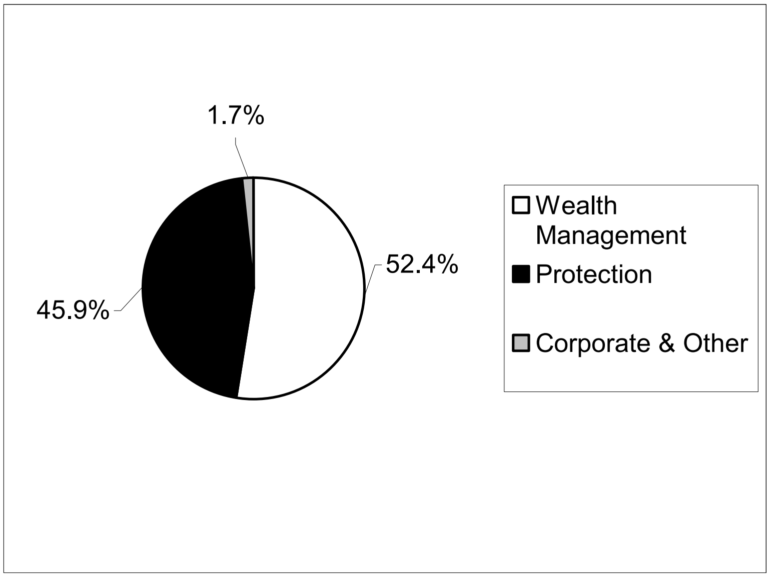
CONCLUSION

Now in a taxi amongst the hectic Beijing traffic, Ohannessian had a lot of information to digest about the Chinese market and the opportunity to sell life insurance products. He wondered about the best way to organize his company's entry into the country, the first city to choose and the strategy that would provide long-term viability while not exhausting Sun Life Financial's or Everbright's resources.

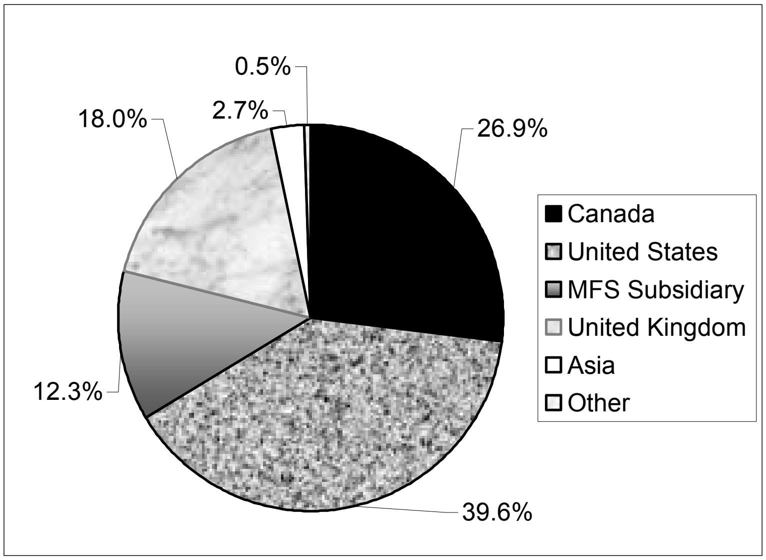
Exhibit 1

SUN LIFE FINANCIAL REVENUE BY BUSINESS AND GEOGRAPHY

Revenue by Business 1999



Revenue by Geography 1999



Source: Sun Life Financial Initial Public Offering Booklet, Introduction March 23, 2000.

Exhibit 2

DEFINITIONS OF INSURANCE TYPES

Actuary

A person professionally trained in the technical aspects of pensions, insurance and related fields. The actuary estimates how much money must be contributed to an insurance or pension fund in order to support the benefits that will become payable in the future

Life Insurance

Insurance providing for payment of a specified amount on the insured's death, either to his or her estate or to a designated beneficiary; or in the case of an endowment policy, to the policy holder at a specified date.

Premium

The sum paid by a policyholder to keep an insurance policy in force.

Nonparticipating Policy

One that does not provide for the payment of a dividend.

Participating Policy

One under which the policy owner is entitled to receive shares of the divisible surplus of the insurer. Such shares are commonly called dividends.

Reinsurance

The purchase of insurance by an insurance company from another insurance company (reinsurer) to provide it protection against large losses on cases it has already insured.

Term Insurance

Life or health insurance protection during a limited number of years but expiring without value if the insured survives the stated period.

Unit-linked life insurance

An insurance product linked to a particular investment fund in which the policy holder would combine tax advantages with protection. Common in Europe and the United Kingdom.

Universal Life Insurance

A flexible premium life insurance policy under which the policyholder may change the death benefit from time to time (with satisfactory evidence of insurability for increases) and vary the amount or timing of premium payments. Premiums (less expense charges) are credited to a policy account from which mortality charges are deducted and to which interest is credited at rate which may change from time to time.

Source: www.haskayne.ucalgary.ca/rmin/rmin_glossary_a.html, accessed December 16, 2003.

Exhibit 3

CHINA: PREMIUM INCOME
1990 to 1999
(US$ millions)

	Life			Non-life			Total		Penetration (%)		
	Premium	Growth %	% of total	Premium	Growth %	% of total	Premium	Growth %	Life	General	Total
1990	1,088.8		32.0	2,311.3		68.0	3,400.1		0.3	0.7	1.0
1991	1,316.1	25.8	30.0	3,069.1	38.2	70.0	4,385.3	34.2	0.3	1.2	1.6
1992	1,829.6	47.1	27.9	4,734.5	63.3	72.1	6,564.1	58.4	0.4	1.1	1.5
1993	1,721.6	(5.1)	19.0	7,338.6	56.3	81.0	9,060.1	39.2	0.3	1.2	1.5
1994	2,802.9	137.1	38.0	4,572.3	(9.3)	62.0	7,375.2	18.5	0.5	0.8	1.3
1995	3,086.1	8.4	35.0	5,730.8	23.4	65.0	8,816.9	17.7	0.4	0.8	1.3
1996	4,319.0	39.8	42.0	5,965.1	4.0	58.0	10,284.1	16.5	0.5	0.7	1.3
1997	7,332.1	69.4	56.0	5,760.5	(3.6)	44.0	13,092.7	27.0	0.8	0.6	1.5
1998	9,037.4	22.8	60.0	6,025.0	4.2	40.0	15,062.4	14.6	0.9	0.6	1.6
1999	10,538.1	16.6	62.6	6,296.3	4.5	37.4	16,834.3	11.8	1.1	0.6	1.7

Source: Global Insurers in China, Nomura, April 3, 2003, p.4.

Exhibit 4

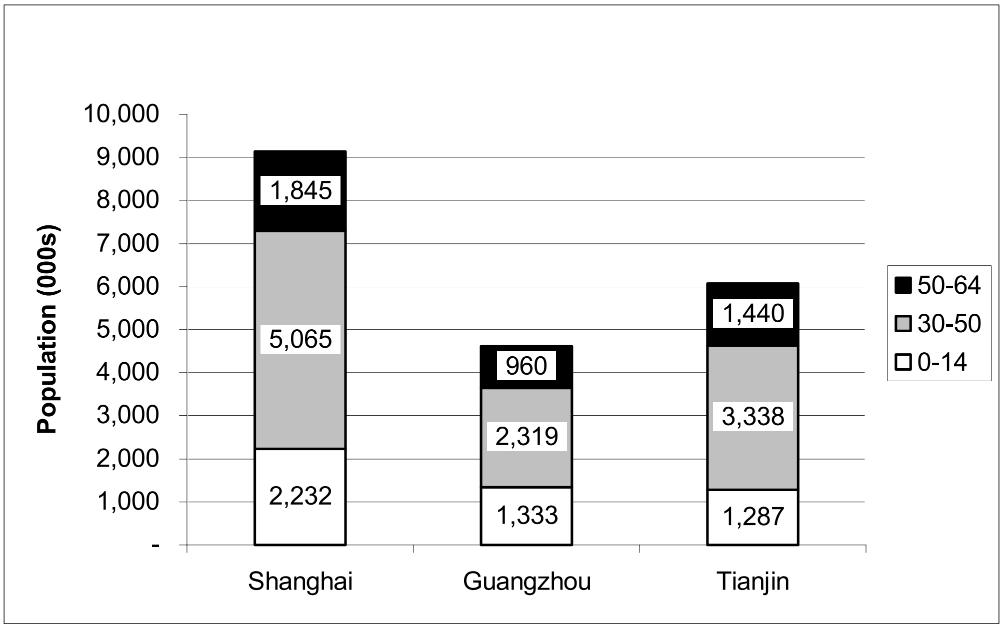
COMPARATIVE DATA — SIX CITIES

City	Population (in millions)	Number of Households (millions)	Total GDP (RMB billions/ US$ billions)	GDP % Increase over Previous Year	GDP per Capita (RMB '000s/ US$000s)
Chongqing (+ region)	30	2.9	143.5/17.3	8.5	4.8/0.6
Shanghai	14	4.6	368.8/44.3	10.1	26.3/2.5
Tianjin	9	2.8	134.1/16.2	9.3	14.9/1.8
Guangzhou	6.6	1.9	184.4/21.1	13	28.0/3.8
Dalian	5.4	1.7	93.5/11.3	12.2	17.3/2.1
Shenzhen	3.8	0.3	128.9/15.5	14.5	34.0/4.1
Average	11.5	2.4	175.5/21.1	11.3	20.8/2.5

Exhibit 5

COMPARATIVE DATA — THREE CITIES

Target Population by Age Segment



Life Insurance Density 1987 to 1998 (in RMB per head)

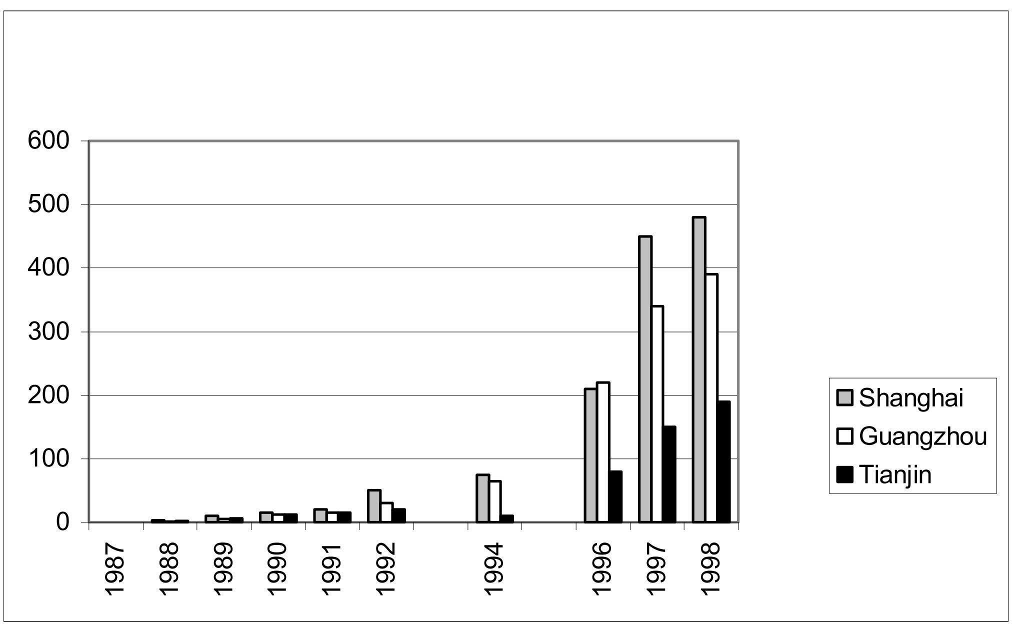


Exhibit 6

COMPARATIVE DATA — THREE CITIES

	Average Salary (RMB)	Life Insurance Premium Spending (RMB)	Retail Sales Consumer Good (RMB)	% of Salary Spent on Life Premiums	% of Salary Spent on Retail Sales
Shanghai	11,425	478	1,325	4%	12%
Tianjin	8,238	188	535	2%	6%
Guangzhou	13,118	384	803	3%	6%

Projections — Total Life Insurance Market 1999 to 2005