Culture, state and varieties of capitalism: a comparative study of life insurance markets in Hong Kong and Taiwan

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Abstract

This article examines the interplay between local culture, the state, and economic actors’ agency in producing variation across markets. I adopt a political–cultural approach to examining why life insurance has been far more popular in Taiwan than Hong Kong, despite the presence of a cultural taboo on the topic of premature death in both societies. Based on interview data and documentary references, the findings reveal that as an independent state, the Taiwanese government heavily protected domestic insurance firms during their emergence. These domestic firms adopted a market-share approach by re-defining the concept of life insurance to accommodate the local cultural taboo. The colonial Hong Kong government, on the other hand, adopted laissez-faire policies that essentially favoured foreign insurance firms. When faced with the tension between local adaptation and the profitability of the business, these foreign firms chose the latter. Their reluctance to accommodate local cultures, however, resulted in a smaller market. I argue that state actions mediate who the dominant economic players are and that the nature of the dominant players affects the extent of localization. Specifically, the presence of competitive domestic players alongside transnational corporations is more likely to produce varieties of capitalism.

Keywords: Culture; state; globalization; localization; varieties of capitalism; insurance; Asia

Introduction

The literature on the importance of local histories, institutions, states, and cultures in forging divergent capitalist trajectories is burgeoning (e.g., Dore 1983, 2000; Hall and Soskice 2001; Guillen 2001; Amable 2003; Campbell 2004; Prasad 2006; Gorringe and Rosie 2008). While anthropological studies have
shown the critical role of local culture in constituting variation in market behaviours (Appadurai 1996; Hefner 1998), comparative political analyses have asserted the centrality of state action in forging a divergence of capitalist activity (Dobbin 1994; Boyer 1996; Lane 2000; Montanari 2001). Applying a political–cultural approach, this article brings together two apparently distinct factors – culture and the state – to understand how they interact with economic actors’ strategies in producing variations in market trajectories. In doing so, it sheds light on how varieties of capitalism are possible in the age of globalization.

This study was triggered by an empirical puzzle: Ordinary life insurance in Hong Kong has never been as popular as it has been in Taiwan, despite Hong Kong’s stronger economy and lack of social insurance. For example, in 1997, ordinary life insurance premiums accounted for only 1.7 per cent of Hong Kong’s GDP (compared to 4.8 per cent in Taiwan); and the proportion of the number of policies in force in relation to the total population in Hong Kong was only 52.9 per cent (compared to 74 per cent in Taiwan). This article examines the underlying causes for this intriguing outcome, drawing data from various sources. The largest set of data presented is based on my own interviews and participant observations, as well as insurance associations’ publications. I conducted 20 face-to-face interviews (9 sales agents, 4 managers, and 7 clients) in Hong Kong from 2002–2008 and 25 interviews (12 telephone and 6 face-to-face interviews with sales agents, and 7 face-to-face interviews with clients) in Taiwan from 2007–2008. The sales agents and managers in Hong Kong came from five different insurers. The agents in Taiwan came from six insurers, half of which were half domestic and half foreign. All interviews lasted for one to two hours. In addition, I conducted participant observations in the agency offices of one of the insurers in Hong Kong, and two of the insurers in Taiwan in August 2005 and December 2008, respectively. Newspaper articles and dissertations on related topics also provided part of the data.

My findings illustrate that the general public in both societies refused to accept the risk management concept of life insurance, due to a shared cultural taboo on the topic of premature death and fatal misfortunes. Nevertheless, the laissez-faire stance of the colonial government in Hong Kong resulted in the dominance of foreign insurers, who strove to lift the local cultural taboo in order to create a profitable risk management life insurance market. Insurers’ reluctance to accommodate the local taboo resulted in a relatively small market. In contrast, protectionist policies exercised by the Taiwanese government boosted the dominant position of domestic insurers, who largely observed the local taboo by re-defining the concept of life insurance from managing unexpected misfortunes, to savings for the living. This re-definition fit local preferences, resulting in a large money management life insurance market. I argue that dominant economic actors’ responses to local cultures are critical in shaping the features of local markets. Who these key economic
players are, however, is mediated by state action. National policies, laws, and regulations greatly affect the presence or the absence of domestic economic players, as well as the relative competitiveness of these players. The presence of competitive domestic actors is more likely to produce varieties of capitalism.

Moreover, my findings reveal that foreign and domestic insurers in Hong Kong and Taiwan displayed the same pattern of strategic choices. This finding highlights two missing variables in the current debates on varieties of capitalism. First, economic actors’ strategic preferences can have an exogenous source and, thus, local environment’s influence on firms’ strategic choices may vary (see Allen 2004 for comments on Hall and Soskice 2001). Foreign insurers in both Hong Kong and Taiwan promoted risk management products despite local taboos, mainly due to their aversion to risk and the profit-oriented institutional logic, both of which are exogenous to local conditions (though how to be profitable is locally sensitive). Second, local consumers and the features of products matter in shaping local markets. As we will see, foreign and domestic insurers’ different responses to consumers’ preferences in product development resulted in different market sizes and trajectories. This challenges the production market approach that tends to trivialize the impact of consumers’ tastes and demand on firms’ strategic decisions (White 1981).

In the following sections, I elaborate on the puzzle concerning the different degrees of popularity of life insurance in Hong Kong and Taiwan. The inadequacy of economic and social insurance explanations for the divergence is discussed, and the political–cultural perspective is introduced. Next, I present the cultural resistance to risk management life insurance products in both societies, briefly elaborate on how such resistance is rooted in the Chinese concepts of life and death, and analyse how this resistance is incompatible with the profitability of life insurance. Then, I compare the state policies, insurance players in the field, and the prevailing products that constitute the characteristics of the two Chinese markets. The implications of this study for debates on globalization and varieties of capitalism are presented in the conclusion.

**Puzzles and theoretical tools**

Although commercial life insurance was first brought to the Chinese population by the British in the mid-nineteenth century, it remained unpopular for more than a century (Chan 2012). It was not until the 1980s that it began to take off in Hong Kong and Taiwan. Official figures on Hong Kong’s growth prior to 1991 are not available, and different sources of literature deploy different methods of calculation. Still, the consensus is that the life insurance business in both Hong Kong and Taiwan increased at least five-fold from the mid-1980s to the mid-1990s (Li, Duberstein-Lindberg, and Lin 1996; Sun and Affleck 2000; Yu 1997; Hwang 2001). Nevertheless, the popularity of life insurance in Hong Kong has been low, especially compared to Taiwan. The
The prevalence of ordinary life insurance can be measured in terms of ‘insurance penetration’ (premium as a percentage of GDP) and ‘penetration rate’ (number of policies in force as a percentage to the total population). Figure I illustrates that these indicators in Hong Kong have consistently been lower than those in Taiwan.

In terms of economic and social welfare arrangements, it is puzzling why life insurance has been far less popular in Hong Kong. First, the real per capita income in Hong Kong by 1984 had already reached US$3,643, trailing only Japan in the Asia-Pacific region (Collins 1991). By the early 1990s, Hong Kong’s per capita wealth ranked among the top of developed economies, even surpassing its colonizer Britain. Second, Hong Kong’s impressive economic performance was coupled with meager social welfare. Social insurance in Hong Kong has always been based on a poverty-relief model, rudimentary in both
scope and coverage. In the early 1990s, the survivor benefit for dependents upon death was less than two and a half months’ average earnings. At the same time, only about 30 per cent of the private sector workforce was covered by voluntary retirement schemes (Hwang 2001). Families, mostly in nuclear form, were exposed to high levels of financial uncertainty in cases of unexpected deaths.

Taiwan, on the other hand, was economically less well off, but its population enjoyed more comprehensive social insurance coverage. Per capita wealth in Taiwan in the mid-1980s was less than half of that in Hong Kong (Collins 1991). A national labour insurance scheme, however, was put in place in the 1950s to offer benefits related to illness, accidents, retirement, and death. In the early 1990s, about 90 per cent of the private sector labour force was covered by this scheme. Upon death, dependent survivors could receive up to 35 months average earnings (Hwang 2001).

According to an economic or ‘risk society’ (Beck 1992; Giddens 1990) hypothesis, commercial life insurance should have penetrated to a larger extent into Hong Kong. Furthermore, Hong Kong had the largest number of insurers in Asia (279 in 1987), and held over one-third of the world’s largest insurance companies. In contrast, Taiwan had only eight locally formed life insurers by 1986 (Lai 1991; Hwang 2001). Yet intriguingly, Taiwan’s life insurance market in terms of premium volume ranked third in Asia in 1997, only behind Japan and South Korea’s (Almanac of China’s Insurance 1999:1169). Why was life insurance less developed in wealthy Hong Kong in the presence of world-class insurance players? Moreover, why did it develop so impressively in Taiwan?

Viviana Zelizer was the first to reject a purely economic explanation for the development of life insurance, and instead introduced a cultural interpretation. Questioning why the American life insurance industry did not develop before the mid-nineteenth century, despite favourable economic conditions, Zelizer (1978, 1979) argues that the peculiar logic of life insurance, namely, ‘pricing human life’, was incompatible with American societal cultural values and, thus, life insurance was confronted by strong cultural resistance. Since the 1840s, however, a change in societal cultural values, particularly an increasingly rationalized speculation on risk and an awareness of the economic loss of death, made the public more receptive to life insurance. Cultural values, therefore, could impede or facilitate the growth of life insurance.

Based on Zelizer’s insights, Chan (2009a, 2012) analyses why the life insurance business has been growing rapidly in mainland China, despite the local cultural taboo on talking about premature death. When confronted with cultural resistance, Chinese insurers re-defined the concept of life insurance to money management. The re-definition was well received by the public, and life insurance first emerged as a money management vehicle. Chan’s analysis brings in another dimension of culture, namely culture as a tool-kit (Swidler
1986) or a repertoire (Lamont and Thevenot 2000), to understand the dynamics of life insurance development. The impressive growth of life insurance in China is attributed to local economic agents’ mobilization of the tool-kit properties of culture to get around the local resistance.

These findings about life insurance in China prompted the current comparison of Hong Kong and Taiwan – two Chinese societies that supposedly share similar cultural values. Likewise, they share part of the cultural tool-kits found in mainland China. Why, then, is life insurance far more popular in Taiwan than in Hong Kong?

Despite the importance of culture in shaping economic practices, the work of ‘culture’ is not automatic (Whitley 2004). Instead, it works through various actors in a specific institutional environment, in which the regulatory action of the state is a prime constitutive force (Lehrman 1994; Guseva 2008). Hence, I adopt a political–cultural approach to analysing why disparity is found in two Chinese markets that share the same cultural traditions. As proposed by Fligstein (2001), this approach construes markets as social constructions that reflect the unique political characters and cultural understandings of firms and nations. In Fligstein’s (2001:98) words, the development of market institutions in each capitalist society ‘hinges on the relative power of capitalists, workers, politicians, and state bureaucrats to lay down and enforce market institutions’.

While insightful and widely applicable, contemporary applications of the political–cultural approach are often state-centered, highlighting the omnipotence of local states in creating and defending locally-tailored market institutions (Gourevitch 1996; Lane 2000). The cultural part has been less developed. Furthermore, as Fligstein (2001) himself acknowledges, the cases he and others relied on to develop their arguments were mostly strong cases, with independent states in Europe, North America, and Japan. Its application to developing countries with weak or postcolonial states requires empirical scrutiny. In this study, I highlight the role of local culture in shaping markets, and the difference in outcomes when transnational enterprises interact with a strong local state vis-à-vis one with a colonial state. It extends the application of the political–cultural approach to globalization and varieties of capitalism outside Euro-American continents.

**Cultural resistance and the insurers’ dilemma**

In Chan’s study of life insurance sales in mainland China, she reports a pervasive cultural taboo on thinking and talking about premature death and fatal misfortunes among the Chinese (Chan 2009b, 2012). The root of the cultural taboo, Chan (2012) suggests, can be traced to the Chinese concepts of life and death from Confucianism, folk Buddhism, and folk Taoism. Confucianism contributes to the taboo first by avoiding the topic of death in its teaching. As death has
always been a mystery for the populace, the avoidance of the topic further mystifies and intensifies the general fear surrounding it. The ‘unknown subject’ is then left to the influence of folk Buddhism and Taoism, taking on a dreaded and terrifying image. Folk Buddhism breeds the idea of a ‘cruel hell’ and a cold ‘dark world’ after death. Folk Taoism differentiates the meanings of ‘dying after living a full life’ from that of ‘dying prematurely’, defining the latter as spiritually dangerous and describing the deceased of a premature death as a ‘hungry ghost’. These horrifying notions of death have constituted an ingrained cultural taboo among the Chinese, especially on premature death. Furthermore, the Chinese define a ‘good life’ and ‘good death’ in a way incompatible with the ideological logic of life insurance. A ‘good life’ for the Chinese involves improving one’s life quality as one grows older; and a ‘good death’ refers to living a comfortable life toward the end of life and dying after a full life. As risk perception is socially constructed (Douglas and Wildavsky 1982), the taboo on premature death, together with the notions of ‘good life’ and ‘good death’, organize a selective inattention to fatal risks. This selective inattention can be best described as ‘subjective immunity’ (Douglas 1985) that puts premature death out of the cultural schematic frames (DiMaggio 1997) of most Chinese.

The prevalence of the cultural taboo on premature death is also found in Hong Kong and Taiwan. Life insurance sales agents in both societies reported that people ‘do not want to talk about bad things’, and ‘they don’t like products without monetary returns while they are alive’. Prospects in Taiwan perceived insurance products for managing unexpected death as ‘a waste of money’, and those in Hong Kong felt that they were ‘not worth it’. If the topic of ‘death’ is touched upon at all, it is to refer to ‘mature death’ in old age, not unexpected early death. The products they favour, therefore, are those that make payments while they are alive, namely money management insurance products like whole life with endowment or annuities for savings purposes.6

The local preference for money management products, however, is incompatible with the profitability of commercial life insurance. As insurance is an exchange of money now for money payable contingent on the occurrence of certain events in the future (Arrow 1971), this commodity requires a specific logic of operation to make profits and capital accumulation possible. The basic principle on which insurance operates is a probabilistic calculation of risk. For traditional risk management insurance products (typically term life, whole life, accident insurance, health insurance, and critical disease insurance), profits mainly derive from the profit margins that are calculated upon death and casualty rates. For money management products (typically products with savings and investment functions, such as endowment or annuity insurance, participating policy, and variable life), profits principally come from the investment returns of premiums. The profitability of money management products, thus, relies more on the investment environment, which is often less predictable. Moreover, defining life insurance as primarily a money management instrument
undermines insurance’s unique function of managing casualties that other financial institutions cannot provide. It has to compete with the existing money management establishments such as savings banks, government bonds, and the stock markets (Post 1976), and insurers would have to offer products with relatively low profit margins (Wong 2001). This is especially the case when life insurance is new to a population which does not recognize the value of its risk management function. Insurers must set an appealing interest rate to compete with banks. This is risky for insurance providers, because if their long-term products meet with substantial decreases in interest rates, they could suffer from significant losses. This is exactly what happened to domestic insurance firms in China that began their business with money management products (Chan 2012). Therefore, as a former financial manager of HSBC’s life business remarked, for the sake of profitability it is in the best interest of insurers to define life insurance primarily as risk management (for a specific niche in a new, unsaturated market), and secondarily as money management (for diversification purposes in a mature market). This has been the trajectory followed in Britain and the USA, where the popularity of life insurance began with policies insuring against death before it moved into money management policies (Zelizer 1979; Pearson 1990; Clark 1999; Alborn 2002, 2009).

Under typical circumstances, market share yields profits. However, when the products local people want (i.e. savings plans with attractive interest rates) are potentially loss-inducing, a large share in the market will not result in large profits. This tension between local preferences and profitability forced life insurers to essentially choose between market share and profits. Chan (2012) found that foreign and domestic insurers in China displayed a pattern of difference in their choices. Foreign players adhered to a profit-oriented model whilst domestic players adopted a market-share model. As each model bears a specific institutional logic that constitutes a set of assumptions and routines to direct the attention of decision makers (Douglas 1986; Friedland and Alford 1991), adopting either approach results in significantly different organizational and marketing strategies.

As I will discuss below, local and foreign firms in Hong Kong and Taiwan display the same disparity in their strategic choices as do those in China. However, mediated by differing state policies, the life insurance fields in these two societies came to be dominated by different players who, consequently, produced different market trajectories.

**State attitudes and policies**

*An invisible hand through the market in Hong Kong*

As a British colony from 1842 to 1997, Hong Kong’s economy had always been governed by a laissez-faire model. Although life insurance firms had been on
the island since the late nineteenth century, no particular governmental unit was in charge of overseeing or supervising the insurance industry prior to the 1980s (Lee 1969; Chan and Fung 1986). Due to low barriers and lack of regulation, an extraordinarily large number of commercial insurers sprang up in the 1950s and 1960s. By 1971, there were already 214 insurers, out of which about one-fifth wrote life policies (Yeung 1990). About two-thirds of these life insurers were foreign firms (Lee 1969).

Nevertheless, Hong Kong’s economy had not yet taken off prior to the 1980s. Foreign insurers opened satellite offices in Hong Kong simply because the economic and political setup cost was low. The mainstay of their business was in their home countries, where the insurance industry was booming. Very few of them made real efforts to create a market in Hong Kong. American International Group, Inc. (AIG)’s subsidiary American International Assurance Company, Ltd. (AIA) and the Canadian-based Manulife Insurance Company, Ltd. (Manulife) were among the few who did attempt to develop this new market. These two foreign insurers offered life products in Hong Kong early on, though their clientele was limited to the relatively small westernized segment of the middle class prior to the 1970s (Feng and Kau 2010), leaving the wider public to be the target of the domestic firms during the 1950s–1970s.

Three domestic insurers, including Sincere Life Assurance Company, Ltd. (Sincere), Wing On Life Insurance Assurance Company, Ltd. (Wing On), and China Underwriters Life and General Insurance Company, Ltd. (China Underwriters), were popular during this time. Their products matched well with the preferences of ordinary citizens. Facing the taboo on premature death, these locally-founded insurers simply wrote whole life with endowment policies and presented life insurance as a household savings instrument (Lee 1969; Feng and Kau 2010). As a result, the market they created was primarily one with a flavour of money management: over 95 per cent of the policies sold by domestic insurers in the 1950s were endowment plans (Kwok 1961). In a survey conducted in 1968, 85 per cent of the life insurance policies held by the respondents were endowment plans (Lee 1969).

None the less, as discussed above, money management insurance products yielded lower profit margins, leaving domestic insurers with little profit from their life insurance business. When a new Insurance Companies Ordinance was issued in 1983 by British legislators to substantially raise the solvency margin of insurance companies, ten companies shut down immediately for failing to meet the standards.9 The new Ordinance’s content, according to Chan and Fung (1986), resembled a similar one in Britain, and it did not favour the financially weak domestic insurers. Together with foreign insurers’ increasing interest in expanding their business in the territory, the number of domestic life insurers began to decline in the mid-1980s. Many were bought out by foreign corporations. For instance, the insurance policies issued by both Wing
On and China Underwriter were bought by the then Australian-based National Mutual Life Association’s subsidiary National Mutual Asia Ltd. (National Mutual).

A visible hand through the state in Taiwan

Commercial insurance was first introduced in Taiwan by the Japanese during Japan’s occupation of the island from the late nineteenth century. For half a century, Japanese insurance firms completely controlled the insurance business in Taiwan (Fu 1995). With the withdrawal of the Japanese after the Second World War, the Republic of China (ROC) administration, ruled by the Chinese Nationalist Party, collected together all the remnants of the Japanese firms to form the Taiwan Life Insurance Company, Ltd. (Taiwan Life). As a state-owned insurer, Taiwan Life’s operation was not commercially-oriented. Instead, it functioned like a social insurer, providing coverage for government employees, military personnel, labourers and students (Lai 1991). No private life insurers were allowed until 1962.

Scholars of comparative economies suggest that the state has played a very small role in the allocation of capital in Taiwan’s economy (Hamilton and Biggart 1988; Biggart and Guillen 1999; Hamilton and Kao 1990). The development and operation of the life insurance business in Taiwan, however, tells a rather different story. After securing the sovereignty of Taiwan from the Japanese, the ROC government heavily protected the domestic insurance industry from falling prey to foreign players. Foreign firms were banned from entering the insurance market. Between 1962 and 1963, seven locally-formed private life insurers were approved, and the Insurance Law was introduced to regulate various aspects of the insurance business. A restriction on the formation of life insurers was again put in place, prohibiting new entrants starting in 1964 (Wang 2004; Fu 1995; Lin 2002). The ROC allowed only eight life insurance companies, all locally-established, before 1987.

Based on the close relation between the Chinese Nationalist Party and the US government, American insurance companies made various attempts to push their way into Taiwan. Under the Overseas Chinese Investment Policy in the early 1970s, AIG acquired 95 per cent ownership of a domestic firm, Nan Shan Life Insurance Company, Ltd. (Nan Shan). Although Nan Shan was then under the management of AIG, it maintained its local status in order to comply with the Insurance Law. Then, under the ‘Sino-American Bilateral Trade Agreement’ signed by both parties in 1978, American insurers were allowed to set up branches in Taiwan to sell insurance to American citizens and companies only (Lai 1991). With the escalating balance of payment tensions between Taiwan and the USA in the early 1980s, the latter threatened to enact the retaliatory ‘Super 301’ prohibitive trade act if the former did not liberalize its insurance market. The ROC administration, therefore, was forced to open up
the insurance industry to American players. Starting in 1987, four American insurers (two life and two non-life) each year were approved to set up branches in Taiwan. Then in 1990, the entry restrictions were relaxed to permit six American firms per year (Lai 1991). It was not until 1994 that foreign insurers from other countries were allowed to open branches and operate directly in Taiwan. But again, to protect the domestic players, each foreign insurance firm was allowed to operate only a single branch office (Lin 2002; Sun and Affleck 2000; Wang 2004).

With the advent of foreign life insurers, the Ministry of Finance reopened the market to new domestic entrants in 1993. Nevertheless, the authority still heavily regulated the number of players to prevent fierce competition. In 2003, there were 32 life insurers in Taiwan altogether, half of which were locally-owned.

**Dominant insurance players in the field**

**Foreign insurers in Hong Kong**

Starting in the mid-1980s, foreign insurers became much more active in Hong Kong, as a consequence of both push and pull factors. On the one hand, life insurance markets in advanced economies began to experience saturation, forcing insurers to expand aggressively overseas (Chan 2006). On the other hand, Hong Kong’s economy began to take off, and its people began to accumulate wealth – a necessary condition for the profitability of life insurance. Foreign corporations also benefitted from a lack of protectionist policies, minimal government intervention, and the domination of British legislators in drafting the Companies Ordinance. Consequently, the insurance field came to be dominated by a few big foreign players. Three major insurers – AIA, Manulife, and National Mutual – captured over 70 per cent of the life insurance business (in terms of premiums) in Hong Kong at the beginning of the 1990s.12

**Domestic insurers in Taiwan**

In contrast to Hong Kong, the Taiwanese life insurance market was dominated by domestic players during its booming period in the 1980s–1990s. Thanks to the protectionist policies, eight locally-based firms enjoyed the privilege of exploring the market in a rather non-competitive environment prior to 1987. Two insurers, Cathay Life Insurance Company, Ltd. (Cathay) and Shin Kong Life Insurance Company, Ltd. (Shin Kong), controlled up to 80 per cent of the market from the 1970s until 1990. With the entrance of foreign firms and the emergence of new domestic insurers, the market share for these two firms
gradually declined. AIG-managed Nan Shan, on the other hand, was catching up. However, the market share for foreign insurers remained low. In 1997, for example, foreign insurers captured less than 25 per cent of the market, and 69 per cent of this belonged to Nan Shan (Insurance Yearbook, Republic of China, 1997:143–173). (In official publications, Nan Shan was still placed in the ‘domestic insurers’ category, leaving foreign insurers accounting for less than 8 per cent of the market by 1997.)

Prevailing products and market features

*Creating a risk management market in Hong Kong*

Despite the popularity of savings products sold by the domestic insurers, foreign insurers in Hong Kong insisted on promoting risk management products, mainly, traditional whole life insurance without endowment during the 1950s–1970s. For more than three decades, foreign and domestic life insurers coexisted but captured different shares of the market. In 1968, for example, 99 per cent of the policies sold by domestic insurers were endowment products; whereas 90 per cent of those issued by foreign insurers were traditional whole life insurance policies (Lee 1969).

Nevertheless, in the absence of competitive domestic competitors, risk management products became prominent starting in the mid-1980s. Although potential clients still preferred money management products, the foreign providers were unwilling to compromise. Instead, they provided extensive training for their sales agents in an effort to raise the public’s sense of risk and to convince them of the necessity of purchasing risk management products. Mr Lau was one of the sales agents who learned to associate human life with an economic value. He recounted how he and his fellow AIA agents convinced the prospects of the importance of life insurance in the 1970s–1980s:

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

It is important to note that Mr Lau and his colleagues’ sales talks began with a risk management concept embedded in the commensuration logic of pricing.
human life. None the less, the talks were concluded with a remark about the money management function of insurance. Such talks were by no means random. Their aim was to educate the public about the ‘correct’ concept of life insurance and to accommodate the local penchant for savings at the same time. Because a whole life insurance policy typically carries a cash surrender value, i.e. the policyholders could receive some cash when they surrender the policy, the sales agents tactically presented the cash value as a savings component. Mr Lau continued:

When we talked to our prospects . . . we highlighted the savings function of life insurance . . . In Chinese society, it’s still better to sell a savings concept. The Chinese still prefer savings to death or disability insurance.

Therefore, although the insurance products offered by foreign insurers were mainly risk management products, it was the ‘cash surrender value’ that drove people to buy. Just as the acting insurance officer of the Registrar General’s Department commented in 1983, clients in Hong Kong bought insurance primarily for savings and investment, rather than for compensation against unexpected death.16

The use of sales scripts based on Huebner’s ‘human life value’ concept continued into the 1990s. Mr Wong, who worked for The Prudential Assurance Company, Ltd. since the mid-1980s, reported the same sales talks in the 1980s–1990s:

We emphasized family protection and the earning power of the prospects. We sold the idea of human life value. If they (the prospects) just graduated from universities, we told them, ‘You just graduated . . . and you have to know your own value (of loss to your parents) in case something bad happened. How can you protect your value?’17

Creating a sense of insecurity and urgency to market life insurance was a consistent sales discourse employed by the sales agents from foreign insurers. This sales discourse was pervasive in Hong Kong, I maintain, only because there were no competitive domestic insurers that advocated alternatives. In turn, the consistent and persistent risk management sales discourse, to a certain extent, contributed to softening the taboo on death. According to the sales agents, potential clients in the late 1990s were relatively less resistant to the scripts about misfortunes in comparison to those in the 1980s. As a result, traditional whole life insurance policies, together with term life policies, consistently constituted at least 80 per cent of policies in force of ordinary life insurance business in Hong Kong from 1991–1999. This feature is comparable to the market in the USA where whole life and term life together made up over 77 per cent of the ordinary policies in force in 1998 (Life Insurance Fact Book 1999: 8).
The popularity of traditional whole life insurance policies in the 1990s, however, did not represent an acceptance of the risk management concept of life insurance. Instead, Hong Kong clients still considered life insurance to be another method of saving, as evidenced by a lawyer’s article:

The only reason to have a life insurance policy is to provide your dependents or beneficiaries with a cash sum in the event of your death... I do not recommend that whole life policies be used as a substitute for savings...’ (Tuohy 1996: 46)

Based on this quote, we may infer that people in Hong Kong in the 1990s continued to buy whole life policies for savings purposes, rather than for protecting against unexpected death. This was confirmed by Mr Leung, a sales agent of Manulife:

People didn’t object to the idea of human life value, but it didn’t drive them to buy. It was savings that drove them to buy.18

Mr Tang, a computer science major, explained why he bought a whole life policy from AIA:

The agent told me that this product could give me a return when it matures. I feel that it’s good to have some returns. I feel that it’s not worth it to pay a premium without getting any money back.19

This suggests that insurance for premature death was not well received by Hong Kong people. Not surprisingly, term life insurance consistently accounted for only a very small proportion of ordinary life policies in force in Hong Kong, ranging from 4 to 7.6 per cent throughout the decade of the 1990s, compared to about 19 per cent in the USA in 1998 (Life Insurance Fact Book 1999:8).

Following a similar trajectory to the development of life insurance in the Euro-American context, life insurers in Hong Kong began to diversify their product lines by launching money management products toward the end of the 1990s. Since 2000, sales agents have concentrated on selling savings and investment products, namely, whole life with endowment or unit linked insurance. Unit linked insurance is a British variant of American variable life insurance whereby the insured amount may fluctuate during the term of the policy depending on the investment returns of the premium. To sell this product, the agents’ sales discourse switched from talking about ‘risk’ and ‘family responsibility’ to ‘personal financial gains’. These new scripts were quite well received by the local public, and unit linked insurance increasingly gained popularity. In 2006, over 60 per cent of new premiums were collected from linked products, which accounted for 14.5 per cent of the total policies in force (compared to only 4.8 per cent in 1999). At the same time, whole life policies with endowment also doubled in proportion from 9 per cent in 1999 to 17.6 per cent in
The increasing popularity of these money management products in the 2000s resulted in a significant upturn in the Hong Kong market. Figure II shows that life insurance penetration in Hong Kong was always behind the average of six OECD countries with comparable GDPs, but it began to catch up in 2001 and exceed it in 2003. This sudden upturn, to a large extent, could be attributed to the market’s moving towards money management that met local preferences. In short, the life insurance market in Hong Kong in the 1990s, due to the dominance of foreign players, was primarily a risk management market. However, the mismatch between what insurers offered and what people wanted suppressed the popularity of life insurance. It was not until recent years that these insurers began to promote money management products, which resulted in impressive market growth within a short period of time.

Creating a money management market in Taiwan

In Taiwan, life insurance has always been taken primarily as a money management vehicle, though the entry of transnational insurers has led the market to

Notes: The six countries include the USA, Britain, France, Germany, the Netherland, and Switzerland.
Sources: Data were calculated by the author based on figures from Almanac of China’s Insurance, 1998–2008.
move into a money-cum-risk management direction. This particular market trajectory, as distinct from the one in Hong Kong, is shaped by the domestic insurance players who dominated the market early on.

Prior to the arrival of their foreign counterparts, the Taiwanese insurance firms defined life insurance as a savings instrument. In the first half of the 1960s, short-term (3–5 years) savings plans, combining an accidental death benefit, were the most common category of product offered by the domestic insurers. This type of insurance was called ‘living insurance’, as it gives payment to the living insured upon maturity of the policy and it covers only accidental death, but not any other types of death. Subsequently, a 10-year term ‘retirement insurance’ policy was launched in the second half of the 1960s. This product was called ‘living and death insurance’, in which the insured could receive a ‘living fund’ upon maturity of the policy, or the beneficiary would receive the insured amount if the insured died during the term. In the late 1970s, a new product line called ‘dividend retirement insurance’ became popular (Fu 1995; Wang 2004). It shared the same features as retirement insurance, except that dividends, with rates dependent upon the investment returns of the insurers, replaced fixed interest payable to the policyholders. Dividend insurance was well received by the public, despite the low insured amount that covered death.20 In the absence of foreign players, Taiwanese insurers pursued market share instead of profit maximization (Koug 1997). They survived even with small profits from money management products in part due to protectionism, and in part due to their early investment in real estate. As property values in Taiwan soared significantly in the past few decades, these domestic insurers were able to maintain capital gains even when their products were not as profitable (Lai 1991).

With the entry of American insurers into the market in the mid-1980s, whole life insurance began to dominate. However, there were two sub-categories: one with endowment and one without. The one with endowment was similar to retirement insurance, except that the term of coverage was whole life instead of ten years. The one without endowment was a traditional whole life policy that made a payment only upon death of the insured or which gave a cash value upon surrender of the policy. As was the pattern in Hong Kong, there was a noticeable difference in domestic and foreign insurers’ priorities in product development in Taiwan. Domestic firms promoted whole life with endowment policies, so-called ‘living and death insurance’; whereas foreign firms sold primarily whole life without endowment, otherwise known as ‘death insurance’. This divide is clearly illustrated in Figure III.

According to Figure III, whole life with endowment and pure endowment policies made up 65 to 80 per cent of the life policies sold by the domestic firms by the first half of the 1990s. In contrast, over 80 per cent of the life policies sold by foreign insurers during the same period were traditional whole life. Because domestic firms controlled a majority market share, endowment insurance was
the most popular product from the mid-1980s through the mid-1990s (as indicated by the dotted lines in Figure III).

When the market opened to foreign players in the mid-1990s, large domestic insurers continued to present life insurance as no different from savings. When selling whole life with endowment policies, their sales agents highlighted the ‘living fund’ to avoid the taboo topic of premature death. They used slogans, like ‘the living can also receive insurance payments’ and ‘the longer you live, the more you receive’, to keep the notion of death at an arm’s length (Lin 2001). Ms Yuan, who has been working for Cathay for over 15 years, reported that while whole life with endowment policies covered both living and dead benefits, ‘clients only paid attention to the endowment’. She said:

We usually told them that they could save a large lump sum and get a whole life protection at the same time. We never mentioned ‘death’. We implied by saying that there were things that one must experience.21

The implicit message that Ms Yuan intended to convey was that ‘everyone will eventually die one day’. The kind of death she referred to, however, was ‘mature death’, or ‘dying when one is old’, not accidental premature death. By 1997, endowment products still accounted for more than 82 per cent of Cathay’s individual life policies in force. However, domestic insurers’ cultural accommodation in product design came with a price. According to the sales

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**Figure III:** Proportion of ordinary life product categories in terms of policies in force sold by all insurers in Taiwan, 1985–2006, and by domestic and foreign insurers, 1988–2006

Sources: Data were calculated by the author based on figures from Insurance Yearbook, the Republic of China, 1991, 1997, 2002, and 2007.
agents, when interest rates dropped continuously in the second half of the 1990s, all domestic insurers, especially Cathay, suffered losses due to the large number of endowment policies sold earlier.\textsuperscript{22}

Upon the arrival of other foreign firms in 1994, AIG-run Nan Shan launched two risk management products (critical disease insurance and hospital care insurance), and began to shift its major product line from endowment to traditional whole life policies. AIG’s regional headquarters dispatched a few trainers from Hong Kong to provide extensive, systematic training for Nan Shan’s sales agents. The training aimed to lift the taboo on discussing death and misfortune. The agents were taught to tell stories about accidents and tragedies that happened to other people, especially to famous singers or actors, to elevate potential clients’ sense of risk.\textsuperscript{23} By 1997, about 69 per cent of Nan Shan’s individual life policies in force were traditional whole life, compared to only 37 per cent in 1986. Therefore, as in Hong Kong in the 1970s, AIG took the lead in attempting to lift the local taboo on death in Taiwan to facilitate the sales of risk management products, albeit twenty years later due to protectionist policies.

Besides AIG, other foreign insurers also strove to educate the public on the risk management concept of life insurance. They ran advertisements on the television, promoting the idea that life is unpredictable, and that all responsible persons should prepare for the worst. For example, American-owned Aetna Inc. launched a series of advertisements called ‘A Series of Dead Gods’ in an attempt to lift the cultural taboo.\textsuperscript{24} At the same time, they equipped their sales agents with risk management sales scripts. Ms Shi, an agent of Aetna, reported how she convinced her clients of the importance of life insurance:

\begin{quote}
We didn’t talk about it (death) directly. . . . I simply asked if they wanted to continue their love for their family when they leave (pass away). I asked if they wanted to leave their families with financial burdens. . . . I always told my prospects that we never know what will come first: tomorrow or an accident. . . . I asked the husbands what would happen to their children. . . . I asked them if they loved their families, if they loved their children.\textsuperscript{25}
\end{quote}

Using a script emphasizing ‘risk’ and ‘family responsibility’, the foreign insurers in Taiwan exercised the same strategies as they had in Hong Kong.

As a result, the arrival of foreign insurers seemed to boost the popularity of risk management products. According to Figure III, whole life insurance without endowment has gained an increasing share in the number of policies in force, jumping from merely 9 per cent in 1987 to 45 per cent in 1997, and went up further to 55 per cent in 2006. This change suggests increasing sales of ‘insurance against death’. None the less, the market, as a whole, continued to retain its money management characteristics. Endowment policies still accounted for 45 per cent of the policies in force, and 57 per cent of office premiums, by 2006. Furthermore, the figures on the sales of risk management

\textsuperscript{22} Cheris Shun-ching Chan
products were slightly inflated, due in part to the fact that insurance covering hospital care, launched by American insurers, could only be sold as a rider on a whole life policy without endowment. It was therefore the sales of insurance covering hospital care that drove up the sales of traditional whole life.

As shown in Figure III, there is a convergence in product lines between foreign and domestic insurers over time. Even more intriguing is that since 2004 foreign and domestic insurers have swapped their dominant products (foreign insurers have begun to sell more endowment products and domestic insurers have begun to sell more whole life policies). Figure III is based on aggregated data, however, and only reveals part of the story. According to the sales agents, foreign insurers still tend to promote risk management products and large domestic insurers still sell more money management products. The high proportion of whole life policies sold by domestic insurers could be attributed to the fact that AIG-run Nan Shan was officially classified as a domestic insurer. As its market share increased over time, from less than 4.5 per cent in 1986 to almost 20 per cent in 1997, it boosted the proportion of traditional whole life policies sold by the domestic camp. In addition, new smaller domestic firms tended to imitate foreign insurers’ product development, which also contributed to increased sales of whole life insurance. As to the increasing proportion of endowment policies sold by foreign insurers, this was due to the introduction of an investment product – a variable universal policy similar to the unit linked insurance in Hong Kong. Since 2001, according to the sales agents, all insurers in Taiwan have been promoting this product, but only foreign insurers have been successful. On the whole, the sales agents from the domestic firms have been less capable of understanding the complexities of this product themselves. This explains why an increasing proportion of money management products have been sold by foreign insurers.

Despite attempts by foreign insurers in Taiwan to convert the market from one serving a predominantly money management purpose to one serving a primarily risk management function, their effort lasted for only a brief period mainly as a consequence of their relatively late entry into the market. It was therefore money management products that largely contributed to the prevalence of life insurance in Taiwan.

**Conclusion: globalization and varieties of capitalism**

This article contributes to the debates on globalization and varieties of capitalism in four respects. First, it investigates how different market trajectories are produced through the interplay between local culture, state action, and economic actors’ agency. The Chinese cultural taboo in both societies resulted in the same local resistance and local preferences with regard to the features of life insurance products, and was a major factor in the tension to arise from the profitability of commercial life insurance. Foreign and domestic insurers in
both territories, however, displayed the same pattern of difference in handling this tension. Foreign insurers adhered to a profit-oriented institutional logic and attempted to remove the cultural resistance. Domestic insurers, on the other hand, accommodated the resistance and offered products compatible with the local preferences to capture the market share. As foreign insurers have been the key players in forging the Hong Kong market, this market follows a trajectory comparable to that in Euro-American contexts. In comparison, the Taiwanese market, largely constructed by domestic insurers, took a different route. It emerged first as a money management market. This clearly demonstrates how critical a factor the nature of the dominant players is in shaping the characteristics of these two markets. It is precisely because foreign players dominated in Hong Kong and created a risk management market at the outset that life insurance is not as popular in Hong Kong due to its incompatibility with the local cultural preferences. Who became the dominant players in the market was largely dependent on state policies. Hence, my argument is that the divergent sizes and forms of these two Chinese markets are culturally produced through strategic economic agents, who themselves are empowered and constrained by state action.

Second, the concept of ‘bounded rationality’ in the varieties of capitalism framework is too often associated with the inability of the economic actors to access pertinent information (Hall and Soskice 2001). This study demonstrates that the economic actors’ rationality may be bounded by certain institutional logics functioning as cognitive constraints. As a case in point, AIA must have been familiar with the Chinese cultural taboo, given its long presence in China and Hong Kong. However, its cultural accommodation in product development was no greater than other foreign firms. The strategic preferences of firms, therefore, are not always endogenous to their immediate cultural and institutional environments. Foreign insurers in China (Chan 2009a, 2012), Hong Kong, and Taiwan all locked into a profit-oriented approach at the expense of a large market. Their consistent choices, I argue, are shaped by factors exogenous to local conditions, namely, the institutional logic of profitability for commercial life insurance and the firms’ aversion to risk due to their established positions.

Just as Kahneman and Tversky’s (1979) classic analysis of decision under risk hypothesizes, people in a ‘gain’ situation tend to be risk averse; whereas people in a ‘loss’ situation tend to be risk takers. I argue that foreign insurers’ lengthy experience and success in the insurance industry deterred them from taking the daring and risky strategy favoured by the novice Chinese insurers. Such an alternative model lay outside the realm of rationality in their convention-bound approach to running a business. Transnational insurers’ ‘common knowledge’ led them to coordinate on one outcome (Hall and Soskice 2001:13). Conversely, the inexperienced position of the domestic insurers allowed them to embrace the very possibility of violating the conventional
model. The stakes were relatively low and, more importantly, their primary concern was survival rather than profit maximization (Fligstein 2001). In similar cases, business research finds that local firms in Israel tended to take more risks than multinational corporations under pressure from global competition (Lavie and Fiegenbaum 2003), and historian Murphy (2010) reports that new and smaller American insurance firms in the antebellum period were more willing to take risk than established insurance firms.

Third, the above insights hint at how varieties of capitalism are possible in the context of globalization. This study illustrates that although localization is a necessary strategic move to create local markets, it is not always a straightforward path. When the pressure for localization is in conflict with the profit-oriented institutional logic of a particular business, negotiations and power struggles set in between transnational and local actors. Just as Montanari (2001) finds that large and small countries possess different levels of power in the international arena, this study shows that the divergent political histories in Hong Kong and Taiwan presented their local public with different levels of bargaining power in the face of transnational corporations. In the absence of competitive domestic players, the foreign insurers in Hong Kong took a firmer stand on defending a risk management definition of life insurance despite local resistance. The market they created is one with a lesser degree of localization. Conversely, the presence of competitive domestic players in Taiwan left the transnational players less room to maneuver the market to suit their business model. Instead, the domestic players created a market based on their own cultural understanding and tool-kit, which resulted in a market highly localized in character. Thus, the presence of competitive domestic players affects the extent to which a particular economic practice becomes localized. The possibility for varieties of capitalism, I propose, hinges on the relative power of local cultures and local states when encountering transnational corporations. This argument can be put into testable hypotheses for future research.

Lastly, while the varieties of capitalism framework focuses on firms’ relationships with local institutional organizations, policies, and labour, it has thus far paid little attention to consumers and products (see comments by Zelizer 2005 on economic sociology). Potential consumers’ tastes and demand are seen as having little impact on firms’ strategic decisions. White (1981: 518) even explicitly asserts that ‘markets are not defined by a set of buyers’. This study demonstrates how potential consumers’ preferences, and the extent to which producers are willing to accommodate such preferences in their product design, impact market trajectory and size (see also Chan 2012). Hence, the politics in creating a market involve not only legislators, producers, and labour, but also consumers and their contention and collaboration with other actors in the field.

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Notes

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2. ‘Ordinary life insurance’ refers to life insurance purchased by individuals from sales agents, instead of group life insurance that is usually purchased by employers for employees.

3. On the other hand, insurance density, which measures premiums per capita of in-force policies, is always higher in wealthier economies because the premium per policy is higher among wealthier populations. As this indicator is irrelevant to the question of how widespread insurance is among a population, it is not adopted in the present comparison.


5. According to the estimate of Fortune 1999 Global 500, p.3.

6. Whole life with endowment or annuities is a modification of traditional whole life. Under traditional whole life (one without endowment or annuities), the insured amount is paid upon death of the insured. As this policy has a build-up cash value, the insured will be given the cash value upon surrender of the policy. However, the amount is usually insignificant. Whole life with endowment or annuities, on the other hand, stipulates that the insured amount is paid upon the death of the insured during a specified time period, or it is paid to the insured who survives that period.

7. Interview, Hong Kong, September 2007.

8. Accordingly, burial insurance was the first widely accepted life policy in the USA in the mid-nineteenth century, prior to the popularity of policies that carried savings and investment functions (Zelizer 1979). For the British life insurance market, four waves of popularity were recorded: mortuary ton-tines in the eighteenth century with the primary motive of gambling (Clark 1999); bonus scheme insurance in the last quarter of the eighteenth century for a share of interest earned in addition to financial protection against premature death (Alborn 2002); term life and ‘other interest’ life policies in the first half of the nineteenth century for family protection and for protecting creditors and lending parties’ interests, respectively, in case of premature death (Pearson 1990; Alborn 2009); and term life with endowment in the second half of the twentieth century for a primary function of protecting family dependents in case of premature death and a secondary function of savings (Alborn 2002, 2009).


10. Interviews with two ex-managers who worked for China Underwriter in the 1970s. In 1992, National Mutual Life Association of Australasia Ltd. sold a 51 per cent stake to the French-based AXA Group. Subsequently in 1999 its name was changed to AXA Asia Pacific Holdings Ltd., and the insurance business in Hong Kong has been run by AXA China Region Insurance Company Ltd. since then. See ‘AXA to Spend $838.2 Million for 51% of Australian Insurer’, The Wall Street Journal (Europe), February 1, 1995.
11. It is unclear why AIG was granted such a privilege. In fact, AIG’s purchase of Nan Shan in the 1970s was exercised with a very low profile. The majority of the population in Taiwan did not realize that Nan Shan was foreign-owned until more foreign companies came in, and Nan Shan began to distinguish itself from the domestic camp.


15. Interview, Hong Kong, December 2005.


17. Interview, Hong Kong, December 2005.

18. Interview, Hong Kong, September 2000.


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