

LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	Albert YS CHIU	Student ID number:	2235236
Programme:	DBA		
Module:	Strategic Change and Organisations		
Module code:	HKBM7016	Contribution to Overall Module Assessment (%):	100%
Lecturer:	Prof. Peter Fong	Internal Verifier:	
Assignment Title:	Essay	Word count (or equivalent):	7500 words (+/- 10%)
Submission deadline:	26 April 2023	Return date of provisional marks & written feedback:	1 June 2023
Submission method:	All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.) Alternative submission method (if applicable): Late submission of the assessment will result in a late penalty mark. Penalties for late submission: Up to one week late, maximum mark of 50%. Over one week late, 0%. Only the Extenuating Circumstances Panel may approve a change to submission dates.		
Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

Topic: Strategic Review on FTLife Insurance to Extend Its Distribution to the Greater Bay Area in China

Table of Content:

Executive Summary	3
1) Introduction	3
2) FTLife Background	4
3) FTLife Vision and Mission Statement	5
4) Strategic Internal Audit	6
4.1) Management Experience	6
4.2) Management.....	7
4.3) Marketing.....	8
4.4) Insurance Product & Service	9
4.5) Pricing.....	10
4.6) Distribution	11
4.7) Financial Strength	11
4.8) System Support	12
5) Strategic External Audit by Environmental Scan.....	12
5.1) Mainland China Factor:.....	13
5.2) Support from Hong Kong Government to Develop Insurance Sector	14
5.3) Strategies adopted by other competitors.....	15
5.4) Political Environment	15
5.5) Legal factors	16
5.6) Commercial	16
5.7) Others.....	18
6) Strategic Generation and Selection.....	18
6.1) SWOT Matrix (Strengths, Weakness, Opportunities and Threat)	18
6.2) The Grand Strategy Matrix.....	20
6.3) Strategy Selection - Quantitative Strategic Planning Matrix (QSPM)	22
7) Implementation of Selected Strategic Options	24
7.1) Strategic Marketing Issues	24
7.2) Strategic Finance /Capital Issues.....	25
7.3) Strategic Product Development Issues	25
7.4) Potential Barriers and Issues.....	26
8) Recommendations and Conclusions.....	28
Reference.....	29

Executive Summary

This essay aims to provide a strategic review on how the Hong Kong based insurance company FTLife Insurance Company Limited (“FTLife”), which currently has no operation in Mainland China, can capture the business opportunity in Greater Bay Area (“GBA”) and expand its distribution to GBA using the strong network of its parent company, New World Development Company Limited (“NWD”).

1) Introduction

GBA is southern China’s most important economic cluster by output in China. GBA is a rapidly growing region that includes Hong Kong, Macau, and nine cities in Guangdong province. Nine cities have a population of 61.5 million with US\$ 33 billion in life insurance premiums. Together with low insurance penetration of 5.5% in the nine cities compared to 20.8% in Hong Kong, it represents a large growth opportunity (Tong, 2022). GBA has a large and growing middle class, which is actively looking for insurance products to enhance its financial protection and also wealth accumulation.

NWD (新世界發展) is a listed company (0017) in Hong Kong with a total asset value of HK\$ 622 billion (as of 31 Dec 2022). NWD acquired FTLife in December 2018 at a cost of HK\$21.5 billion in cash (FTLife Press Release, 2018). FTLife currently does not have any insurance business operation in Mainland China.

NWD has strong financial strength, a long-standing development history and outstanding brand reputation. NWD core businesses areas includes toll roads, commercial aircraft leasing, property development, property investment, facilities management business, department stores and hotels, as well as wide-spread operation network and solid customer base in Hong Kong and Mainland China. The acquisition of FTLife highly synchronises with the development strategy of NWD, and position FTLife’s long-term vision of “deep roots in Hong Kong, integration with Mainland China and expansion throughout Asia” and strategic focus on GBA.

2) FTLife Background

FTLife is incorporated in Bermuda with its principal place of business is in Hong Kong. FTLife is authorised to conduct Long Term (i.e. life insurance) business in Hong Kong since 1986 under Class of business A, C, G, H and I (Insurance Authority, 2023).

Refer to Schedule 1 of Cap 41. Insurance Ordinance, the Class of business refers to:

- A. Life and Annuity
- C. Linked Long Term
- G. Retirement Scheme Management Category I
- H. Retirement Scheme Management Category II
- I. Retirement Scheme Management Category III

According to FTLife's corporate website, FTLife offers a variety of insurance and financial planning products and services, including life, medical and health, personal accident, critical illness, disability insurance, savings plan, investment-linked insurance and retirement solution to meet the long-term financial and protection needs of general public in Hong Kong. FTLife is ranked 12th among Hong Kong life insurance companies by premium in 2021 (Statista, 2021).

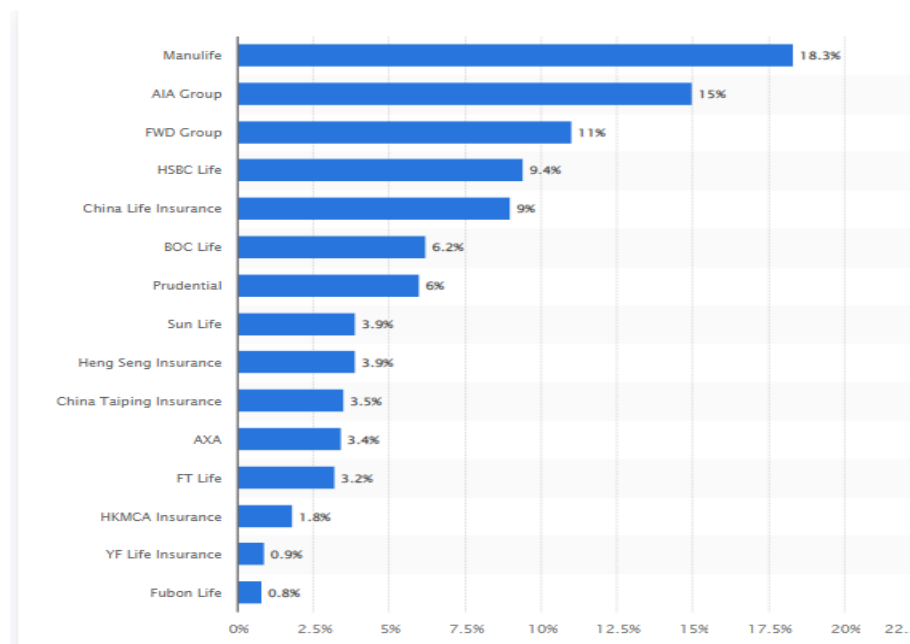


Figure 1 - Hong Kong life insurance companies market share in 2021, in terms of new business premium income (Statista, 2021)

As at 31 December 2021, FTLife's total assets amounted to HK\$ 81.2 billion. It has been maintaining a prudent investment approach that prioritises asset-liability management and risk control so that it can deliver optimum, sustainable return to its customers.

FTLife has an agency force of 3,000 agents. It is also enhancing its distribution channel through expanding its partnership channel and its cooperation with banks to tap new business opportunities. Through the acquisition by NWD, further collaboration within the ecosystem of NWD also assisted in expanding FTLife's customer base and to fuel growth.

Long-term growth outlook for FTLife Insurance remains strong as demand for FTLife's products induced by the rising awareness of healthcare protection stays solid and the strong pent-up demand from customers in GBA.

3) FTLife Vision and Mission Statement

Form the corporate website, FTLife has a vision statement - *"Think beyond insurance"*.

FTLife has a mission statement – *"FTLife is your contemporary steward to wealth management, health and wellbeing, and a tasteful lifestyle. We listen attentively to our clients' needs, to meet the demands and standards of the new generation. We are unafraid of breaking conventions, to lead the industry in creating innovative services and products. We pursue excellence, and we are constantly surpassing ourselves, to keep up with the rapid pace of change today. We are here, to redefine insurance."*

FTLife also has a core corporate value to *"Embrace Change for Better Future"* with its customers at every step of their life journey. FTLife promises to listen, to generate keen insight and to redefine insurance in order to create unconventional products that truly cater to its customers' needs and wants.

From the corporate website, it also has three Brand Pillars:

- **"Customer Centricity** – *Building on our best-in-class products, we strive to constantly deliver the services and products that best serve customer needs, by listening carefully and responding quickly and thoughtfully."*

- **“Adjacent Innovation** – We seek to leverage the full strength of the New World Group ecosystem to create new services and products that break the mould for the insurance industry.”
- **“Dynamic Energy** – Going beyond means always driving each other forward. Every one of us taps into a desire to push ourselves to the next level –powered by a progressive, flexible mindset that links us as one team.”

The company’s vision to think beyond insurance and mission statement to redefine insurance aligns with NWD’s goal to be a distinctive brand of great reputation and creating value for our customers as part of NWD ecosystem.

4) Strategic Internal Audit

The strategic internal audit below try to identify and evaluate FTLife’s strengths and weaknesses of its management experience, management, marketing, insurance product and service, pricing, distribution, financial strength and system support, etc. to capitalize on new opportunities.

4.1) Management Experience

FTLife appointed Mr Mankit Ip as its new Chief Executive Officer in Sept 2022. Mr Ip has over 30 years of experience in the life insurance industry, and had been on many senior management roles in both Hong Kong and Mainland China, covering all key functions such as information technology, operations, project management, transformation, as well as health and wellness business development. Mr Ip plays a vital role in shaping the FTLife’s business strategies and actively leverage NWD’s ecosystem to enhance the business profile.

Dr. Henry Cheng is the Chairman and Executive Director of NWD. He has been on the Board of Director since 1972 and appointed as Chairman in March 2012. Dr. Cheng also being the Chairman of a number other companies in Hong Kong related to property development, jewellery, multimedia, and shopping centres with strong tie to GBA. Dr Cheng has extensive experience in running large business operation in Mainland China.

Dr. Adrian Cheng is the Executive Vice-chairman and Chief Executive Officer of NWD. He has been on the current position since 2015. Dr. Cheng oversees the strategic direction for the Company's property development and investment activities. Dr. Cheng launched the K11 brand, a museum-retail complex that is at the nexus of art, retail, healthcare, commerce, education and charity. He also directs early-stage funding to start-ups and technology-driven platforms. Dr. Cheng also has close connections with Mainland China, which he serves as a member of the 14th National Committee of the Chinese People's Political Consultative Conference of The People's Republic of China, a vice-president of All-China General Chamber of Industry.

In summary, the key management has solid experience in expanding business in Mainland China with the strong network from NWD.

4.2) Management

The Management function includes planning, organizing, motivating, staffing and controlling (David & David, 2017).

FTLife has become part of the ecosystem of NWD since 2019. FTLife leverages on the diverse businesses and great business network of NWD to work side-by-side with different stakeholders as it strives for continuous innovation and success.

Here are some key events for announced by FTLife in 2022 from its corporate website:

- March 2022: FTLife delivered stellar results in 2021 with overall Annualised Premium Equivalent increased 19% year on year. FTLife's market share increased from 2.2% to 2.6% despite the tough operating environment amid the pandemic.
- May 2022: FTLife announced the launch of a new Voluntary Hospital Insurance Scheme “FlexiCare”. The product doubled the benefit limit for common major illnesses, such as major cancer, severe heart attack, stroke, respiratory diseases and any disease declared as a Public Health Emergency of International Concern such as COVID-19.
- July 2022: FTLife announced the grand opening of its brand-new concept centre, “The GalaMuse”. The centre has over 10,000 square feet of a multi-functional space and a range of ancillary facilities. FTLife also aims to enhance agents’ productivity and performance comprehensively through the innovative technology offered by the centre, including VR training and A.I. workshops.
- July 2022: FTLife and K11 partner for industry-first initiative on cross-channel innovation where K Dollar being accepted as premium payment. K Dollar is the

digital reward scheme set up by NWD when customers spend money in participating merchants under NWD. It demonstrates FTLife has integrated itself with NWD's diverse business ecosystem where FTLife is able collaborate with other affiliate business units, which is a solid example of how our mission to “Think beyond insurance”.

- Nov 2022: FTLife launched Everglow 128 Insurance Plan, a life insurance protection and wealth inheritance up to 128 years. The plan distributes a guaranteed cash coupon of up to 3% of the insured amount every policy anniversary up to 128 years. The Plan also allows unlimited changes of the insured and provides annual dividend to create stable funds for wealth accumulation to the next generation.

These corporate events indicate the FTLife’s management has good planning, organizing, motivating, staffing and controlling ability. Having said that, all these events only focus in Hong Kong, none of it is related to GBA. Whether extra management resource or management skillset is required to support to business development in GBA will depends on the strategic approach adopted by FTLife.

4.3) Marketing

FTLife is a local insurance brand, it does not being recognized in GBA market. On the other hand, NWD invests in various businesses and is considered as one of the largest foreign direct investors in Mainland China. In the recent years, NWD is expanding their investment into first-tier cities with a focus on GBA.

According to FTLife’s corporate profile, NWD has core property development projects located in major cities in Mainland China, with total GFA of around 5.3 million square meters, over half of them are located in GBA.

In 2020, the subsidiaries of NWD:

- operate 15 toll roads in Mainland China with a network of approximately 740 km long;
- have over US\$16.5 billion worth of investment spanning four municipalities and 19 provinces in Mainland China;
- maintain more than 4,100 points of sales in Mainland China, Hong Kong, Macau and more by Chow Tai Fook Jewellery Group;
- has more than 7,400 hotel rooms provided by 17 hotels spanning Hong Kong, Mainland China and Southeast Asia;

Given that NWD has existing well established business network within GBA, FTLife enjoys this marketing advantage and integrates into NWD's ecosystem. If FTLife can present itself as insurance arm under NWD to provide innovative insurance products and other financial solutions for customers in GBA, this can improve its brand awareness in GBA.

4.4) Insurance Product & Service

GBA customers are being attracted to good quality of medical care service in Hong Kong, with better after-sales service, coverage and faster pay-outs from medical insurance policies.

According to Swiss Re survey in 2021, GBA correspondents regard cross-border doctor and hospital referrals as desired value-add services to health insurance. They are willing to pay more for health insurance coverage, which is a huge potential growth potential for Hong Kong insurance sector. Critical illness and medical insurance ranked top in Swiss Re's survey.

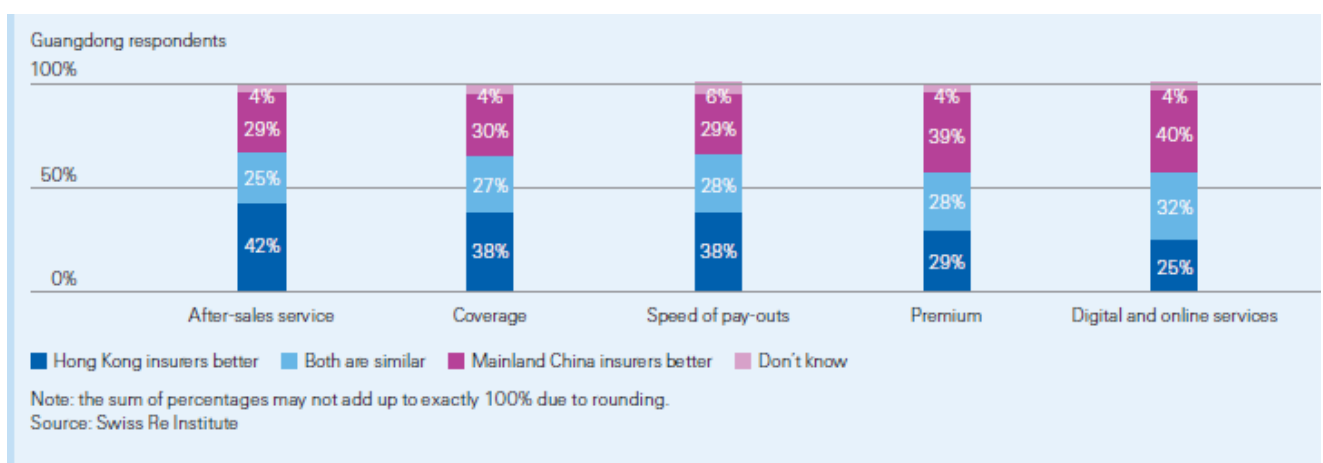


Figure 2 - Comparing Insurance Services in Hong Kong vs Mainland China (Swiss Re, 2021)

In terms of claims process, Hong Kong insurance companies have higher product premiums, but claims pay out amount is also high compare to insurance products in Mainland China (Zhang et al, 2021). The claim processing time is also shorter in Hong Kong with a speedy claim payment with high efficiency.

In another survey (Tong, 2022) conducted by Manulife in 2022, it showed that 96% of respondents from GBA are eager to visit Hong Kong within the first 6 months when the border reopens. 70% of respondents indicated they would buy average three insurance products for themselves and family members. Critical illness (40%) and

personal accident (33%) are the two top-priority products. 86% of respondents, who are married, plan to buy savings products, investment-linked and universal life insurance for their spouses; 62% of parents plan to buy capital growth and protecting products for their children.

In this connection, FTLife continue enhancing its product offerings by introducing new products into the market:

- “FlexiCare”, a Voluntary Hospital Insurance Scheme plan with tax incentive from Hong Kong Government. It has enhanced benefit limit for common major illnesses, launched in May 2022.
- “Your Choice” Insurance Plan, a short-term savings insurance product launched in July 2022;
- “Protect Starter”, a new critical illness protection plan with new value proposition launched in August 2022;
- “Everglow 128” Insurance Plan, a saving plan with annual distribution of cash coupons to provide stable income streams for maximum of 128 years and allows change of insured to pass the legacy to next generations, launched in November 2022; and
- “Legend 2”, a single pay investment linked product offering customers a spectrum of investment choices according to their needs and appetites, launched in November 2023.

FTLife has a range of insurance products which can fit the different needs of GBA customers.

4.5) Pricing

According to the statistics released by the World Health Organisation in 2016, the global, Hong Kong and Mainland Chinese average life expectancy is 71, 85 and 75 years respectively.

One of key factor to determine insurance premium is based on local life expectancy, morbidity and mortality. Given that the Mainland China average life expectancy is lower than Hong Kong, the cost of insurance costs is higher in Mainland China. The premium in Mainland China on same type of insurance may be 40% higher than in Hong Kong (Tang, 2022). This is a huge advantage why residence of GBA would like to buy Hong Kong insurance.

In addition, the insurance coverage is generally better for Hong Kong insurance policy. For example, a critical illness insurance plan in Hong Kong may cover up to

over 100 insurable diseases, but fewer diseases are covered in Mainland China policy (Zhang et al, 2021). The Hong Kong insurance policy also provides claims payment in the event of removal of benign tumours, precancerous lesions and other operations that do not considered as serious diseases, these coverages are not available from in Mainland China policy. Moreover, some critical illness policies issued in Hong Kong may allow multiple claims on defined critical illness diseases, whereas the policy issued by Mainland China only allows one claim per policy.

Another advantage of Hong Kong insurance policy is high investment efficiency. Hong Kong is a free market, which does not subject to capital and investment restrictions, insurance companies in Hong Kong can allocate up to 90-95% of the company's investment gains to the insurance bonus pool, no major national insurance company in Mainland China can offer insurance plan with similar investment return (Tang, 2022). The average annual investment return of Hong Kong insurance policy is 4-5%, which is 1% higher than Mainland China policy (Zhang et al, 2021).

With the above elements, there are competitive advantages on pricing and the coverage of the insurance product issue in Hong Kong.

4.6) Distribution

In Hong Kong, 90% of insurance sales are conducted by agents and bank staff as reflected in statistic published by Insurance Authority in 2022. Consumers still heavily rely on the insurance intermediaries to get information on insurance coverages, terms, make applications and file claims.

However, GBA consumers are more favoured online and mobile channels for sales and services according to industry survey (Swiss Re, 2021), this is partly linked to wider use of digital payments in Mainland China. More than half of GBA Guangdong respondents now prefer to use online or mobile channels to buy insurance, file claims and insurance renewals.

FTLife has around 3,000 licensed agents (FTLife, 2021), which is only around 2.6% of total individual licensees in Hong Kong. In addition, FTLife does not have any infrastructure to support online or mobile application, which is identified as a weakness in this review.

4.7) Financial Strength

According to its Financial Condition Report published in June 2022, FTLife has Gross Premium Written from its Long-Term Insurance business of HK\$ 12,043

million from July 2021 to June 2022. As of end of June 2021, its insurance embedded value increased by 23% over 2019, total assets grew by 21% while gross premium saw a 10% increase (FTLife Corporate Profile, 2022). In addition, FTLife has policyholder and shareholder investment assets of HK\$ 56,670 million with 71% fixed-income investments, of which 99% of the fixed income instruments are at investment grade as of 30 June 2022.

FTLife maintained a strong capital position with “A-” and “A3” ratings assigned by Fitch Rating and Moody's respectively as at 30 June 2022. Furthermore, FTLife's solvency ratio is 342%, far exceeding the regulatory minimum requirement of 150% (FTLife Corporate Profile, 2022). The solvency ratio refers to the proportion of insurer's total available capital to the minimum regulatory capital. The higher solvency ratio means the insurer has a stronger financial position. FTLife performs the regular stress testing to ensure the capital can meet the regulatory solvency requirement and able to withstand under adverse conditions.

In gist, the financial strength of FTLife is in good share.

4.8) System Support

To support the growth of GBA business, certain system enhancements may need to enhance such as:

- support of simplified Chinese in data input and printing of insurance contract;
- allow premium payments to be received and send through bank accounts in Mainland China;
- ability to accept on-line insurance applications;
- enable customer to log into the customer system outside Hong Kong, etc.

The system support is another weak area identified for FTLife to extend its distribution to GBA.

5) Strategic External Audit by Environmental Scan

The Strategic External Audit aims to identify and evaluate trends and events beyond the control of FTLife. It helps revealing key opportunities and threats confronting FTLife, so the management can adopt strategies which can to take advantage of the opportunities and reduce the impact of threats on the business.

5.1) Mainland China Factor:

The China's Central Government issued a Development Plan in 2019, which includes the implementation measures to develop GBA's financial services and insurance sector. According to Swiss Re survey in 2021, 42% of respondents in Guangdong have interested to purchase insurance product from Hong Kong insurers, which is up from 37% compare to the last survey issued in 2019. The rise in demand from GBA residence is attributed to higher risk awareness from customers due to the pandemic, as well as to economic developments in GBA, including in infrastructure.

GBA visitors returned to Hong Kong after the borders re-open in January 2023. The number of visitors from Mainland China in March 2023 is 7 times more comparing to January 2023. The increase of visitors further supports the growing in demand on insurance products from GBA customers.

Markets	January	February	March	Jan – Mar
Mainland	280,525	1,109,885	1,967,602	3,358,012
Non-Mainland*	218,164	352,084	486,491	1,056,739
Short-haul	84,098	165,119	232,942	482,159
Long-haul	54,109	75,018	131,646	260,773
New markets	6,343	12,349	18,741	37,433
Total	498,689	1,461,969	2,454,093	4,414,751

Table 3 – Hong Kong Recorded Provisional Visitor Arrivals for March 2023
(Press Release - the Hong Kong Tourism Board, 2023)

With more GBA customers realises the benefits of comprehensive medical insurance provided in Hong Kong, and there is a growing appetite for different types of health protection. Hong Kong offers a comprehensive range of insurance products to GBA customers, it remains a prime location for GBA customers seeking health-related insurance solutions, and this is clearly a target market that FTLife should tap into.

Another survey conducted by UBS indicated two-thirds of mainlanders who visited Hong Kong is interested to buy insurance in Hong Kong within a year (Wang, 2023). The value of insurance policies taken out by Mainland customers are expected to reach a new high in 2024.

For Mainland Chinese customers, their key concerns are critical illness, life protection, and pay for medical cost (OliverWyman, 2023). The younger customers have greater concern on this area. Around 80% consumers intended to buy critical illness or medical healthcare insurance products in Hong Kong within next 24 months.

The consumer's offshore investment allocation appetite increased after COVID. 61% are likely to increase their savings coverage through buying more insurance in Hong Kong within next 24 months (OliverWyman, 2023). They will look for higher expected returns, guarantee of returns, and flexibility on fund withdrawals.

Consumers can diversify and broaden their portfolios by investing in Hong Kong as a trusted financial center, and provide higher returns at the same time. FTLife's products should be able to meet the demand of GBA customers to accumulate their wealth with better health protection.

5.2) Support from Hong Kong Government to Develop Insurance Sector

The development roadmap for the insurance sector in Hong Kong was issued by the Hong Kong Special Administrative Region Government ("HKSAR Government") in December 2022, which outlined visions and missions of the HKSAR Government to support Hong Kong as a global risk management centre and regional insurance hub. In particular, the roadmap aims to increase the insurance market accessibility through proactive policy and regulations. The HKSAR will support the integration of insurance sector into the "Dual Circulation" strategy in Mainland China under the "one country, two systems" principle.

The roadmap clearly indicated that GBA can enlarge the Hong Kong insurance market accessibility. The connection between Mainland China and Hong Kong insurance market would be further enhanced by setting up the insurance after-sales service centres in GBA area.

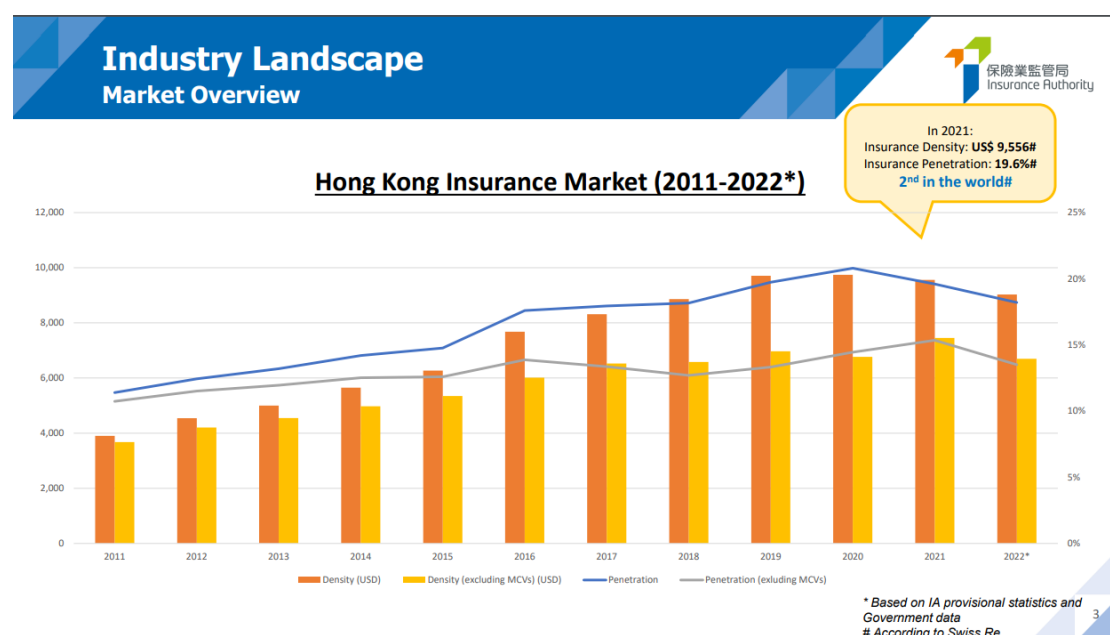


Figure 4 – The Insurance Density and Penetration of Hong Kong Insurance Market
(Presentation from Hong Kong Insurance Authority in Guy Carpenter 2023 CEO
Forum, 2023)

5.3) Strategies adopted by other competitors

As per Figure 1, the top players are Manulife, AIA, FWD, HSBC, China Life and Prudential. It should be noted that all of them already has parent company, subsidiary or affiliated insurance company set up in Mainland China, with a brand image recognised by GBA customers.

As reported by Wang in her news report in April 2023, many insurers launched sales promotions with AIA offers 5% and 8% discount if the clients can pay premiums three and five years respectively. Manulife also offers 20% discount to customers if they can pay three years premiums.

Apart from policy discount, major competitors also launched marketing campaigns on brand awareness and new products, they are also active in social media platforms in Mainland China on insurance matters and travel information to Hong Kong.

Major competitors have already built bancassurance partnerships with banks in Mainland China to tap into their customer base. It allows insurers to get better understand on customer's behaviour and spending pattern, which is an advantage in capturing vast GBA growth opportunities.

For existing policyholders, major competitors also set up selected local hospital panels, which allow GBA policyholders to receive high-quality medical services at selected hospitals in GBA with cashless payments arrangement.

FTLife has to catch up on all these areas in order to capture this market. The support from NWD would be a critical factor to success in this GBA strategy.

5.4) Political Environment

In February 2023, the People's Bank of China allows offshore financial institutions to set up insurance holding companies in the Shenzhen Qianhai Modern Service Industry Cooperation Zone. This would transform the zone into a Hong Kong insurance sector's service center in GBA, which improve cross-border insurance activities.

Mainland Chinese customers are expected to have faster claims settlement through the service center, ‘Insurance Connect’, which further promotes insurance sector in Hong Kong. This also support FTLife extent its business into GBA.

5.5) Legal factors

The China Banking and Insurance Regulatory Commission (“CBIRC”) is the regulatory authority responsible for monitoring and maintaining the lawful and steady operation of the insurance and reinsurance industry. Insurance business must be conducted by insurance companies in accordance with relevant laws and regulations (Article 6, Insurance Law). All entities engaged in insurance business must be authorised or licensed by the CBIRC.

Currently, FTLife does not have a license in Mainland China. To establish an insurance company in Mainland China, it is subject to approval from the CBIRC, an application contains information about the name, registered capital, scope of proposed business, feasibility study report, preparatory plan, the investor's business licence and previous accounting reports, etc. and other documents specified under Article 70, Insurance Law should be submitted to CBIRC.

The principal shareholders of the insurance company must be able to sustainably make profits, have a good credit standing, have no record of material violation of laws or regulations in the previous three years, have a net asset value of at least CNY\$ 200 million; and comply relevant insurance and company law. The minimum registered capital of an insurance company is RMB200 million, which must be fully paid up in cash (Article 69, Insurance Law).

In addition, the proposed board of directors, supervisors, and senior management personnel must have good moral character, familiar with insurance laws and regulations in Mainland China, the management team should have abilities to perform their duties and have suitable insurance qualifications (Article 81, Insurance Law).

FTLife has to consider carefully regarding the above legal requirements and the associated cost if FTLife is to set up a licensed insurance company in Mainland China.

5.6) Commercial

Based on business data extracted from Statistics for Long Term Business available from of Insurance Authority, the premium data (include both regular premium and single premium) from eight major insurance companies are listed in the table below.

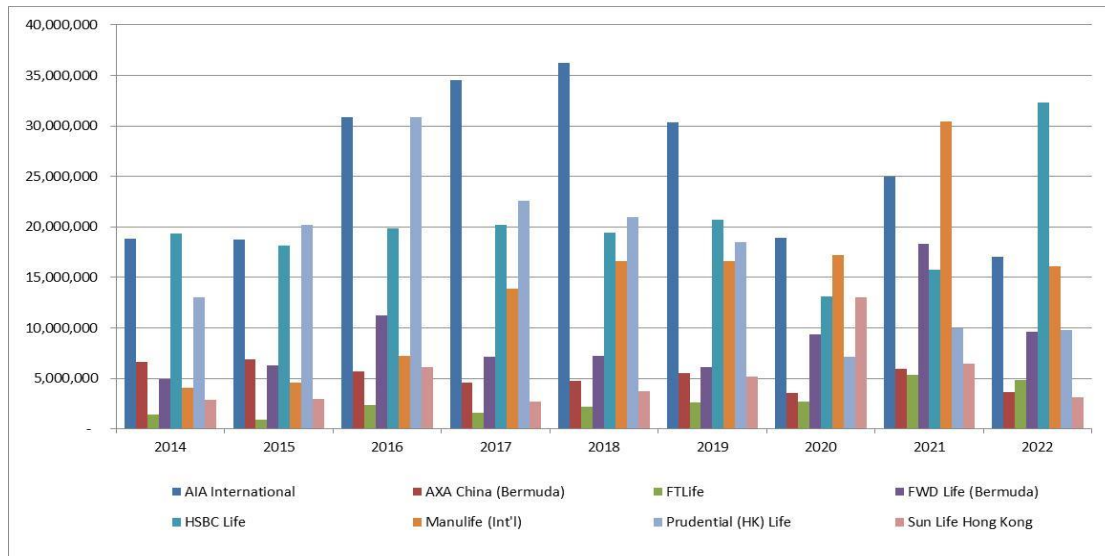


Figure 5 – Total Insurance Premium Data from 8 Major Insurers between 2014 to 2022 (Data extracted from website of Hong Kong Insurance Authority)

It is observed from the table that the total premium received from 2020-2022 were impacted by COVID. In particular, AIA and Prudential with high portion (over 50%) of its business coming from GBA customers pre-COVID were hit badly due to the closure of the Mainland China boarder.

The data below provide further analysis regarding the premium received from “Offshore Business”. Offshore refer to any policy where the policyholder does not have or disclose a Hong Kong identity card number, majority of these customers from GBA.

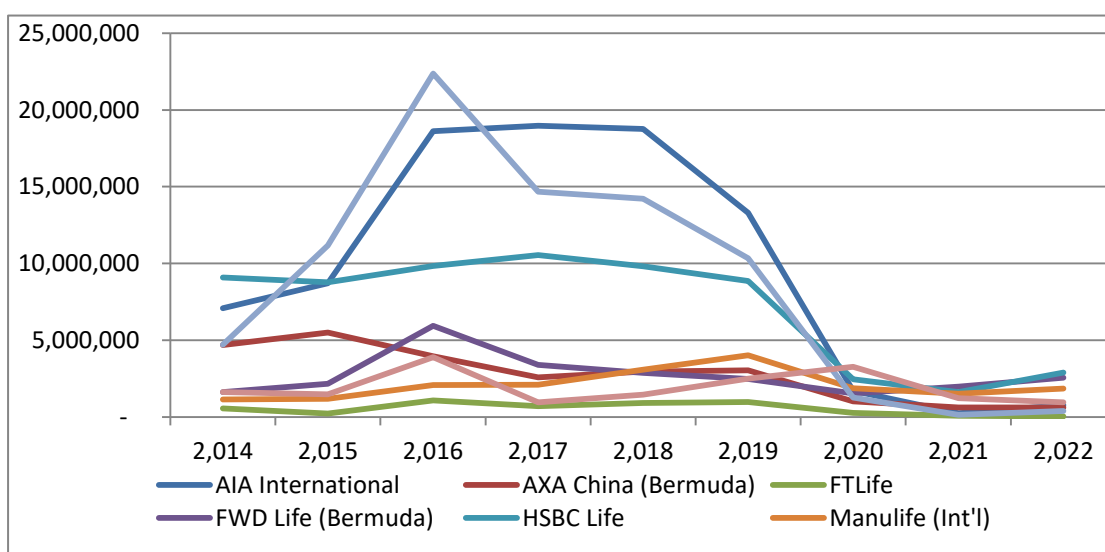


Figure 6 – Offsite Business Insurance Premium Data from 8 Major Insurers between 2014-2022 (Data extracted from website of Hong Kong Insurance Authority)

If FTLife can capture part of GBA business opportunities post COVID, that would be a significant growth potential for FTLife.

5.7) Others

Strategic External Audit would normally review the other factors such as economics, natural environmental social, cultural, demographic, and other competitive forces. In this scenario, the Mainland China Factor under section 5.1 and commercial data under section 5.6 has the biggest impact in the Strategic External Audit review, therefore other external factors are not review here.

6) Strategic Generation and Selection

6.1) SWOT Matrix (Strengths, Weakness, Opportunities and Threat)

The SWOT analysis is a useful tool to identify internal strengths and weaknesses, as well as external opportunities and threats in their operating environment, in order to formulate its strategies. The SWOT analysis below provides an analysis on the insurance business between Mainland China and Hong Kong Insurance Market:

	Mainland China	Hong Kong
Strengths	- Rising average family income - Many customers - Higher self-awareness on health and wealth protection - Support from government - Advance in development on insurance related technology	- Full range of insurance products - Good product innovation - Better customers protection - Higher investment returns - Access to international risk management technique and financial resource - Cheaper premium with better coverage and service
Weaknesses	- Slow product development process - Restriction on the premium level - Regulatory framework not well developed - Expansive premium and	- More restriction and regulations in an mature market - Limited local customers - No access to Mainland China's bank accounts directly due to capital

	limited coverage - Capital restriction	restriction rules
Opportunities	- Require new products with better return and coverage - Develop new sales channels (i.e. direct sales through internet) - Can push premium down when business size is big enough - Improve service - low insurance penetration	- Expand the market - Service as regional insurance hub - Move to digital process for better business opportunity and save cost
Threats	- Foreign insurance company - Capital outflow - Unprofitable business to support the government initiative - Regulatory reform with more rules	- Sustainable business growth - High development cost in insurance technology - Highly competitive market

Table 7 –The SWOT analysis regarding the Mainland China and Hong Kong Market

We further look at the SWOT Matrix below which focuses on FTLife to develop four types of strategies:

- SO (strengths-opportunities) strategies;
- WO (weaknesses-opportunities) strategies;
- ST (strengths-threats) strategies; and
- WT (weaknesses-threats) strategies

	<u>Strengths</u>	<u>Weaknesses</u>
	1. Strong Management Experience in Mainland China Project 2. Extensive network in Mainland China under NWD 3. Solid financial support from NWD 4. Full range of insurance product offering 5. Comparative pricing, higher	1. Weak FTLife brand awareness 2. Weak sales network in Mainland China under FTLife 3. Lack of system support on distribution and online service

	return and wider coverage 6. Faster pay out on claims	
<u>Opportunities</u> 1. Require new products tailored for GBA customers 2. Large GBA client base and low insurance penetration 3. Competitor's business fall due to COVID 4. Support from HKSAR Government on after-sales service centre	<u>SO strategies</u> 1. Use NWD existing branding and network in Mainland China (S1, S2, O1, O2,O3) 2. Set up a new / acquire existing insurance company in Mainland China (S3, O1, O2, O3) 3. Hire / Train new staff to support GBA business (S1, S5, S6, O2, O3) 4. Join the after-sales service centre (S4, S5, S6 O4) 5. Acquire existing major competitor (S3, O3)	<u>WO strategies</u> 1. Acquire/ partnership with existing distribution & sales networks (i.e. major bank in Mainland China) (W1,W2, O2,O3) 2. Engage in a major marketing campaign to increase brand awareness (W1, O2, O3) 3. Acquire/ partnership with existing IT company to provide distribution and on-line service solution (W3, O2,O3) 4. Go digital selling through internet (W2, W3, O2, O3) 5. Acquire existing major competitor with strong presence in GBA (W1,W2,W3,O3)
<u>Threats</u> 1. Tighter regulations 2. Highly competitive GBA market 3. GBA customer did not come to Hong Kong 4. Worse Claims experience	<u>ST strategies</u> 1. Lower price to gain market shares (S3,S4,S5,T2) 2. Set up a new / acquire existing insurance company in Mainland China (S1, S2, S3, T3) 3. Use reinsurance (S3, S5, T4) 4. Redesign the product for GBA customer (S4, S5, T4)	<u>WT strategies</u> 1. Only focus on local customers, but not GBA customers (W1,W2,W3. T2, T3)

Table 8 –The SWOT Matrix on FTLife to Extend its Distribution in GBA Market

6.2) The Grand Strategy Matrix

The Grand Strategy Matrix is another common tool for formulating alternative strategies. The Grand Strategy Matrix evaluates the competitive position (x-axis) and the market or industry growth (y-axis) in a two-dimension chart.

For FTLife's case, the insurance industry and also the company are having sales growth more than 5% annually, so it would be consider as having rapid growth. FTLife also has strong competitive position, in term of range of products being offered, innovation on products and support from NWD's network. These two factors would put FTLife under Quadrant I.

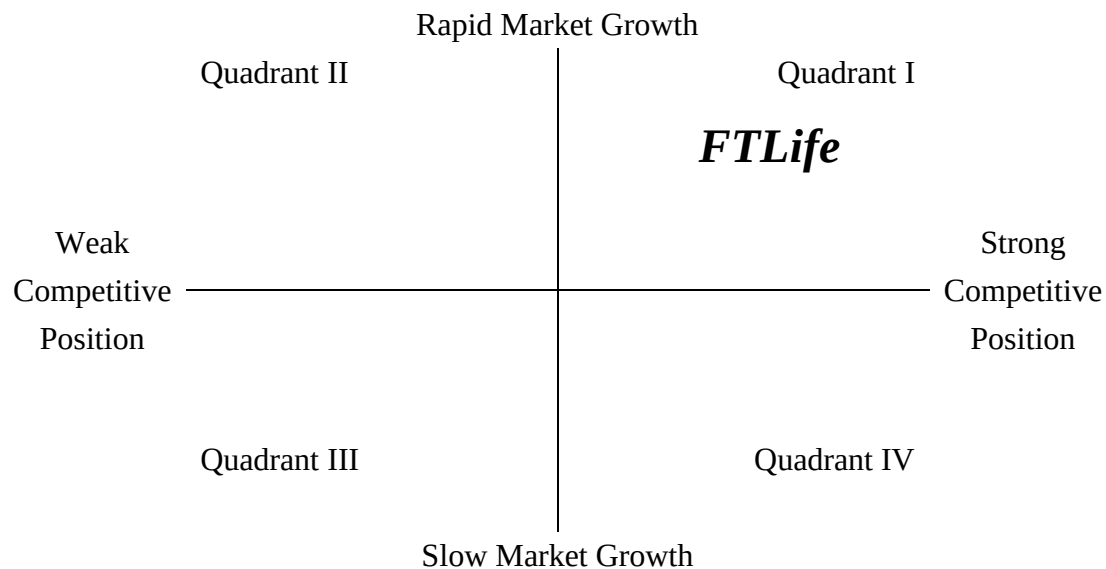


Figure 9 – The Grand Strategy Matrix for FTLife

Given that FTLife located in Quadrant I of the Grand Strategy Matrix, it represents an excellent strategic position for further development, and it allows FTLife to take advantage of external opportunities and affords taking extra risks aggressively when necessary. According to the Grand Strategy Matrix, the strategies available for FTLife to consider would include:

- (1) Market development
- (2) Market penetration
- (3) Product development
- (4) Forward integration
- (5) Backward integration
- (6) Horizontal integration and
- (7) Related diversification

FTLife may consider focusing on the development of GBA market through (1) market development, (2) market penetration or (3) product development. With the financial support and extra resource available from NWD, (4) forward integration, (5) backward integrations or (6) horizontal integration would also be effective strategies in this situation.

(7) Related diversification may not be applicable to FTLife because it already has a range of insurance products available; diversification to other financial products (e.g. banking products, security products, retirement products, fund products, etc.) would require extra regulatory approval to obtain the license. The diversification strategies would increase significant regulatory risk to FTLife.

6.3) Strategy Selection - Quantitative Strategic Planning Matrix (QSPM)

The QSPM is an analytical tool which is designed to weight the relative attractiveness of feasible strategy options alternative actions. The QSPM assigns score to key factors from strategic internal audit under Section 4 and strategic external audit under Section 5 as input, and evaluate the strategy options arising from SWOT Matrix and Grand Strategy Matrix in an objective manner.

		FTLife partners with GBA distributor(s) to promote FTLife’s products <u>(Forward Integration)</u>		FTLife / NWD acquires an GBA insurance company to capture GBA’s business opportunities <u>(Horizontal Integration)</u>		Use NWD’s brand name to attract GBA’s customers to buy insurance products from FTLife <u>(Market Development and Penetration)</u>	
Key External Factors	Weight	AS	TAS	AS	TAS	AS	TAS
➤ Opportunities							
- Require new products tailored for GBA customers	0.1	3	0.3	1	0.1	2	0.2
- Large GBA client base and low insurance penetration	0.3	4	1.2	4	1.2	4	1.2
- Competitor’s business fall due to COVID	0.05						
- Support from HKSAR Government on after-sales service centre	0.05	1	0.05	1	0.05	3	0.15
➤ Threats							
- Strength Tighter regulations	0.1						
- Highly competitive GBA market	0.25	3	0.75	2	0.5	3	0.75
- GBA customer did not come to Hong Kong	0.1	1	0.1	1	0.1	4	0.4
- Worse Claims experience	0.05						

TOTAL	1						
Key Internal Factors							
➤ Strengths							
- Strong Management Experience in Mainland China Project	0.05	2	0.1	3	0.15	1	0.05
- Extensive network in Mainland China under NWD	0.2	1	0.2	1	0.2	4	0.8
- Solid financial support from NWD	0.1	3	0.3	4	0.4	1	0.1
- Full range of insurance product offering	0.05	3	0.15	2	0.1	3	0.15
- Comparative pricing, higher return and wider coverage	0.05	3	0.15	2	0.1	4	0.2
- Faster pay out on claims	0.05						
➤ Weaknesses							
- Weak FTLife brand awareness	0.2	1	0.2	1	0.2	4	0.8
- Weak sales network in Mainland China under FTLife	0.2	1	0.2	1	0.2	4	0.8
- Lack of system support on distribution and online service	0.1	3	0.3	1	0.1	2	0.2
TOTAL	1		4		3.4		5.8

AS = Attractiveness Scores (with 1 means “not attractive” vs 4 means “highly attractive”).

TAS = Total Attractiveness Scores (equal to Weight x AS)

Table 10 – The Quantitative Strategic Planning Matrix for FTLife

From the result above, it is suggested that FTLife should adopt market development and market penetration strategy (i.e. make use of NWD’s brand name and network to attract GBA’s customers to buy insurance products from FTLife), this also aligns with SO strategy – Use NWD existing branding and network in Mainland China and WO strategy - Engage in a major marketing campaign to increase brand awareness under section 6.1 of the SWOT Matrix analysis.

7) Implementation of Selected Strategic Options

7.1) Strategic Marketing Issues

From Section 6, FTLife is recommended to adopt market development and market penetration strategy to extend its distribution in GBA. There are some suggestions on the strategic marketing areas to be considered:

1. Utilize the brand name of NWD and the network (e.g. property development site, hotel, shopping mall, toll road in Mainland China, 4100 points of sales under in Chow Tai Fook Jewellery Group, 17 hotels in GBA and Southeast Asia, etc.) to increase FTLife's brand awareness for insurance products. This can keep the marketing cost down as well.
2. Make use of the cross-sell opportunities between NWD and FTLife (e.g. offer free FTLife product to GBA's customers when they buy a NWD property).
3. Intergrade FTLife products into the ecosystem of NWD in GBA business model (e.g. offer discounted healthcare service provided NWD or its service providers when GBA's customers buy FTLife products).
4. Partner with NWD's existing business partners or service vendors to market FTLife's product through joint campaign, sponsorship program or customer referral program.
5. Make insurance product advertisements more interactive and communicate effectively to target customers in GBA.
6. Use popular social media platforms (e.g. Douyin, Xiaohongshu (Little Red Book), WeChat, TikTok, etc.) to market FTLife's brand, products and services.
7. Consider multiple channels distribution through banks, broker, agents and internet direct selling on FTLife's products.
8. Set up the marketing plan on the choice of advertising platform (e.g. television, radio or internet, public transports, etc.).
9. Encourage multiple purchases of FTLife's products from single GBA customer or repeated business (e.g. through offer product discount and personal / expressed services, etc.).
10. Provide attractive compensation / incentive structure on FTLife's sales team.
11. Engage customer's discussion on FTLife's products and service.
12. Review the segmentation of GBA's customer markets and apply different marketing approach, if applicable.

13. Make adjustment on FTLife's product positioning and perceptual mapping for GBA customers.

7.2) Strategic Finance /Capital Issues

The current market development and market penetration strategy is unlikely to have major impact on the company structure or capital of FTLife or NWD. However, the strategy implementation should prepare financial budgets, and evaluating the effectiveness of various actions in the strategy. Here are issues related to finance and capital should be considered during implementation:

1. FTLife is unlikely to raise capital to support the above market campaigns or sales promotions.
2. Through the collaboration with NWD on marketing programme, FTLife is unlikely has to purchase high value fixed assets.
3. Prepare the projected financial statements (including additional cost on new headcounts, marketing cost, etc.) and understand the expected impacts on FTLife Profit and Loss account and Balance Sheet during different stage of strategy.
4. Development internal budget plan on cost and sales target.
5. Access the internal rate of return of capital and payback period, if applicable.
6. Review the need of extra capital to cover the new sales to meet the regulatory solvency margin requirement for insurance products.

7.3) Strategic Product Development Issues

The on-going product development plays an integral part in strategy implementation stage. FTLife should continue develop new products and improve the benefits/coverage of existing products effectively. FTLife should enhance its coverage by including medical technology and treatments in its medical products to improve customer experience. In general, the product development cost for insurance products is considered as low. FTLife should position itself as market leader for products innovation to enhance its competitiveness. .

1. Emphasize the new product features/coverages (product differentiation).
2. Simplify the sales process and improve after sales service.
3. Compare FTLife with other major competitors on the range of the products and its coverages limits.
4. Position itself as market leader for products innovation.
5. Consider partnership with NWD for join-product development to capture new ideas and new market segment.

6. Leverage of the product trend, product data and lesson from reinsurance companies.
7. Decide the level of reinsurance retention limit (i.e. how much risk should outsource to reinsurer(s)).
8. Use the marketing data (e.g. age group, preference, target spending on insurance premium, expected coverages/ investment return, etc.) and actual claims data (e.g. age, claim reasons, claims amount, duration of the policy before claims, etc.) to improve the product development result.
9. Monitor the market investment returns and new financial instruments to enhance product yield.
10. Review the profit margin take into account the termination, claims and other fixed costs.
11. Shorten the end-to-end process for product development to increase the market share.

7.4) Potential Barriers and Issues

While there are opportunities for FTLife to extend its distribution in GBA market, there are also several barriers that it has to address or resolve. Some of these barriers are shown below:

- **Regulatory Hurdles:** If FTLife is distributing insurance product inside GBA market, it must comply with relevant regulations from CBIRC, in addition to the regulations in Hong Kong. Each jurisdiction has its own unique regulatory framework, it is a complex, costly and challenging process for FTLife to operate insider GBA.

Instead of getting insurance licensed directly in GBA, other major competitors have a well-established referred model. The referrer (in this case NWD or other business partner) can provide FTLife brand information to GBA customers, the interested customers can come to Hong Kong. The product information will only provide to GBA customers when they are arrived in Hong Kong. For some high-end GBA customers, FTLife may consider provide transportation (or reimburse the cost of air-tickets) to them. The entire sales process must be conducted in Hong Kong, and it should be proper documented to ensure the compliance of relevant regulation. Please refer to Section 5.2 and 5.4 for more details.

FTLife should also handle cross-border payment carefully. There is a capital restriction limit of RMB\$ 50,000 per person per year if a person intends to

transfer the money outside the Mainland China, proper registration with the China's central bank is required if the limit is exceeded. One solution is to support GBA customers to open a bank account in Hong Kong, otherwise, the customers can pay it through other on-line channels or international credit cards.

- **Cultural differences:** GBA customers come from diverse cultural and linguistic backgrounds with different financial and protection needs. GBA also has many growing businesses, which would have unique insurance needs. Insurance products that are popular in Hong Kong may not be as popular in GBA.

FTLife should navigate these differences and tailor specialized products and services to meet the needs of each market, differentiate themselves from other competitors and capture market share. FTLife should review its product offerings and adjust the product design with update marketing data. Please refer to Section 7.1 and 7.3 for more details.

- **Competition:** There are large local insurance companies in GBA area (e.g. Ping An Insurance and China Life Insurance), as well as major competitors from Hong Kong (e.g. AIA, Prudential, Manulife, etc.). Given that FTLife does not have an existing customer base or brand recognition in GBA region, it has to find its competitive edges to compete with these established players.

With an aging population and rising healthcare costs, there is a growing demand for health insurance in GBA. FTLife should offer innovative and affordable health insurance products to capture market share in this growing market. In addition, GBA has large and growing middle class and high-net-worth individuals, FTLife can offer wealth management products and services in this area to capture market share in this lucrative market.

As covered in the SWOT Matrix under Section 6.1, FTLife should further enhance its brand awareness among GBA customers and sales network in GBA, as well as the system support on online service, in order to implement the market development and market penetration strategy. Please refer to Section 7.1 and 7.3 for required actions.

- **Talent Pool:** Insurance is a special financial product which requires a skilled workforce to operate successfully. GBA is a competitive job market, FTLife will

face challenges in attracting and retaining top talent for marketing operations and coordination with NWD.

Given that NWD is well established in GBA region, one possible solution is to second / assign the FTLife marketing tasks to existing NWD staff and/or management in GBA. This solution has the advantage of keeping the overhead cost low, and having the local expert to execute GBA marketing work and coordination work in an effective manner.

- **Technology and Digital transformation:** GBA customers have high expectation on on-line functions to be provided by the insurance company. From submitting application, receive notifications, after sales service to claims payment.

FTLife would require undergoing significant digital transformation. Suitable expertise (e.g. infrastructure, software engineer, customer experience, artificial intelligence, machine learning, and block-chain, etc.) is required to implement new technologies to streamline operations, improve customer service, reduce costs and keep remain competitive. One possible solution is to partner with a fintech firm in GBA, it understands the expectations from GBA's customer, which can offer innovative technology and services to FTLife for personalized insurance solutions.

Overall, GBA presents significant opportunities for FTLife if it can navigate the regulatory, cultural, and competitive, talent and technology challenges of the market. This is vital for FTLife to capture the market share after the broader re-opening in February after COVID and grow their business in this dynamic region.

8) Recommendations and Conclusions

FTLife's Vision Statement (under Section 3) is "Think beyond insurance". It is the first in the market to introduce the concept of health management, and launched the "Health Manager" platform to help its customers stay healthy and fit. FTLife also leverage on NWD's ecosystem to include Gleneagles Hospital Hong Kong and HUMANSA (healthcare centre under NWD) and other business units, to provide even more premium, innovative medical, health management, regular health workshops and wellbeing services (FTLife Corporate Profile, 2022).

Through further integration and collaboration with NWD, FTLife can leverage on the synergy of NWD's business ecosystem, and work proactively to tap into the interconnectivity NWD's GBA network (e.g. 4,100 points of sales under in Chow Tai Fook Jewellery Group, 17 hotels in GBA and Southeast Asia, etc.). With this, FTLife can achieve potential GBA business synergies in aspects like customer resources, area network, marketing, product development, service innovation, laying a stronger foundation to uplift FTLife's business profile in GBA and core competitiveness, which can fuel its long-term growth in both Hong Kong and GBA. This also ties with FTLife long-term strategy "deep roots in Hong Kong, integration with Mainland China and expansion throughout Asia".

This essay provide a clear strategic direction (i.e. partnership with NWD and adopt Market development & Market penetration strategy) to FTLife to extend its distribution in GBA. With the strong management, competitive products, optimised operational processes, proper controls and compliance, FTLife should be able to achieve strong growth that can exceeding the industry average in the next decade.

Reference

- Colliers (2019). Insurance connect – A win-win initiative for insurance in the GBA. Available at: <https://www.colliers.com/zh-hk/news/insurance-connect-a-win-win-initiative-for-insurance-in-the-gha> [Accessed: 10 April 2023]
- David, Fred. R, David, Forest. R. (2017), Strategic Management: Concepts and Cases, 16th Edition. Person.
- FTLife (2022). FTLife Insurance Company Limited Financial Condition Report (2022) Available at: https://www.ftlife.com.hk/en/about-FTLife/FCR_30_June_2022_EN.pdf [Accessed: 10 April 2023]
- FTLife (2021). Press Release: FTLife welcomes Mr Joe Cheng as Chief Executive Officer. Available at: <https://www.ftlife.com.hk/en/about-FTLife/FTLife-welcomes-Mr-Joe-Cheng-as-Chief-Executive-Officer-EN.pdf> [Accessed: 10 April 2023]
- FTLife Announces New Shareholder (2018). NWS Holdings to Acquire 100% Equity Interest in FTLife to Generate Greater Synergies in Value Growth. Available at: <https://www.ftlife.com.hk/en/about-FTLife/FTLife-Announces-New-Shareholder.pdf> [Accessed: 10 April 2023]

FTLife Corporate Profile (2022). Available at: <https://www.ftlife.com.hk/en/about-FTLife/company-information-corporate-profile.pdf> [Accessed: 10 April 2023]

Hong Kong Government (2022). Government issues Development Roadmap for the Insurance Sector in Hong Kong. Available at: <https://www.info.gov.hk/gia/general/202212/05/P2022120400606.htm?fontSize=1> [Accessed: 10 April 2023]

Hong Kong Tourism Board (2023). HKTB Announces Provisional Visitor Arrivals for March. Available at: <https://www.discoverhongkong.com/content/dam/dhk/intl/corporate/newsroom/press-release/hktb/2023/04-Mar-Visitor-Arrivals-E.pdf> [Accessed: 10 April 2023]

Insurance Authority (2023) Presentation by Insurance Authority Guy Carpenter 2023 CEO Forum. Available at: https://www.ia.org.hk/en/infocenter/files/Guy_Carpenter_2023_CEO_Forum.pdf [Accessed: 10 April 2023]

Insurance Authority (2023). Register of Authorised Insurers. Available at: https://www.ia.org.hk/en/supervision/reg_insurers_lloyd/files/F3394.pdf [Accessed: 10 April 2023]

New World Development Company Limited (2023). Available at: <https://www.nwd.com.hk/> [Accessed: 10 April 2023]

OliverWyman (2023). Survey: Nearly Half Of Mainland Consumers Interested In Purchasing Life Insurance In Hong Kong. Available at: <https://www.oliverwyman.com/media-center/2023/mar/survey-mainland-consumers-interested-in-life-insurance-hongkong.html> [Accessed: 10 April 2023]

SCMP (2023). Manulife's GBA survey shows the need to close the 'protection gap'. Available at: https://www.scmp.com/presented/business/topics/china-conference-hong-kong/article/3214263/manulifes-gba-survey-shows-need-close-protection-gap?utm_source=Publicate&utm_medium=email&utm_content=...&utm_campaign=Manulife+News+Update_March+28%2C+2023 [Accessed: 10 April 2023]

Shek, A., Chan, E., Lee J., Ye, J., Peng, J. (2023). McKinsey Survey: The Return of the Greater Bay Area Traveler to Hong Kong. Available at: <https://www.mckinsey.com/cn/our-insights/our-insights/the-return-of-the-greater-bay-area-traveler-to-hong-kong> [Accessed: 10 April 2023]

Statista (2021). Market share of life insurance companies in Hong Kong in 2021, based on the premium income of new business. Available at: <https://www.statista.com/statistics/1228634/hong-kong-market-share-of-life-insurance-companies/> [Accessed: 10 April 2023]

Swiss Re (2021). Health and medical insurance in China's Greater Bay Area, Survey findings from the Hong Kong and Guangdong markets.

- Tang, Ye (2022). The Difference between Hong Kong Insurance and Mainland China Insurance, SHS Web of Conferences 154.
- Tong (2022). Hong Kong Insurers Step Up to Seize Opportunities in Greater Bay Area, Insurance. Asia Available at: <https://insuranceasia.com/insurance/commentary/hong-kong-insurers-step-seize-opportunities-in-greater-bay-area> [Accessed: 10 April 2023]
- Wang, Fangran (2023). Chinese Mainlanders' Buying of Insurance in Hong Kong to Return to Pre-Pandemic Level in 2024. YiCai Global. Available at: https://www.yicai.com/news/chinese-mainlanders-buying-of-insurance-in-hong-kong-to-return-to-pre-pandemic-level-in-2024-insiders-say?utm_source=Publicate&utm_medium=email&utm_content=...&utm_campaign=Manulife+News+Update_April+12%2C+2023 [Accessed: 10 April 2023]
- Zhang, Y., Liu, J., Hou, C. (2021). Comparative Analysis of Chinese Mainland and Hong Kong Insurance Products and the Prospect of Insurance Industry, Journal of Finance Research, Volume 05, Issue 02.