

## **Summary of 2019 Interim Results Announcement Q & A**

(August 2019, Shanghai )

**1. Q: The Shanghai Government sends the message to encourage the establishment of long-term incentive mechanisms. Will you launch share option schemes or similar plans to retain high-caliber people?**

A: The SOE reform will have far-reaching consequences for us. In the past decade, it means IPO and securitization, making CPIC a Fortune Global 200 company. A week ago, Shanghai convened a meeting on SOE reform, calling for all-around SOE reform and creating a favorable environment for the endeavor in the region. As chairman of CPIC, I am very excited. The centerpiece of the pilot program on incentive system is sharing of risks and rewards, in a bid to attract and retain talent. Actually, we have a project specifically for human resources under Transformation 2.0, which seeks to enhance our organizational health. We will persist in long-term capacity-building and the establishment of long-term incentive systems, and seriously consider the share option scheme or other long-term incentive systems based on regulations and our own realities. As a listed company, we must follow rules on information disclosure, and for now, that's all I can say. We will

make public announcements should there be any further progress.

**2. Q: Your presentation material highlights Transformation 2.0 and some of its achievements. Do you have related KPIs for management?**

A: In the light of our past experience in transformation implementation, we adopted project management methods and put in place mechanisms with our own characteristics to push forward Transformation 2.0. Essentially 4 roles are involved, namely, decision-making, execution, think-tank and management, with division of responsibilities but also close co-operation between them. There is monthly and quarterly review of the progress. So far, we have launched 14 projects, and of them, measured by progress, 7 got the green-light label, 8 amber and 2 red. We also formulated the annual performance evaluation plan with incentive mechanisms. There are KPIs for each project manager and team, which include management of both the Group and the subsidiaries. Transformation is also part of their annual performance and term performance evaluation. These mechanisms helped to rally forces to boost implementation of our transformation initiatives.

**3. Q: You talked about creating value through enhanced**

**synergy. How? Do you have any indicators to measure this?**

A: Synergy is a way for firms to utilize resources more effectively, which includes the sharing of not only customers, channels and products, but also that of brands, IT capacity and other operational resources. Currently, the centerpiece of the effort to boost synergy is to co-ordinate various business segments, so as to establish an integrated customer service model to meet customer's diverse needs. In the first half of the year, we basically took the following steps. First is to establish mechanisms and institutions, such as the Collaborative Development Committee, which consists of the panel for corporate/government clients and that for individual customers. At the branch office level, we set up the Joint Task Force for Strategic Customers on the P/C side and the Joint Task Force for Cross-sell on the life side, putting in place a comprehensive system to boost synergy, with the Group at its centre and the participation of subsidiaries and their branch offices. Second is to innovate an integrated customer service model with our own characteristics, by means of establishing 100 Exemplary Sites for Cross-sell and the Eco-system of 100 Major Clients. As for individual customers, we seek to diversify the product line-up for the agency channel, including products manufactured by other subsidiaries within the Group, boost the building of a dedicated service and product

system, so as to promote the transition from merely selling products to management of customer's full life cycle. In H1, under the collaborative business model, we realized RMB8bn in premiums, a growth of 40%, and the number of customers holding 2 insurance policies and above amounted to 23.45mn, up 15.7%, with the number of individual customers holding insurance policies across subsidiaries reaching 7.24mn, an increase of 1.63mn from the end of 2108. As for strategic customers, we seek to establish an integrated sales organization system, and explore the provision of integrated solutions depending on sectors and industries. We plan to jointly develop 200 strategic customers, and the target in the next 5 years is 1000. In H1, at the Group level, the number of strategic partners increased by 24% from the end of 2018. We successfully won all the bids by 25 municipal and provincial governments for trustee of occupational annuity. Third is to enhance digital empowerment of the front-line. We developed a special module for the Digital Agent App, integrating personal lines insurance products across different subsidiaries, realizing real-time sharing of customer journeys across subsidiaries, improving the efficiency of sales and customer service. We pushed for upgrading of the management platform for collaboration business at the Group level, which served as management tools for back-office management at

various levels, leveraged our strength in data analytics to support value contribution analysis of our strategic customers.

**4. Q: What did you do to increase digital empowerment, say, in terms of helping agents improve productivity or acquire customers, or improving the operational efficiency of your P/C business? Any plan for H2 or next year? What is the gap between CPIC and your peers in the use of technology?**

A: We put a lot of effort into new technologies, and in the context of transformation, made big progress in architecture and structure, with a 15% to 20% improvement in delivery. There are dozens of projects under way for life and P/C insurance. For example, the app for training seeks to empower the field force of life insurance, which already shows great potential since its debut. It covers life insurance agents, customers, class supervisors and trainees, integrating the learning process and enhancing the training effectiveness, with a graduation ratio of 70% to 80%. Besides, the app for intelligent customer visits can optimize customer interaction activities. So far, it has supported 19,000 customer meetings, involving 650,000 visits by agents. It enables its users to access the full process of the activities, providing better support to customer service. At the same time, we launched a number of apps based on

AI big data capabilities. In voice and image recognition and knowledge atlas, we are on a par with our peers, with over 60mn voice interactions in service, sales and operational risk control. On the property and casualty side, in the case of, say, Lekima Typhoon, our cat platform is based on oceans of underlying data, remote sensory, satellite monitoring and regional partitioning, achieving direct visualization of natural catastrophes. Going forward, we will push forward digital transformation, enhance capabilities in governance, research and data service, platform co-ordination, and innovation commercialization, putting in place better mechanism for agile response to empower the front-line business.

**5. Q: Could you explain the relationship of OPAT, operating variance and unwinding of residual margin?**

A: We disclosed OPAT for the first time, which, considering the practice of our peers, stripped out the impact of short-term investment volatility, changes to actuarial assumptions and material one-off items. Thus, OPAT consists of unwinding of the residual margin, interest rate spread and operating variance. Of these, the operating variance is positive, and other factors are not much different from those of our peers in terms of their contribution to OPAT. In the past years, our OPAT growth was around 15%, and

this year Group OPAT growth was 14.7%, and of this, that of life insurance was 18.9%.

**6. Q: In terms of your shareholder dividend policy, do you mainly consider accounting profits, or as some of your peers do, link this with OPAT?**

A: We are always committed to generating reasonable and sustainable returns for our shareholders while pursuing healthy development of the company. Since our IPOs, DPS had been on steady increase, with the pay-out ratio leading among our peers. For the 2019 interim results, we disclosed operating profits for the first time, in hope of giving more color around the fundamental of our long-term life insurance business. Going forward, we will gradually transition towards OPAT as the basis for dividend levels, while considering other factors like net profits and solvency.

**7. Q: Your half-year VIF growth was 6.5%, lower than what we had expected. Why?**

A: VIF growth in the first half of the year was 6.5%, a bit slower than before, mainly due to the slow-down of NBV growth and the high base of VIF from the previous year. Another factor is changes to actuarial assumptions. In the long term, VIF and EV growth will be

stable, and could maintain double digit growth for the whole year.

**8. Q: Your H1 NBV declined. But cost of capital increased. Why? In the sensitivity analysis, in the case of a 10% rise of surrender ratio, VIF increased instead of decreasing, and why? Is it because of NBV?**

A: Higher cost of capital was mainly due to the impact of business mix, i.e., increased share of tradition insurance in long-term protection business, which requires more capital. As for surrender ratio sensitivity, it was mainly because of business mix and policy duration. We do have certain products where higher surrender positively impacts VIF. Of course, there are other products whose higher surrender adversely impacts VIF. The final sensitivity is the result of these factors offsetting each other. It is in the normal range, and is not necessarily correlated with NBV.

**9. Q: Your NBV growth was lower than average, and why? What will you do to address this gap? Is it possible for the whole year to turn positive?**

A: China's life insurance sector entered a new phase of development last year, shifting from high growth to high quality development. To adapt to these changes, CPIC launched



Transformation 2.0, which, on the life side, strives for a transition from a development mode driven mainly by headcount growth to one underpinned by both headcount growth and quality improvement. Our interim results may not be very impressive, but our confidence of the future remains the same, for 3 reasons. First, we persist in a business philosophy centering on sustainable value growth. Second, we boast a team of managers who are committed, strongly motivated and highly capable at different levels of our organization. Third, we have experience of a successful transformation, and know that transformation needs time, tenacity and perseverance. Fourth, the company has built consensus around the new round of transformation, that is, Transformation 2.0 is more difficult and requires more time. Transformation 1.0 is like doing “plus and minus”, “plus” meaning boosting the development of the agency channel and “minus” exiting from low-margin bancassurance. But this round transformation is like doing multiplying and dividing. “Multiplying” refers to the focus on value growth and empowerment of the sales force by training, digitalization and services so as to shift the driver of development. “Dividing” requires a change of mentality, no more “business as usual”, while focusing on capacity-building. If I may use the analogy of a marathon. Your steps get heavy and you begin to gasp for

breath. Then you need to adjust the pace, changing gears perhaps. The key thing is to train for a stronger heart, more powerful lungs and firmer muscles.

As for specific measures, we will persist in sustainable value growth, focus on the empowerment of the agency channel to pursue high quality development. As part of transformation, we are working on a new development mode of the agency channel, such as enhancing the skill sets of agents, putting in place a multi-tiered and differentiated system of management, transitioning from the mere focus on recruitment towards both recruitment and retention, so that business development can be on a more sustainable footing. Of course, that involves a lot of work on the ground, and we are now proceeding according to plan. As for guidance for the whole year, I am afraid I cannot give concrete numbers at this moment, and for life insurance companies, long term is more important than short-term results, and we are still confident of the long-term future.

**10.Q: What would be the key drivers of NBV growth in H2?**

**Margin enhancement or FYP growth?**

A: The main driver will be new business growth, while the NBV margin will be largely stable. Of course, the product mix will be slightly different from that in the first half. In July, we launched a

long-term protection product “*Jinfu Rensheng*”, with a margin higher than its previous version, and this will help with value growth.

**11. Do you have any differentiated measures to drive agency productivity improvement, say, stepping up investment?**

A: This year China’s life insurance sector seems to have hit a soft patch, mainly because of the bottleneck of agent headcount growth. In a new stage of development, we believe improving agent productivity is a path we must follow. Going forward, we will take the following steps in the context of Transformation 2.0. First, put in place a segmented and differentiated management system for agents to grow the number of high-performing agents and expand the cohort of core agents. Second, step up efforts to foster top agents, including enhancement of the honor system for premier agents. The centerpiece of the effort is to strengthen the training system to better empower the sales force, such as enhancing the basic training, improving the competence of lecturers, improving training materials and increasing the use of new technology for higher effectiveness of training. At the same time, we are contemplating amending the regulations on management of agents, seeking to shift from the sole focus on recruitment towards both

recruitment and productivity gains, with increased regional differentiation. We hope this could help with long-term retention. Third, improve the quality of the sales force through empowerment by digitalization, services and training. Admittedly, these may not be so much different from the strategies of our peers. But I believe the basic things of life insurance are stable, and the difference is whether you can consistently execute and make progress.

**12. Q: Your H1 FYP and the number of long-term insurance policies per agent per month both dropped. But FYC per agent increased. Why?**

A: There was slight improvement in per agent FYP, income and FYC, because of decline of total number of agents given mounting pressure in recruitment. Commission levels remain unchanged.

**13. Q: Average income per agent per month increased. Could you elaborate on the mix? Do you have any concrete plans to grow their income in the next 1-2 years?**

A: FYC per agent per month was RMB1,250, a bit higher than before. Total income per agent per month was about RMB3,300, and to be honest, this is not much compared with the average salary of employees in urban areas. To improve agent income, the

key thing is to establish a segmented and differentiated agency management system, focusing on the income and retention of core agents, like high-performing agents, via digital, service and training empowerment.

**14.Q: Your property and casualty business fared well, with combined ratio improving vs. your peers worsening. What did you do? How do see its future trends?**

A: In the second half, with the deepening of commercial auto insurance deregulation, the average premium per policy may continue to drop, driving up the loss ratio. On the other hand, with tightened regulation, commissions started to fall, but this would lead to higher expense ratio due to increase in unearned premium reserves. All this, with continued decline of new vehicle shipments, means sustained pressure on auto insurance business in H2.

As for non-auto insurance, there was the impact of Lekima which landed in Zhejiang Province. We are still in the typhoon season, and given the loss development of pig fevers, we are cautious about outlook of the non-auto business in H2.

As for coping measures, first is to enhance quality control. Actually, after years of effort, now we have built quite a solid foundation in business quality oversight. But in the face of commercial auto

insurance deregulation and natural disasters, there is still room for improvement. For example, we launched the risk radar and the platform for risk inspection for Typhoon Lekima, which greatly improved customer satisfaction and helped to reduce claims costs. Of course, more needs to be done. The E-Agricultural System, after 5 years of continuous upgrading, has launched its 5<sup>th</sup> version. But further upgrading is still required, say, to handle pandemics like pig fever. Second is the enhancement of the customer-oriented management system to further tap the value per customer. Third is to step up digital empowerment, which helped to improve operational efficiency and lower costs in the past several years. Besides, it enhanced customer experience and the branding of “CPIC Service”. In short, we are facing lots of pressure and uncertainty in the second half, and what we need to do is strengthen our business management capabilities while securing past achievements.

**15.Q: The health business of your property and casualty operation grew very fast, but its combined ratio is also very high. Do you foresee any room of improvement? What is your strategy for this business line?**

A: The main driver of growth in H1 was non-auto business,

particularly overseas business, personal lines including personal loans guarantee insurance and government-sponsored business. Personal lines business grew by over 50%, and of this, PA and homeowner's were doing fine; health grew fast, but the combined ratio exceeded 100%. First, rapid growth of this business line had an impact on reserves brought forward; second, it is an emerging business line, and its business management control needs to be enhanced. Going forward, we will fully leverage the core resources of the Group, combining the expertise of CPIC Allianz Health and the network of CPIC P/C to drive collaborative development.

**16.Q: On the side of investment, you disclosed the duration of your bond allocation, which is 15 years. What about the yields? What is the respective duration of assets and liabilities?**

A: Insurance fund is long-term money. So the core principle of our asset liability management is long-term, value and prudent investing, and the priority now is to extend asset duration to narrow the asset liability duration gap. In H1, and in particular from the beginning of Q2 till now, the yield on 30-year T-bond fell by over 30bps. We pro-actively increased allocation in 30-year T-bonds while its yields staying relatively high. The average asset duration thus became a bit longer, at around 6.5 years. The average

duration of liabilities is 15-16 years, and that means a gap of less than 9 years, which is normal for life insurance companies. We will continue to monitor the gap, making sure it remains largely stable. At the same time, our solvency margin ratios are stable and high, laying a solid foundation for asset liability management.