

## Investor Day Q & A

(December 15, 2017)

- 1. Q: The share of long-term insurance and agency performance ratio measured by long-term policies are already quite high. What steps will you take to further improve them?**

A: Improving the performance ratio is one of our priorities. This year, the ratio (measured by long-term insurance) already exceeded 40%. Going forward, we'll take the following steps: 1. Enhancing selection of new recruits. 2. Stepping up agent training to improve their skills. 3. Developing products specifically for new agents, say, those with less than one year of service, to help them improve skills and make sales. 4. Better support for agents via cross-sell and sharing of customer resources. We are now working on the mechanism of sharing of orphan policies to drive the performance ratio. That being said, there is a natural ceiling on the ratio, and we hope it stabilizes at a certain level, say, over 40%.

- 2. Q: Half-year VNB grew only 4% from 2016, while VNB per customer by 10%. That seems to indicate lower customer numbers. But you reported growing numbers of long-term insurance customers. How do they add up?**

A: VNB for 2016 was 19bn yuan, and that for 1H 2017 was 19.7bn, and these two numbers cannot be compared directly. The

growth versus 1H 2016 was 59%. VNB per customer was calculated by dividing 19.7bn by the number of long-term insurance customers during the reporting period, which was 4,449.

**3. Q: What is the difference between the *Chuantong*, *Fuwu* and *Guwen* sub-channels?**

A: The *Chuantong* sub-channel has a share of 76% of the business volume, which contributes the bulk of new premiums. The *Fuwu* sub-channel focuses on renewal business, while exploring opportunities of up-sell in the process of collecting renewal premiums. The *Guwen* sub-channel centers on urban areas, runs in parallel to *Chuantong*, with higher recruitment quality and productivity. We wish to increase the share of the *Guwen* sub-channel mainly in hope of improving penetration in central urban areas, better serving mid and high-end customers and lifting the productivity. From customers' perspective, the *Chuantong* and *Fuwu* sub-channels are connected, one focusing on new customers, while the other on collection of renewal premiums.

**4. Q: Could you elaborate on the Alpha Insurance and the impact it has made?**

A: Alpha Insurance is not an insurance product. It's a "blockbuster" customer-end app in the context of implementing the digitalization strategy. Customers can calculate their needs for risks cover by following simple procedures, and this may help to

foster and stimulate the public's demand for insurance. We are now working on its upgrades to add to the tool-kit of communication between agents and customers.

**5. Q: Please give us more color on the design of your 2018 *Kaimenhong* products. How do they compare with products of your peers?**

A: *Jubaopen* is the pillar product of the 2018 *Kaimenhong*. It is in full compliance with CIRC Document 134. By design, it is a participating product and no longer offers fast return of premiums. The insured is entitled to a one-off return of 18% of annual paid premiums at the 5<sup>th</sup> policy anniversary, 18% of basic SA starting from the 6<sup>th</sup> policy anniversary throughout the life of the insured, and 18% of paid premiums annually for 6 years starting from the 25<sup>th</sup> policy anniversary or 65 years of the insured (whichever is earlier). Therefore, it is much different from the *Kaimenhong* products for 2017, or those of our peers.

Another product, *Laolai fu*, is yet to be officially launched. Basically it's a pension product, and may offer, purely as an example, a monthly withdrawal of 3,000. It is also fully in compliance with Document 134.

**6. Q: Could you talk about your strategy for property and casualty business?**

A: CPIC P/C, as an important subsidiary of the Group,

has seen a recovery of top-line growth quarter by quarter since the beginning of the year, with steady improvement of the combined ratio. Industry-wide, the growth of non-auto business picked up while the reform of automobile insurance further deepened.

Key drivers of non-auto business growth: 1. Rapid growth of agricultural business. Agricultural business has become the second largest line of business for property and casualty insurance, with big potential. We have deepened collaboration between CPIC P/C and Anxin Agricultural and made big progress in innovative products development. We have confidence that our share of China's agricultural insurance market will continue to grow. 2. The emergence of new products to support China's real economy, such as major equipment insurance to boost the Made in China agenda, or niche liability insurance to meet increasing demand for insurance cover in food safety and environmental protection. In the process of intensifying support for the real economy, we'll continue to step up the development of emerging non-auto business lines.

The second round of deregulation of automobile insurance is a big challenge for us. On the other hand, major players could be in a more advantageous position because of their strengths in brick-and-mortar network, cost control and branding.

**7. Q: How does your 2018 *Kaimenhong* products compare with**

**those for this year?**

A: We have adjusted the product design for the 2018 *Kaimenhong* to better satisfy customer needs. For example, the *Jubaopen* product provides cover for both children and the elderly population, better aligned with customer's needs, with slightly higher margin. Going forward, we'll launch more protection products, like *Anxingbao*, *Jinyou*, and *Aiwuyou*, which provide personal accident, health and disease cover, with higher margin. Overall, long-term savings and long-term protection will be the focus of the 2018 *Kaimenhong* strategy, with slightly higher VNB margin.

**8. Q: What uncertainties do you face for the 2018 *Kaimenhong*? Do you think the current focus on savings will be a distraction from protection business? Do you think the slow-down of the *Kaimenhong* will adversely impact agency channel head-count growth? How do you ensure the fulfillment of the 1 million target in the number agents by January?**

A: Statistics for the *Kaimenhong* so far did not exceed our expectation, but they have mostly fulfilled our target for the first stage. The number of performing agents grew rapidly, but the regular pay FYP business requires more efforts. Of course, we are still in the early stage of the *Kaimenhong*, and our target is to

deliver positive growth for both VNB and the regular pay FYP business, in spite of the high base effect.

We might face more uncertainties for this year's *Kaimenhong*. 1. The impact of Document 134 may gradually show up; 2. The upswing of market rates will lead to higher yields on wealth management products. 3. As customers become more sophisticated, the number of extra-large policies, say, those with a premium of over 1 million, may decline. To cope with these challenges, we plan to improve the number of performing agents to offset this adverse impact. So far, the business mix for *Kaimenhong* is improving, with stable VNB margin.

As for head-count, the growth now is 15%, and it is expected to reach 1 million by January 2018. Head-count growth will slow down since 2018 both for the industry and the Company. We will persist in the focus on productivity, make more efforts to tap our potential and increase the share of LTP business steadily.

**9. Q: Your agent income lags behind those of your leading peers. Why? Any measures to catch up?**

A: That's a key area we will work on next step. Higher income helps a lot with retention and productivity. Admittedly, our agent income lags behind those of our leading peers. But it has been on a steady increase over the years due to the following initiatives. 1. Better sales skills; 2. Improving productivity; 3. Differentiated commission regime; 4. Cross-sell products from, say, our property

and casualty, health and pension subsidiaries.

**10. Q: What concrete steps will be taken to support existing and new agents?**

A: 1. The integration of the indicator of “rolling 4-month active agents” into agency performance evaluation; 2. Step up support for agents in service for 4-6 months; 3. Increase stability of head-agents which in turn will improve the retention of manager-level agents.

**11. Q: Your slides showed an increase of Q3 FYP per agent from 2016. But the productivity for the first half of the year actually dropped. Why?**

A: They are not entirely comparable, as one covers the first 3 quarters of 2017 while the other the whole year. Besides, our estimate is that the FYP per agent per month for the whole year of 2017 will also drop slightly, similar to the half year trend, mainly due to business mix shift, i.e., higher proportion of protection and in turn, 10-year-and-above pay duration business, which was a drag on productivity. FYP per agent is only part of the picture. We focus more on improvement of average agent income.

**12. Q: What is your guidance for agency channel head-count by the end of 2018? And that for the next 2-3 years?**

A: Our head-count growth target for 2018 is around 10%, with better sales force mix. In particular, we hope the number of active and high-performing agents, and especially the number of active ones measured on a rolling 4-month basis, can grow faster than the overall head-count.

**13. Q: What metrics do you use to measure up-sell? What is the potential of further improvement?**

A: Over the past 10 years since our listing, the average SA for critical illness insurance increased from 38,000 to 122,000. Yet there is still a huge protection gap both in terms of range and level of protection. From a full life cycle perspective, a customer may need up to 9 policies, and the number for CPIC now is less than 2. Statistics indicate that the average number of insurance policies per person in Japan is 8, and 3 for the US. Given our customers of over 100 million, we believe that there is huge potential in up-sell.