

# **Analysis on the Profitability of Listed Companies in Financial Industry—— Take NEW CHINA LIFE INSURANCE COMPANY LTD as an Example**

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**Abstract:** The premium income of China's insurance industry keeps stable growth. China's insurance market has become the second largest insurance market in the world and maintained a stable growth trend, and China's insurance density and depth are also continuing to improve. Profitability is the basis for the survival and development of enterprises. With the continuous development of China's economy and the increasing competition of financial enterprises, insurance companies, as the traditional financial industry, are facing great challenges. This paper analyzes the profitability of Xinhua Life Insurance Co., Ltd., finds out the problems existing in the operation and management of Xinhua Life Insurance Company, and puts forward the corresponding countermeasures. The future development prospect of insurance companies is very broad, but there is still serious competition in the market. Through the market analysis report of the insurance industry, it can be seen that with the growth of people's income, the demand for safety and security such as health and pension has become an indispensable part of people's daily consumption and plays an increasingly important role in the consumption structure. People have higher and higher requirements for the quality of life, and their awareness of risk management and security has been gradually strengthened, it will promote the insurance industry. Profitability is the basis for the survival and development of enterprises. With the continuous development of China's economy, the competition among financial enterprises is increasing. All kinds of insurance companies, as China's traditional financial industry, are facing great challenges.

## **1. Problems of Xinhua Insurance Company**

### **1.1 Unreasonable product pricing damages the competitiveness of the company**

With the rapid development of national economy and the rapid growth of social wealth, insurance plays a more and more important role in residents' life. The following is the influx of all kinds of insurance companies and their products, and the competitiveness of all China's insurance industry can be imagined. However, Xinhua insurance company launched its core product (health worry free) in 2016. Due to its high pricing, the product was not welcomed as expected, which led to a significant reduction in the company's sales volume and operating revenue. The excessive product pricing results from the high pricing interest rate. This product can bring higher profits to the company to some extent in the initial stage, but in the long run, it is at the expense of the interests of the policyholder, which violates the principle of "insurance surname insurance" to a certain extent. Such overpriced products not only do not bring higher income to the company, but weaken the competitiveness of the company and let similar products in other industries quickly occupy the market. If an excessively high product can not bring high profits to the company, it indicates that this pricing is not suitable for the product, and the market needs to be considered for re pricing.

### **1.2 The reform is too radical and the adaptability of the company is weak**

Based on the analysis of cost profit margin and return on net assets, it can be seen that Xinhua insurance company carried out significant reform in 2016. First, it is required to "focus on quality and light weight", but the number of products of Xinhua insurance company directly decreased by 40% in

2016. This range is too large. In the first year of reform, new products need some time to study and adapt to the market. Xinhua insurance company directly reduced the number of products, and did not consider whether the new products could quickly adapt to the market and bring benefits to the company. Facts show that it is not advisable for the company to directly reduce related products. Second, since 2014, Xinhua insurance company has experienced various changes of senior managers, large and small, and the helmsman has been replaced repeatedly. In 2014, he just adapted to the "Kangdian (former chairman of Xinhua Insurance Company)" style. He led the management to carry out a series of management changes, self-made changes in the sales management system and reform measures of the new basic law. In 2016, Xinhua insurance company was once again faced with a major change in the company's blood. Wan Feng brought his team and cooperated with the board of directors to carry out another major reform of the company. In just a few years, Xinhua insurance company has experienced several major reforms, and the first adaptation period has not passed. The new leadership team puts forward new business directions and strategies, which leads to the long-term change of various policies and objectives of the company, which is not conducive to strengthening the cohesion of the whole company, thus affecting the profitability of the company. Wan Feng proposed a five-year (2016-2020) reform in 2016, but Wan Feng's resignation led to the completion of the reform. It is unknown whether the new company team will continue his reform. The development prospect of Xinhua insurance company is facing great challenges.

### **1.3 The product category is single, which is not conducive to adapting to the market**

Emphasize the adjustment of product structure, optimize product structure, and increase security products, including pension, medical treatment, health (major diseases, nursing, disability, etc.), life insurance and accident insurance. However, through market analysis and access to relevant materials, the current market is not friendly to the traditional five categories of indemnificatory products, and the market share is too low. Even if Xinhua insurance company can successfully optimize the structure of these five types of products, it is still unable to bring greater benefits to the company due to its small market share. According to the market survey, what we need now is more innovative insurance products. Therefore, these two important reforms of the company did not meet the current market demand, so they could not bring greater benefits to the company, and lagged behind the increase of the total profit of Xinhua insurance company.

## **2. Relevant suggestions of Xinhua Insurance Company**

### **2.1 Reasonable pricing to enhance the competitiveness of peers**

It can be seen from the operating gross profit margin that the pricing of Xinhua insurance company is unreasonable within the same insurance coverage. It leads to the weakening of market competitiveness, so for Xinhua insurance, the first thing to do is to reasonably price the products. When determining the insurance premium, we need to pay attention to the following aspects: first, we need to collect a large number of various data about pricing in the same industry. At the same time, we should also fully collect the data of the company's product sales, cost, price and product profit. Do not only fully understand yourself, but also understand other companies in the same industry. Secondly, when formulating a product, we must know what benefits the product can bring to customers and whether the price and benefit match. In addition, the collected various types of data are carefully sorted out, important information is selected for analysis, and effective communication with end users is carried out. Finally, we can adjust the price of the product first and then react to the market. When observing the market reaction, we can effectively carry out market questionnaire survey to see whether the public is satisfied with the price of insurance products. There are also some skills in product pricing: when the company faces customers with large demand elasticity, it uses the sales strategy of small profit and quick turnover. Lower the price appropriately. Although the profit of each insurance product is thin, it can attract more potential customers to buy the company's products. On the contrary, when the elasticity of customer demand is small, the price can be appropriately increased, and the service quality will be improved accordingly. This will increase the company's total profit. Only when

the price of similar products is reasonable and the competitiveness is enhanced, can Xinhua Insurance Company reoccupy the market.

## **2.2 Reasonable reform to enhance the adaptability of the company**

Xinhua insurance company is too fast and radical in the process of reform. New products need a lot of time to adapt to the market. Xinhua insurance company should not only "look ahead" but also "look after". When we pay attention to strengthening product quality, we can't cut down a lot of previous products. Xinhua insurance company can appropriately reduce the previous products, and then analyze the circulation of new products in the market. Whether the new products are more suitable for the market and can bring more benefits to the company. If the new product cannot bring more benefits to the company, continue to improve until it meets the market demand. If new products can bring more profits to the company, it can greatly reduce the previous products. Moreover, we should improve the restraint mechanism of senior executives. First, the articles of association. The articles of association formulated within the company is equivalent to the constitution of the company. The articles of association formulated by the company can restrict the behavior of senior managers at all levels of the company. Xinhua insurance company can formulate legal provisions to specify the tenure time of senior managers. Second, contractual constraints. Everyone serves the company. When going to work in the company, they must sign corresponding contracts, which must be very strict. Third, not all senior managers of the company prefer risks, or work together for money, or have "noble sentiments" and really work hard for the company. Therefore, preference constraints are very important for Xinhua insurance company. Fourth, institution building. Through the construction of the board of directors of the company, it can become an organization that plays a role in the operation and all aspects of the company.

## **2.3 Accelerate product innovation and conform to the market**

A major problem faced by Xinhua insurance company is that the company does not have more innovative products. The five categories of traditional indemnificatory products reformed by the company can not meet the current market, so it must be reformed. Before product innovation, the most important thing is to analyze the market demand and deeply understand what aspects of China's insurance products are vacant or their own products are not perfect. I think we can consider it from the following perspectives. For example, "family property insurance + family member insurance" realizes "one policy protects the whole family". This combination of property and major disease insurance can meet the needs of most customers, which is not only cheaper than single person insurance, but also more convenient and fast; From the current insurance market, the insurance of family property during tourists' travel is a huge gap in the market. If the property insurance company can combine the personal insurance on the way to travel with the insurance of family property, such as implementing a "tourism insurance + family property insurance", it will better meet the needs of tourists for complete risk protection, Give full play to the combined function of various risk guarantee as much as possible. Therefore, as long as Xinhua insurance company continues to innovate its traditional products, it can meet the market demand.

## **3. Summary**

Xinhua insurance company should establish a restraint mechanism, reasonable pricing, comply with the reasonable reform of the market, speed up product innovation, improve management efficiency, find out more and better management methods, and suggest a set of better management system. Among them, the most important thing for Xinhua company is to constantly optimize its own insurance products, improve the core competitiveness of the enterprise, obtain a higher market share, and finally achieve the purpose of higher net profit.

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