Investor's Newsletter（Feb. 16, 2022） vol. No.3 in 2022

CPIC（SH601601, HK02601, LSE CPIC）

Stock Data (ending Jan. 28, 2022)

Total equity base (in million)	9, 620
A-share	6, 845
H-share	2, 775
Total Cap (in RMB million)	232, 653
A-share	179, 751
H-share (in HKD million)	64, 803
6-month highest/lowest	
A-share (in RMB)	29. 84/25. 59
H-share (in HKD)	25. 80/20. 95
GDR (in USD)	22. 50/20. 10

IR Calendar

Contents

Investor Relations Department

Tel: 021-58767282

Fax: 021-68870791

E-MAIL: ir@cpic.com.cn

Add: 15F, 1 Zhongshan Rd. S.

Shanghai, P.R. China, 200010

Contact: GONG Zheng

Tel:021-33968661

E-MAIL: gongzheng-001@cpic.com.cn

Premium Income (Unit: in RMB million)

	Jan.- Jan.	Changes	Jan.	Changes
P&C	21, 011	12. 67%	21, 011	12. 67%
Life	55, 884	-1. 13%	55, 884	-1. 13%

Regulatory Updates

● Regulator enacts rules on related party transactions

The Provisions requires banks and insurance companies to further safeguard their operational independence, control the number and volume of related party transactions (RTPs), and in particular prevent "channelling gains to shareholders and their related parties" via complicated arrangements such as multi-embedded structures.

The document explicitly bans the conduct of channelling gains to related parties through complicated structures or using "passageways" to bypass regulation. Banking and insurance institutions shall optimize the identification of related parties and RPTs, enhance management of RPTs off balance sheets, in asset management or conducted with industry peers while abiding by the "substance-over-form" and "look-through"principles.

Related parties are identified depending on magnitude of impact and risks. Key related parties shall include majority shareholders, de facto controllers of substantial shareholders of banking and insurance institutions and the legal entities under their control to forestall "channelling gains to shareholders" , subsidiaries of banking and insurance institutions to prevent using them as "passageway" to channel interests, and connected commercial banks to prevent major shareholders from siphoning off bank funds via covert shareholding of multiple banks.

The regulator may choose to set or adjust proportional limits on RPTs management based on corporate governance, RPT risk status, and types or characteristics of banks/insurance firms. At the same time, it will enhance supervision of high-risk areas in RPTs such as granting of credit lines by banks, insurance fund investment and trust fund management, with formulation of respective proportional limits in order to rectify the irregularity of providing financing to major shareholders.

● CBIRC steps up information disclosure requirements for life/health insurance products

On Feb. 9, CBIRC issued the Exposure Drafts of Administration Regulations on Information Disclosure of Life/Health Insurance Products and Rules on Information Disclosure of Long-term Life/Health Insurance Products. According to these documents, life/health insurance companies shall disclose not only the contents and policy terms of their products on their official websites, but also the table of premium rates, illustration of cash value and product descriptions. Among long-term life/health insurance products, traditional products also need to provide product descriptions. Besides, the new rules reduced the levels of investment returns for advertised insurance benefits from 3 to 2, with the upper limits on interest rates further tightened. Interest rates for unit-linked continue to be in 3 scenarios: optimistic, neutral and pessimistic, with investment returns capped at 6%, 3.5% and -1% respectively. The rules also requires disclosure of the ratio of actual dividends and advertised dividends.

Industry Information

● Industry grows by 4.05% in 2021, maintaining position as world's 2nd largest insurance market

Industry annual primary insurance premium income amounted to RMB4.49tn, up 4.05%, far below GDP growth of 8.1% for the same period. Of this, premium income from property and casualty insurers reached RMB1.37tn, a growth of 1.92%; that from life insurance companies RMB3.12tn, up 5.01%. On the other hand, insurance claims payment increased by 14%, with sum assured growing by over 40%, mainly due to the reform of automobile insurance, which led to lower premiums and much higher protection, natural catastrophes and inflation of medical costs. Insurance penetration dropped from 4.26% in 2020 to 3.93% in 2021, with insurance density rose from RMB3,056 to RMB3,179. China remains the second largest insurance market of the world for the 4th consecutive year.

Company News

● Shanghai Guangci Hospital in test run

January 18 marks a key step of CPIC in establishing high-end health care network in the Yangtze River Delta region via equity participation, and the first major move of the company in deployment toward brick-and-mortar care providers. By building a full-process, full life-cycle health service system, CPIC strives to contribute to a multi-tiered health care system. The launch of Shanghai Guangci Hospital, with CPIC as a major shareholder and business partner, marks the deepening of strategic cooperation between Ruijin Hospital and CPIC, and would help explore a new model of cooperation between health care providers and insurance companies. Prior to this, the two sides jointly established Guangci CPIC Internet Hospital, which was unveiled on April 26, 2021.

● CPIC obtains land for retirement community in Beijing

On Feb. 8, CPIC Life acquired a plot of land in Daxing District in Beijing, which would be used for the construction of a retirement community under CPIC Home, catering for needs of residents in Beijing, Tianjin and Hebei. The project has a floor space of 60,000 square metres, with nearly 430 one-room and one-bedroom-one-living-room apartments which can satisfy needs for different levels of nursing and assistance. To date, there are a total of 11 projects in 10 cities including the one in Qingdao which was launched at the end of 2021, all of which are lined up under the brand of CPIC Home, with standardized lay-out.

Briefing

● Summary of CPIC Investor Meeting

On Jan. 24, CPIC hosted an investor call conference. Below is a summery of the meeting.

1. Q: It' s been a while since you kicked off the reform of your life insurance business. What difficulties or challenges you have encountered?

A: For all reforms, one common challenge is the change of mindset. The insurance industry has been heavily dependent on recruitment to acquire new business. However, given diminishing agent headcount dividend, this development mode is no longer sustainable, which calls for a paradigm shift from massive recruiting towards productivity and professionalism. It also requires optimization of resource allocation. Typically, 80% of industry resources are invested in new recruits, while retention rate was less than 10%. We will increase spending on existing agents to improve their retention, professionalism and productivity. Second, the capability of the agency force is yet to be enhanced. Agents have long been accustomed to group marketing, lacking skills in one-on-one sales, which is particularly important given restrictions on large marketing events due to pandemic control measures. The third challenge stems from staff capabilities. In the past, they mainly focused on the design of incentive schemes. But now they need to be able to train and support the agency force in NBS (needs-based selling), CRM (customer relations management)and activity management, which requires enhanced capabilities.

2. Q: How do you balance between short-term pains and long-term gains when pursuing transformation?

A: Generally speaking, long-term gains result from accumulation of short-term, or interim progress, and so there is not necessarily a trade-off. When pursuing reforms, one may have to tolerate short-term pains. No pains, no gains. Most reforms fail because of the unwillingness to tolerate short-term pains, which sometimes cannot be avoided because it takes time for new models or new conduct to deliver tangible benefits. At the beginning of a transformation, short-term results may even worsen. But this is by no means the reason for us to balk or waver, as we know very clearly that sticking to the old ways will have far more adverse consequences in the long term. Last week, I convened a meeting with heads of branch offices. I told them when in the face of such short-term pains, I' ll ask myself 3 questions: first, are we doing the right thing? Now we are pursuing customer-oriented transformation and focusing on compliance in business operation, business quality and customer service. No doubt that is the right thing to do, which is also in line with regulatory directions. Second, are we going about it in the right way? We are working on optimization of channels and platforms via a series of transformation initiatives. We believe that is the right way. Third, have we installed the right person? As long as we are doing the right thing in a right way, people will become the right people. In conclusion, all the answers are yes.

3． Q: Your peers are also pushing for agency channel restructuring. What makes yours different? How long do you expect the reform to last?

A: For agents, previously, their main job was to maintain customer relations, take them to marketing events, where sales activity is conducted. Now the sales mode is shifting to one-on-one. Second, in the past, the sales paradigm was underpinned mainly by product push, i.e., recommending a particular product to all customers for a period of time. Now agents need to provide comprehensive solutions covering more diverse products based on customer needs. For managers, their main responsibility was to recruit. The company spends heavily on this, but retention was low. This business model is costly and unsustainable. Therefore, the new Basic Law encourages managers to focus on retention, training them in activity management and coaching. In terms of recruitment, we are shifting from massive recruiting to only 4 new agents per manager per year under the new Basic Law, with requirements for retaining at least 2. This would greatly improve recruitment efficiency.

Termination of the reform agenda half-way through for fear of short-term pains will only lead to slow deaths. The paradigm based on customer needs has been tested in markets of the US, Vietnam and Thailand, and it works. The core is the determination to press ahead with reform to enhance agency force quality. We will keep you updated on the progress. So far, there has been sequential quarterly improvement on certain metrics, and we hope we could share more information on this on the occasion of Q1 report.

4． Q: You are rolling out the NBS project, and put forward the product “Golden Triangle”. In view of product mix, what is your guidance for NBV margin going forward?

A: As for protection business, our survey indicates that 67% of respondents plan to purchase more CI(critical illness) products, which shows that the demand for CI insurance remains intact. The weakness in recent months mainly resulted from sales push on the eve of CI Definitions switch, which somewhat brought demand forward. That being said, Huiminbao did have some crowding-out effect on CI insurance, as those who took out CI policies may actually think about medical cost reimbursement in the first place. With the enhancement of social security, and the launch of Huiminbao and million-yuan medical insurance programs, customer needs for medical insurance can be better met, and CI insurance will focus more on income loss compensation, and its growth will recover on a more normalized basis.

NBV margin moves in step with product mix shifts. Our product portfolios are based on protection business, namely, CI, medical insurance and traditional life insurance. Apart from this, pension and wealth management products promise to generate incremental growth, provided that there is effective agent activity management. Currently, agents on the average can sell more than 1 insurance policy per month, and we hope this could be mainly protection products. Next step, as their capability improves, agents can sell other products on a incremental basis, and this would minimize competition between our own products and help with margin. We are working on the adjustment of the product strategy. Of course, this takes time, and so does the adjustment of sales behaviors.

5． Q: In the past few years, agents have churned very heavily for the entire industry, leading to worsening policy persistency. How do you cope with this?

A： Attrition of the agency force does have profound short-term and negative impact on policy persistency, which we will continue to disclose in the upcoming annual report. But we are confident that this will considerably improve going forward. In the past, only staff on the payroll cared about this indicator. But under the new Basic Law, policy persistency would have substantial impact on agent bonus. So going forward this will be important for everyone, including agents, managers of agents (MoA), managers of managers (MoM), directors and internal staff.