



mySAP™ ERP HELPS NEW CHINA LIFE

CONTENTS

Implementation of the mySAP™ ERP solution has helped New China Life Insurance Company strengthen its position against domestic and foreign competitors. The solution has provided critical support for business planning and decision making – while helping to reduce operational risk, standardize company management, and improve operational efficiency. Total annual savings from seven key processes implemented in the first phase of the project alone should exceed 11,000 employee-days.

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AT A GLANCE

Company Background

Ranked fourth largest among domestic life insurance firms in China, New China Life Insurance Company (NCL) had assets at the end of 2004 totaling CNY 39.8 billion (US\$4.8 billion) – a 63% increase over 2003.

Challenges and Opportunities

Deregulation and a robust economy have spurred demand for insurance in China – as well as competition from foreign insurance firms. To remain a player, NCL must enhance its product line, sales strategies, distribution channels, and service – while adjusting to deregulation, revamping its management structure, and gaining greater operational control.

Strategic Goals

To meet these challenges, NCL plans to incorporate industry best practices that will help the firm manage for competition and growth, reduce operational risk, standardize company management, and improve operational efficiency. Specifically, the company wants greater control over processes for decision making, operations, and various areas of corporate governance – such as controlling, reporting, and risk management.

Approach

The company chose the mySAP™ ERP solution to enhance the key process areas of financial accounting, controlling, purchasing and inventory management, treasury management, and human resources. Particularly important was the broad functionality, quality business content, and industry best practices that the solution offered.

Results

A postimplementation business assessment study found that NCL has made progress towards all four strategic goals and should save at least 11,000 employee-days per year in seven key process areas. ROI results show that NCL is realizing measurable benefits from the initial implementation.

EXECUTIVE SUMMARY

New China Life Insurance Company is the fourth-largest domestic life insurance firm in China. The company outpaced its peers in the growth of its premium revenues for 2004. As NCL is the first insurance company in China that adopted an international ERP application system to improve business processes, the project caused a big lighthouse effect in the local insurance industry. To remain competitive with both domestic insurance providers and a growing foreign presence, NCL is restructuring its business for improved product innovation, sales, distribution, and service. The company plans to adopt industry best practices that will enhance its ability to manage for growth while reducing operational risk, standardizing management and business processes, and improving operational efficiency.

To gain greater control over processes for decision making, operations, and corporate governance, NCL designed an IT program that would support product and business development in the near and medium term and meet long-term goals for business performance. The company chose mySAP™ ERP for support in five key process areas: financial accounting, controlling, purchasing and inventory management, treasury management, and human resources. Of particular importance to NCL in selecting mySAP ERP over solutions from other international and local vendors were the following reasons:

- SAP's reputation in the enterprise resource planning (ERP) field
- The widespread use of mySAP ERP in the insurance industry, including use by many top-tier firms
- The solution's broad functionality, quality business content, and emphasis on industry best practices
- SAP's long-term commitment to future quality insurance solution

Since implementing the solution in 2004, NCL has made significant progress toward its strategic goals. The new system is supporting competition and growth by providing data that is more accurate, timely, and transparent. It has helped reduce operational risk through enhanced reporting and improved

mechanisms for management tracking, controlling, and feedback. Company management has been strengthened through greater standardization in financial and human resources processes. These improvements have greatly enhanced operational efficiency – resulting in significant savings in employee-days and direct purchase costs.

Projecting such savings over a seven-year period and assuming a discount rate of 8%, the net present value for the initial implementation is an estimated CNY 3.9 million (US\$471,584) and the internal rate of return for the investment is 13%. This shows that NCL is making good progress in realizing measurable benefits from the implementation. Over time, NCL expects additional quantifiable savings from centralized processes for purchasing and vendor selection, improved profitability analysis that enhances product margins, and greater efficiency in managing the company's working capital.

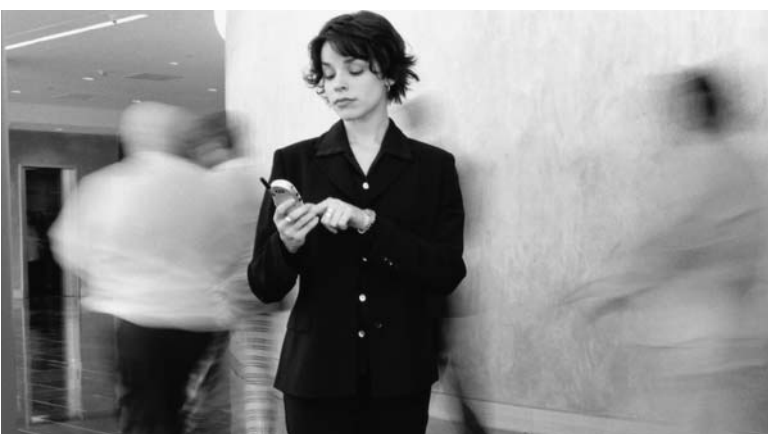
The company could enjoy additional near-term benefits with better training for end users and a formal channel for user feedback, further clarification in the roles and responsibilities for purchasing, and the real-time recording of receipts for physical goods. Longer-term benefits should become available as NCL continues to align its IT capabilities more closely with its overall business strategy.

COMPANY BACKGROUND

New China Life Insurance Company (NCL) was founded in August 1996 as a national specialized joint-stock company. Headquartered in Beijing, the company provides various life, health, and accidental insurance products. In addition to 14 Chinese concerns, NCL shareholders include the International Finance Corporation, Zurich Financial Services Group, Japanese-based Meiji Yasuda Life Insurance Company, and Netherlands Finance Development Company.

NCL stands fourth among Chinese life insurers with a market share of 5.8% at the end of 2004. At that time the company had 34 subsidiaries, 152 central branches, and 584 sales and service outlets. At the end of 2004, NCL had total assets of CNY 39.8 billion (US\$4.8 billion) – a 63% increase over 2003. Premiums increased 9.5% between 2003 and 2004 to CNY 18.9 billion (US\$2.3 billion). The growth in premiums was greater than any of NCL's peers and compares with an average industry growth rate of 7.2%.

In addition to rapid growth in underwriting, the company has significantly expanded its product mix. Supporting this effort is the recent restructuring of NCL into an insurance group – New China Insurance Holding Company Ltd. – whose offerings will include property insurance, pensions, health insurance, and asset management. The ability to offer pension and health insurance has become increasingly important with the recent opening of these areas to foreign competitors following China's entrance in the World Trade Organization in 2001. Strong marketing and advertising campaigns have continuously improved the company's branding and market influence.



CHALLENGES AND OPPORTUNITIES

Demand for insurance is growing rapidly in China, along with a robust economy and industry deregulation that has encouraged the development of many new products.

Driven by the new availability of multiple licenses, NCL and other major market players are emphasizing long-term business strategies over short-term management goals. Like other industry leaders, NCL is quickly evolving from a local, monolithic company with limited life insurance offerings into a diverse holding structure that manages multiple lines of business and caters to both domestic and international markets.

With deregulation, domestic insurers must now also adjust to increased competition from foreign-based firms. The entrance of outside providers will significantly raise the bar for domestic players with respect to customer acquisition and retention, product innovation, asset management, and risk management.

To compete against experienced foreign insurers with strong financial resources, NCL knows it must improve its innovative ability. The company must also expand its sales channels, distribution patterns, and service choices for both individual and group insurance – while developing its agency business. It must enhance profitability, underwriting performance, and management of its investment assets – which should soon include direct investments in stocks. In addition, NCL must handle ongoing regulatory changes – while creating a new corporate structure that unifies management at the group level and systemizes its day-to-day operations.

STRATEGIC GOALS

To meet these challenges, NCL plans to institute industry best practices and business processes that will help the company:

- Manage for competition and growth
- Reduce operational risk
- Standardize company management
- Improve operational efficiency

Specifically, NCL wants greater control over processes for decision making, operations, and areas of corporate governance such as controlling, reporting, and risk management. In purchasing and inventory management, for example, the lack of clearly defined processes had made it difficult for the company to gain any price advantage. Employment policies have also been inconsistent across the company. Cash management and many other processes have been handled manually. “Each subsidiary has had its own methods and criteria for allocating costs,” notes Shi Li, head of the financial management division at NCL headquarters, “which resulted in inaccurate data that could not be compared.”



APPROACH

To achieve its strategic objectives and improve its competitive position, NCL has set the following IT goals:

- In the near term, support product transformations to meet new market demands
- In the medium term, establish a unified platform for business development
- In the longer term, support product innovation and outstanding business performance – specifically with respect to the company’s investment return rate, insurance profit margin, and comprehensive expense rate

To meet these goals, NCL designed an IT application architecture with three tiers. In the first tier – at the group level – the system would help with business planning and decision making. In the second tier, within divisions, the system would support areas such as product research and development, management, and service. And finally, in the third tier, the system would provide an integrated and unified sales platform for all the business units.

NCL determined that the initial phase of the project would address these goals in the following key process areas:

- Financial accounting
- Controlling
- Purchasing and inventory management
- Treasury management
- Human resources

New China Life Chooses SAP® Solutions

After reviewing solutions from other international and local vendors that could handle these areas, NCL chose mySAP ERP for the following reasons:

- SAP’s reputation in the enterprise resource planning (ERP) field
- The widespread use of mySAP ERP in the insurance industry, including use by many top-tier firms
- The solution’s broad functionality, quality business content, and emphasis on industry best practices
- SAP’s long-term commitment to future quality insurance solutions

Implementation of mySAP ERP

Implementation of mySAP ERP at NCL began in November 2003. It included the design of the company’s IT architecture and deployment of financial accounting, controlling, purchasing, treasury, and human resources software. NCL used IBM as its implementation partner and employed a three-stage approach.

Project Preparation

In designing the implementation plan, NCL used the SAP® Consulting ASAP methodology and IBM’s Method Blue. The NCL implementation team included members from different groups, hierarchy levels, and physical locations. General managers of the IT and finance departments led the team, which worked seamlessly with the IBM implementation team and SAP consultants in China. As part of the preparation, NCL used a one-month SAP training program to facilitate change management at the company.

Key-Point Analysis and Blueprinting

As part of the company’s key-point analysis, a team of experts visited each of the departments that would be most influenced by the implementation – which included finance, accounting, human resources, business planning, actuarial, and investment – to gain a comprehensive understanding of the business process requirements involved and set the overall goals for system construction.

During blueprinting, NCL documented 224 financial and human resource process flows that the new system would handle. Due to the large number of users and huge volume of transactions that would be involved, NCL opted for a multilayer structure based on IBM server cluster technology and technology for an EMC storage local area network.

System Configuration and Testing

System testing – one of most time-consuming phases of the implementation – was carried out at NCL’s head office, subsidiary companies, and branches and required configuration of 168 organizations in the system. NCL also carried out detailed authorization configurations for more than 18,000 positions under 168 organizational units. The new configuration for role authorizations has strengthened centralized monitoring and enabled centralized approval functions for financial and human resources management. NCL also developed certain reports for various finance and accounting functions. After configuring the system and authorizations, NCL tested the system for each organizational unit to lay the foundation for the smooth go-live in November 2004.

Go-Live and Rollout

The pilot phase of the implementation at the company’s headquarters and its branches in Nanjing and Beijing was followed by a rollout at 32 subsidiaries. Finance personnel responsible for each of the subsidiaries participated in a 21-day, advanced training in the new system and business-process flows. There was also training for human resources employees.

Support

NCL understands the importance of creating a strong support framework to ensure a stable running of the new system and effective process standardization. To enhance support, NCL installed real-time communication software in the head office that could facilitate organization-wide problem solving by members of the implementation team. The software provides such collaborative functions as voice chat, messaging, and desktop sharing. NCL has also formulated procedures and policies for areas such as system maintenance, additional development, and approval of authorization changes. The system performance index and indicators of database and hardware functioning are tracked daily.

RESULTS

A postimplementation business assessment was conducted in November and December of 2004 to determine how well the new system was meeting NCL’s strategic objectives. The study provided both qualitative and quantitative assessments of the objectives and a ROI analysis for the system.

Qualitative Improvements

Supporting Competition and Growth

The study found that mySAP ERP has helped NCL simplify the flow of information and improved the availability, accuracy, and transparency of reported business data. The result is better, more timely information for decision making. With increased automation, the system has also improved reporting for taxation, regulatory compliance, and company performance that should make the company more responsive to changing market conditions.

“One of the system’s strengths is the chart of accounts mechanism, which makes it easy to consolidate the financial reports of subsidiaries and make data comparisons,” says Chen Yijiang, finance department manager at NCL’s Beijing branch. He notes that this is a good example of how the system has improved support for a multilevel organizational structure.

By supporting standard cost allocation, the system helps management track the profitability for individual products and adjust its business strategies accordingly. The ability to track inventory centrally and more quickly helps managers assess the need for purchases more accurately and reduces waste. Bank reconciliations can also be done more quickly. Once NCL has been through a full budget cycle, the system will facilitate intelligent budget planning by enabling the retrieval of historical data. With central storage of all employee data, it is easier for NCL to track total employee costs for individual departments. “Released from the more labor-intensive tasks, I can do more analytical and management work,” says Ly Jianguo, deputy manager of the finance department at NCL’s Nanjing branch.

Reducing Operational Risk

Reporting that is more accurate and more automated – along with enhanced mechanisms for management tracking, controlling, and feedback across the organization – has helped NCL reduce operational risk enough to undertake its ambitious expansion plans. Financial reports are more accurate and NCL has better control over its expenses and employment policies. Intersubsidiary transactions are more reliable and processes like purchasing can be revamped to support large operations in the future.

Standardizing Company Management

The implementation of mySAP ERP has affected 64 financial processes and 65 human resources processes across the organization. These processes have been defined, managed, and applied throughout all NCL offices according to industry best practices. Standard processes have been implemented for purchasing, treasury management, financial accounting, controlling, and human resources. NCL now has a well-defined, end-to-end purchasing process that is enforced across the company, as well as standard processes for cash-budget planning. In addition to helping NCL manage and track these processes, standardization has made data more complete. The result is both better decision making and a firm base for future business expansion.

Improving Operational Efficiency

Greater operational efficiency has reduced the time involved in day-to-day operations, cut direct purchasing costs, and improved working capital efficiency by enhancing capital turnover and reducing cash balances that the company holds. Minimizing costs in such business-support functions should help NCL be more responsive to international competition. “NCL enhanced its management and controlling ability after the successful SAP implementation,” according to NCL chairman Guan Guoliang. “Using the SAP solution has greatly improved operational efficiency.”

Quantitative Results

The business assessment study quantified specific benefits for operational efficiency due to effort reduction and savings in direct purchase costs.

Effort Reduction

The study analyzed and quantified processes that either experienced a major and lasting reduction in effort from mySAP ERP or were identified as important by NCL. The study then used these processes to represent overall impact of the implementation in calculating ROI.

General ledger: NCL expects to realize effort savings in general ledger activities after integration with the company’s core business system. Assuming that the integration is completed by mid-2006, the organization as a whole will save 2,282 employee-days annually.

Month-end closing and reporting: mySAP ERP provided significant effort savings in the production and consolidation of required reports. The savings in total effort across the organization for the first year is estimated at 2,853 employee-days.

Intersubsidiary transactions: Using mySAP ERP for the reconciliation of expenses, cash, and assets across NCL subsidiaries is expected to produce first-year savings of 854 employee-days.

Purchasing and inventory management: mySAP ERP substantially reduces efforts for goods receipt and issuance. This, plus automation of inventory maintenance and the production of finance reports, is expected to produce an overall first-year savings of 3,482 employee-days. “The system has brought big changes for the inventory management process,” says Meng Xia, accounting division manager at NCL headquarters.

Bank reconciliation: By automating the clearing of open bank items during reconciliation and significantly reducing the time to prepare bank account balance sheets, mySAP ERP should provide first-year savings of 722 employee-days.

Cash budget planning: Reduced effort in bookkeeping during the budget-planning process should produce first-year savings of 35 employee-days. “In addition to saving time and effort, having the system handle cash budget planning will improve planning accuracy,” says Huang Dandon, the treasury division manager at NCL headquarters. “It will also improve cash concentration and save funding costs.”

Payroll: In payroll processing, the new system significantly streamlines reconciliation of employee welfare fund contribution data with the bank account statement. Substantial benefits are also achieved in monthly salary calculation and reporting. The company expects these and other efficiencies in payroll processing to produce first-year savings of 741 employee-days.

Direct-Purchase Cost Savings

Through improved inventory management and control, mySAP ERP has also produced savings on purchasing marketing materials. The savings came from a better understanding of what current stock levels were and what current requirements (volumes) were, which led to an avoidance of unnecessary purchase volumes and wastage. Average cost savings for these purchases across the organization for the first year is estimated at 7.5% or CNY 900,000 (US\$108,827).

ROI Analysis

Assuming a discount rate of 8% – and projecting the savings from reduced effort and direct-purchase costs over a seven-year period – the net present value for the initial phase of implementation would be an estimated CNY 3.9 million

(US\$471,584) and the internal rate of return for the investment would be 13%. These numbers show that NCL is making good progress in realizing measurable benefits from the first phase of the implementation. The study found that, as process changes supported by the system continue, NCL could also receive significant and quantifiable benefits in the following areas.

Direct-Purchase Cost Savings

In addition to the quantified savings in direct-purchase costs from improved inventory management and control, mySAP ERP will provide further cost savings by facilitating centralized purchasing and vendor selection. The company expects major benefits from the following activities:

- Extension of centralized purchasing to items other than marketing materials
- Transition to strategic sourcing, where higher volumes through centralized purchasing would drive price savings
- Enhanced control over unauthorized purchasing
- Optimization of total purchasing cost and value of purchase by informed vendor selection

Improved Product Margins

The increased availability of profitability analysis within NCL should give branch and product managers crucial information they need for allocating marketing budgets and pricing competitive products. This will help managers improve profitability through growth in market share and strategic management of product margins.

Working Capital Efficiency

By integrating accounts receivable and accounts payable processes, mySAP ERP can help NCL reduce working capital and devote organizational resources to creating greater shareholder value. Improved processes for cash-budget planning and execution should help the company optimize its aggregate cash balance.

NEXT STEPS

The business assessment study also identified several “quick wins” that NCL can achieve by leveraging functions installed in the first phase of the implementation. These include the following developments:

- Providing end users with better training and documentation that will make them more familiar with the new system
- Developing a formal channel for user feedback
- Further clarifying roles and responsibilities for purchasing and recording the receipt of physical goods in real time

The study found longer-term benefits as NCL continues to align its IT capabilities more closely with its overall business strategy. Recommendations include creating an IT road map that synchronizes development of IT solutions with the company’s business requirements, strengthens IT governance to ensure standardization across the enterprise, and aligns the organization with evolving IT capabilities to obtain maximum business value from IT investments.

In the second phase of the implementation, NCL plans to install financial and human resources analytics – as well as functions for business planning and budgeting. These enhancements should further improve NCL’s decision-making capabilities. With business-specific reports more readily available, the company expects to use available financial and human resources functions more fully in the decision-making process.

With the installation of SAP business intelligence capabilities, reporting capabilities and interactive analysis will be available. The SAP business intelligence capabilities will also help NCL calculate financial ratios and key performance indicators based on data available in the financial accounting functions of mySAP ERP and other solutions.

With implementation of SAP business planning and budgeting software, NCL can incorporate revenue planning into its annual budget-planning process. This will also streamline the budget process by providing workflow and other planning tools as well as enhance processes for risk management.

“In human resources, the first phase of the implementation concentrated on improving operational activities through greater efficiency and process standardization,” says Jin Zhining, human resources manager at NCL’s Nanjing branch. “In the second phase, we will add capabilities that will enhance our core competencies in human resources such as analytics, e-learning, recruitment, and performance measurement.”



APPENDIX

Postimplementation Business Assessment

The postimplementation business assessment sought to measure various benefits that NCL received from mySAP ERP by comparing the objectives the company had set for the implementation against their key performance indicators. The study quantified savings in effort and direct costs for key business processes in the finance and human resource areas following the first phase of the implementation and compared those savings with expenses for the implementation to calculate NCL's return on investment.

ROI Assumptions and Rationale

The calculation of ROI for the first phase of the implementation assumed a discount rate of 8%, and a time horizon of seven years, considering prorated investment costs according to the SAP TCO model, which includes all the costs that occur during the life cycle of a deployed software solution.

The calculation assumes that by investing in SAP solutions, NCL will avoid the opportunity costs of purchasing additional UFIDA (a local ERP vendor) licenses for finance. Under the rationale that users take time to realize benefits from new processes and a new system, the calculation assumes a 30% reduction in cost savings for the first six months after the implementation. Additional assumptions include a 15% growth in revenue for the first three years and a growth rate of 10% for the following four years. The calculation also assumes that benefits from integration into the core business system are realized from the third year forward.

Quantifiable Improvements

Projected over seven years, the savings from reduced effort and direct-purchase costs result in a net present value for the initial phase of implementation of an estimated CNY 3.9 million (US\$471,584) and an internal rate of return for the investment of 13%.

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