



# Driving Sustainable Life Insurance Value Growth

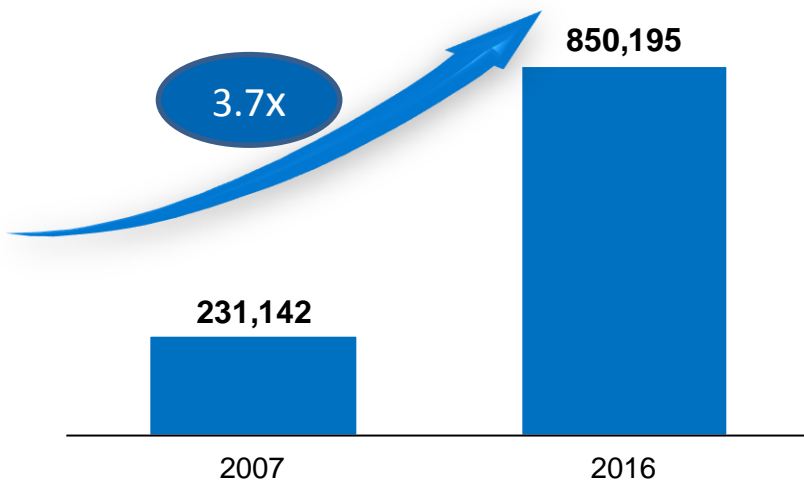
June 26, 2017

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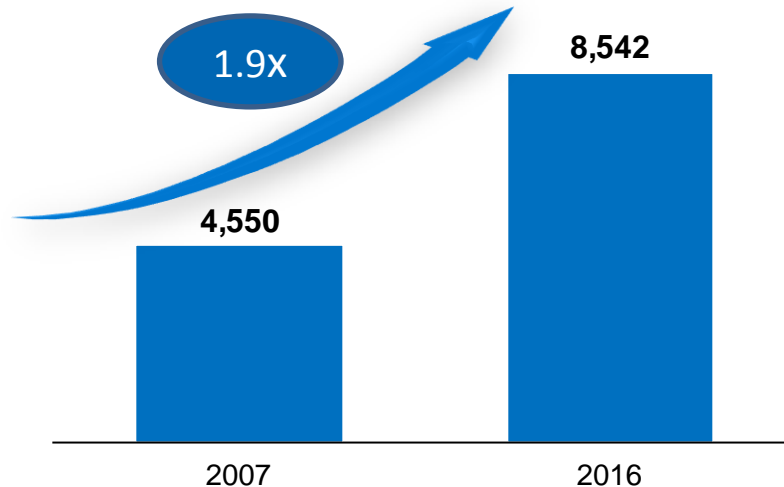
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# Sustained Improvement in Life Business Performance

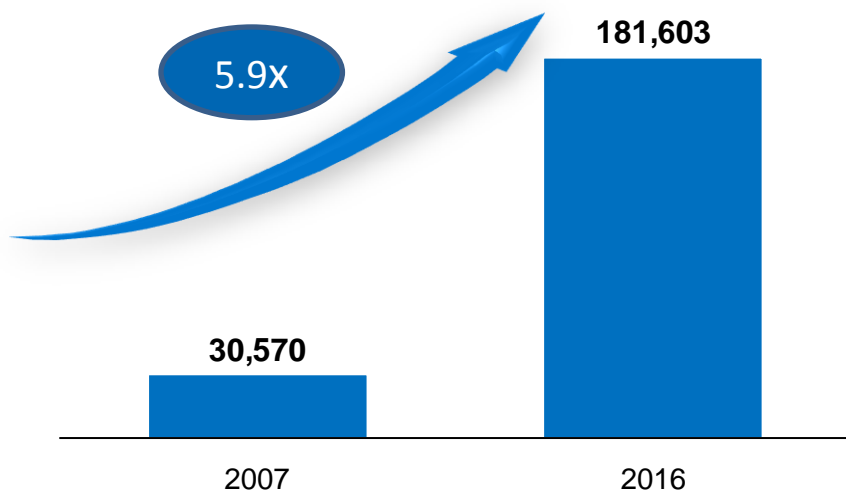
## Total Asset



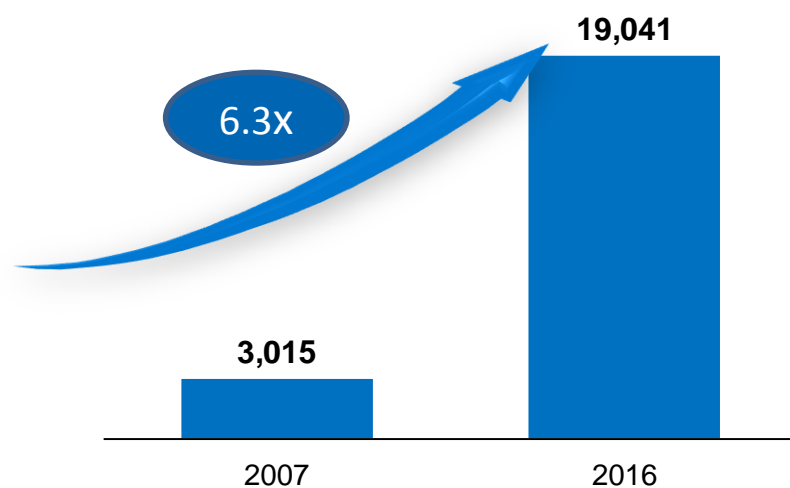
## Net Profit



## Embedded Value



## New Business Value





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## Part 1

### Analysis of Value & Profit Sources of Life Business

1. Fundamental change in the past 10 years, with continuation of transformation & upgrade
2. Shift of value growth mode, with development underpinned by multiple drivers

## Part 2

### Review of CPIC Life's Development Strategy & Outlook

1. Upholding protection as the key insurance value proposition to drive the growth of long-term protection business
2. Product strategy in the context of new regulations

# Part 1

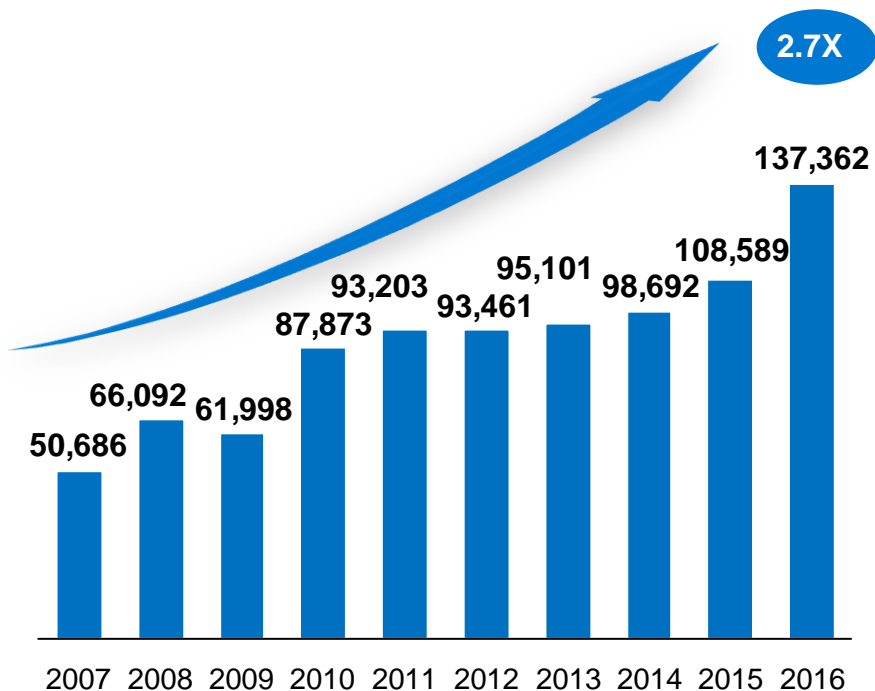
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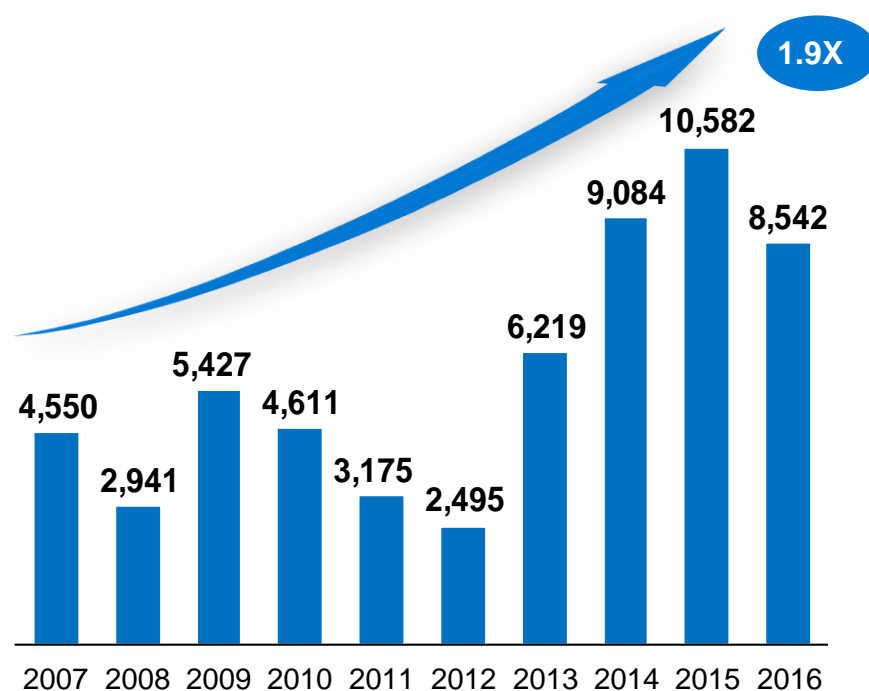
# Since 2007, Life Business Has Experienced Fast Growth in Premium and Profit

- Gross written premium of life insurance for 2016 was 2.7 times that of 2007 when CPIC was first listed.
- Net profit of life insurance for 2016 was 1.9 times that for 2007 when CPIC was first listed.

## Gross Written Premium

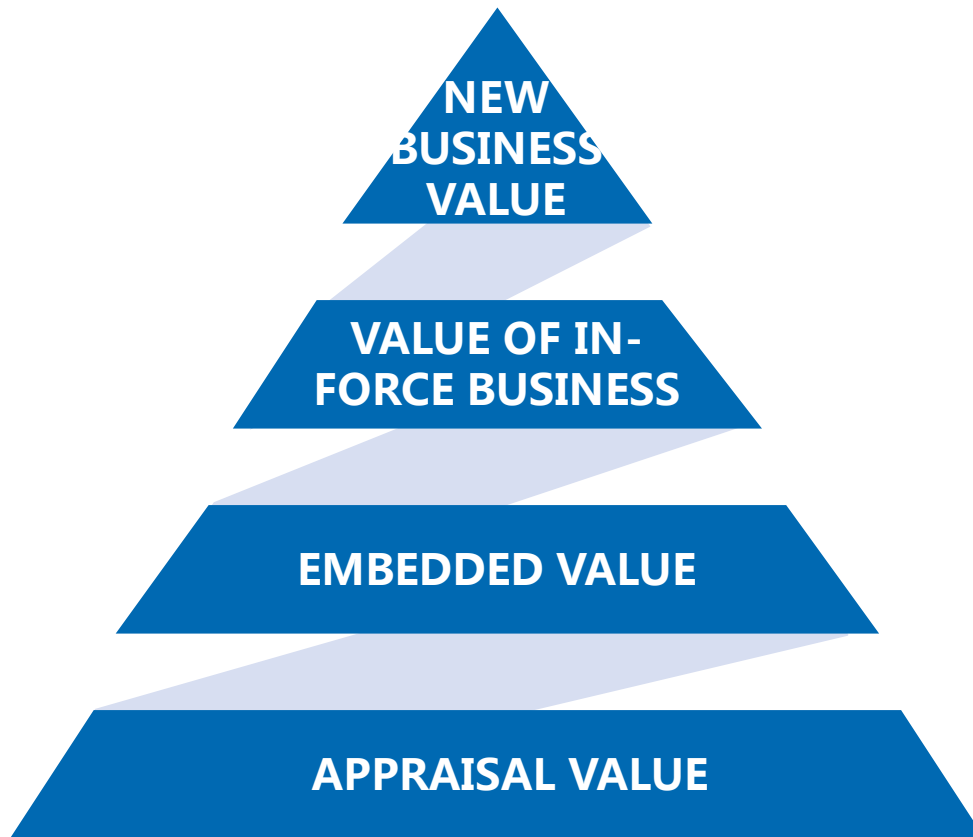


## Net Profit of Life Business



# Value Composition of Life Business

- Appraisal value, a measure of comprehensive strength of life insurers, mainly consists of EV and future NBV. NBV is a reflection of growth potential and sustainability.



## New Business Value

Present value of distributable profits generated by new business over the entire insurance policy period.

## Value of In-force Business

Present value of future profits on VIF at the date of evaluation, considering cost of required capital.

## Embedded Value

VIF+ adjusted net assets

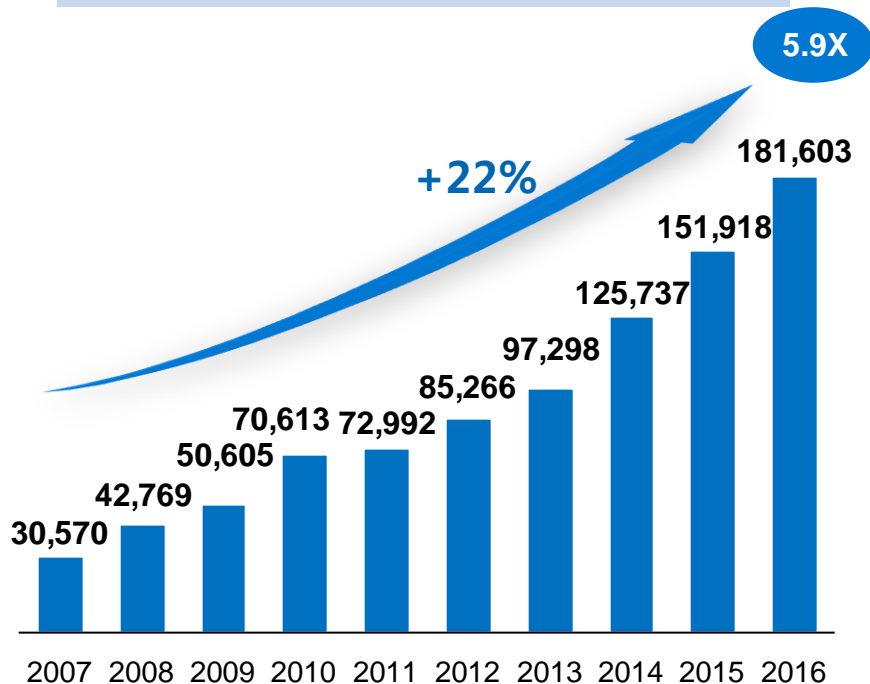
## Appraisal Value

$EV + \text{one year NBV} \times \text{NBV multiple}$ . The multiple is determined mainly by expected NBV growth in the future.

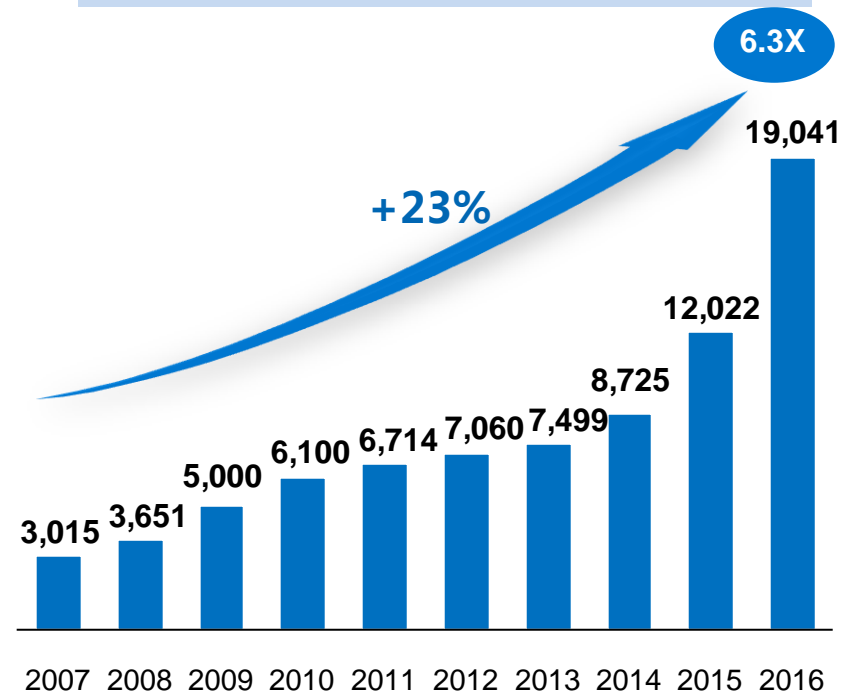
# Since 2007, Life Business Has Delivered Fast Growth in Embedded Value and New Business Value

- Between 2007 and 2016, the compound average growth of life insurance EV was 22%, and the EV in 2016 was 5.9 times that in 2007.
- Between 2007 and 2016, the compound average growth of life insurance NBV was 23%, and the NBV in 2016 was 6.3 times that in 2007.

## Embedded Value



## New Business Value



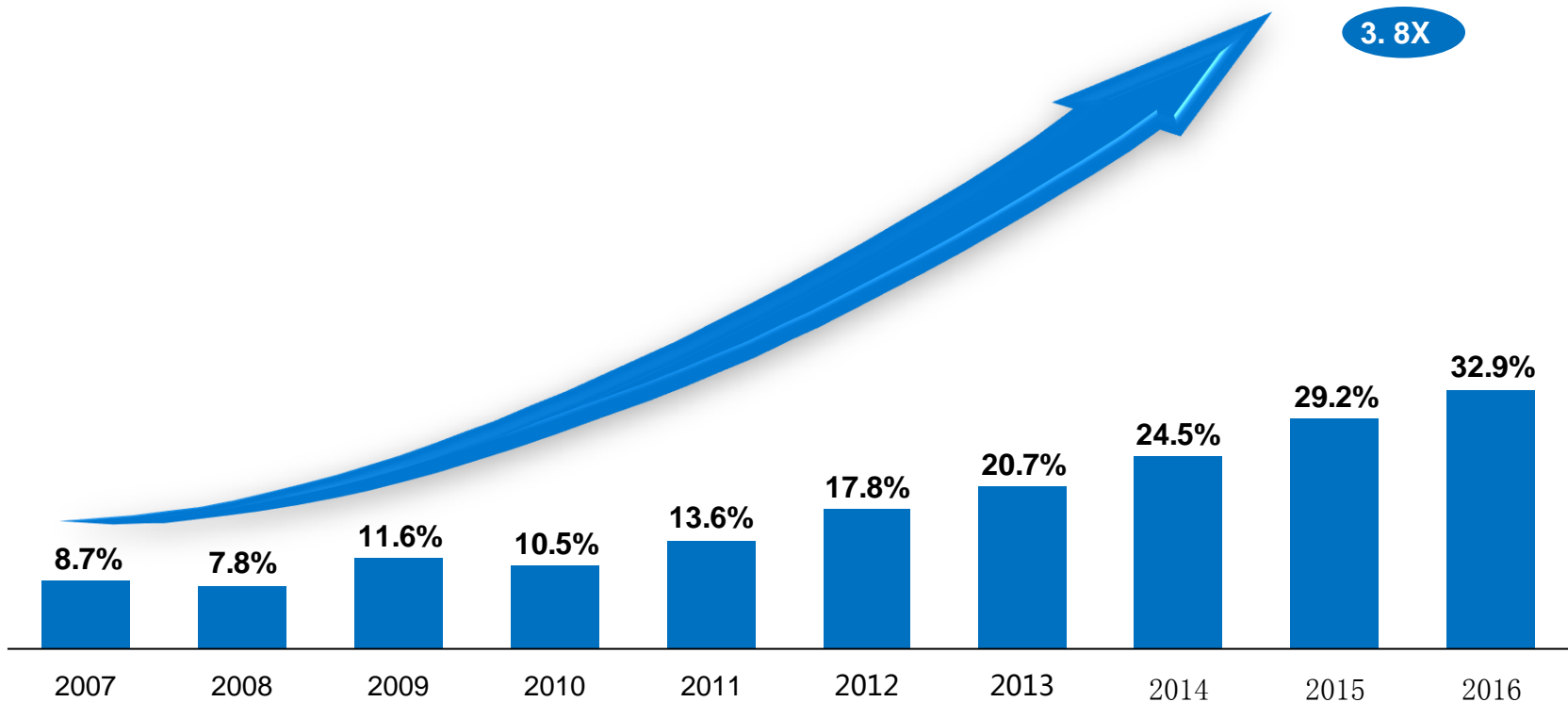
Note: EV in 2015 and before was based on the old evaluation regime. EV in 2016 was based on C-ROSS. Unless otherwise indicated, the unit for all numbers is in RMB millions.



# Since 2007, NBV Margin Has Improved Considerably

- NBV margin in 2016 was 3.8 times that in 2007. In particular, due to the strategy focusing on the agency channel and regular premium business, NBV margin improved tremendously between 2012 and 2016.

## NBV Margin

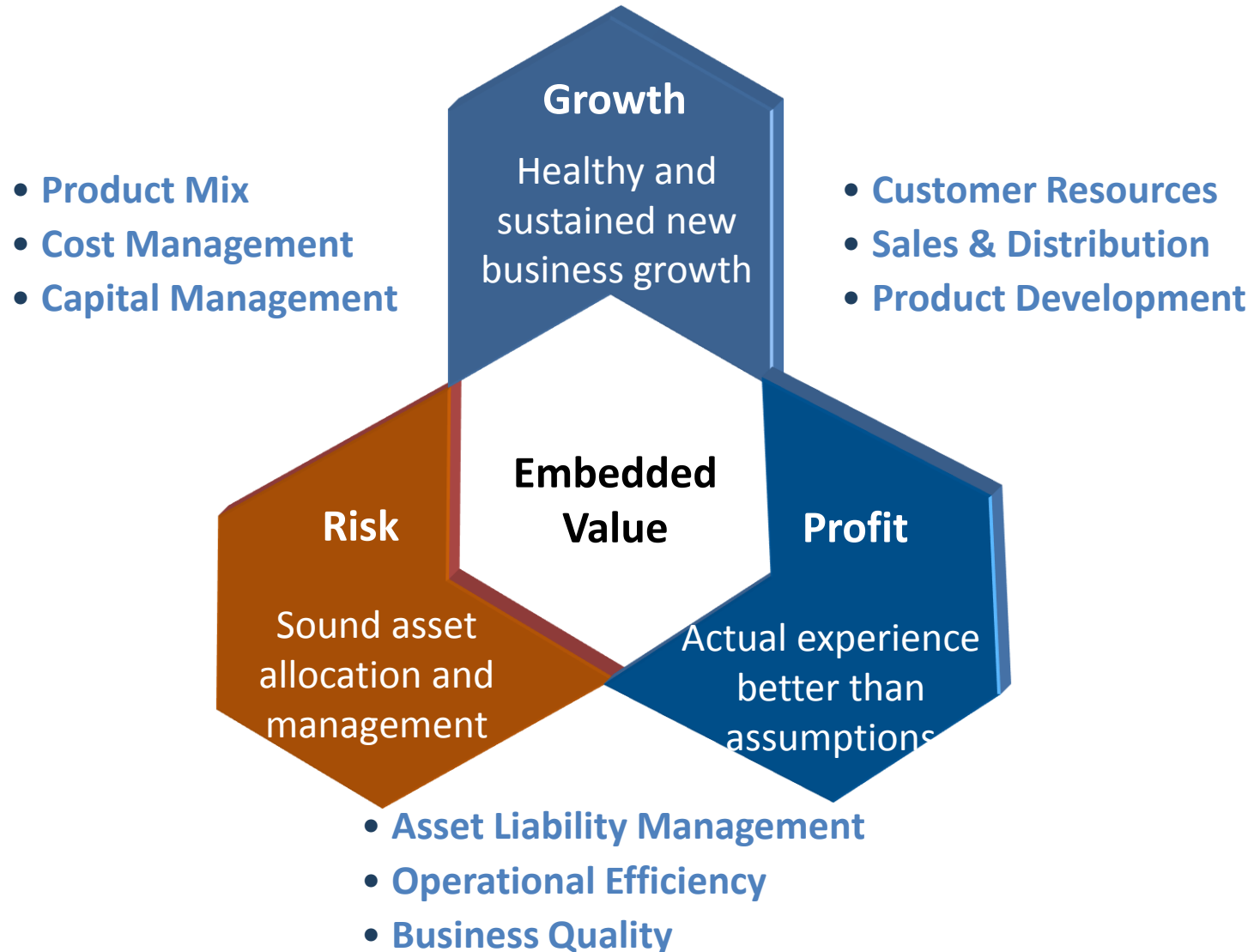


# Part 1

**1** Fundamental change in the past 10 years, with continuation of transformation & upgrade

**2** Shift of value growth mode, with development underpinned by multiple drivers

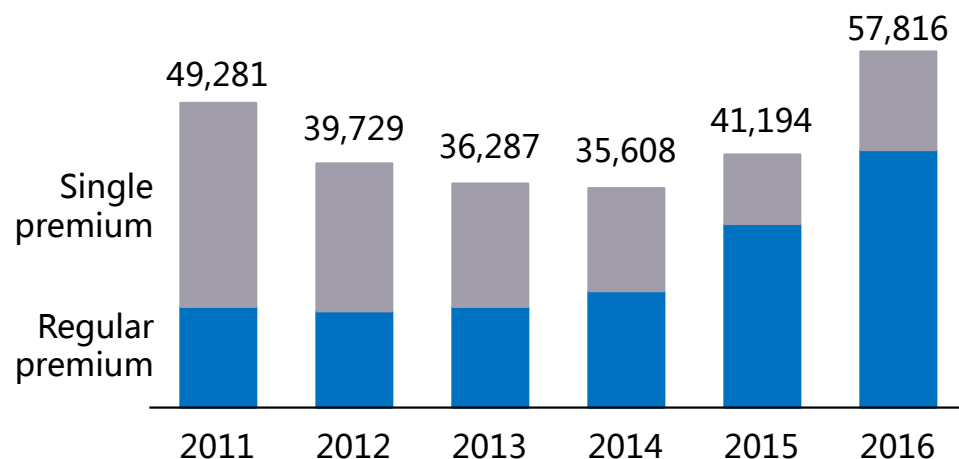
# Key Drivers of Life Insurance Value Growth



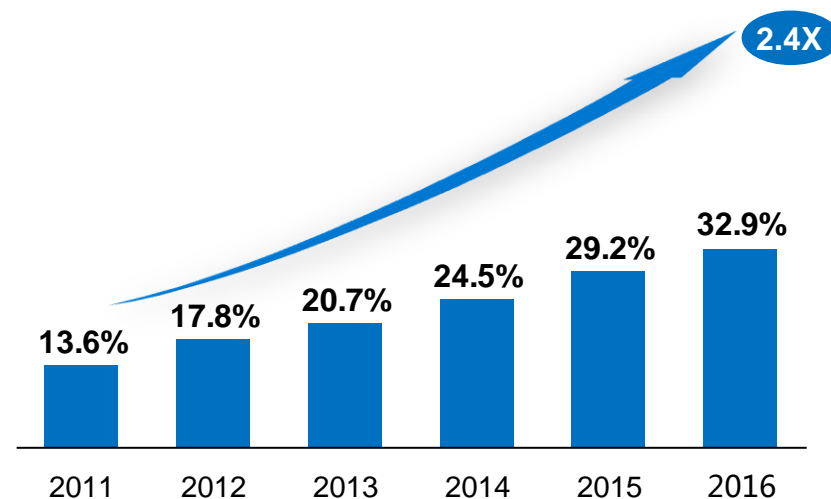
# The Focus on Agency Channel Delivered Fundamental Change of Value Growth Mode

- Given our commitment to sustainable value growth, we focused on the agency business and regular premium which has higher margin and better sustainability.
- Because of the sustained business growth of agency channel and improved business mix, NBV margin increased from 13.6% in 2011 to 32.9% in 2016.

## Annualized Premium of New Business



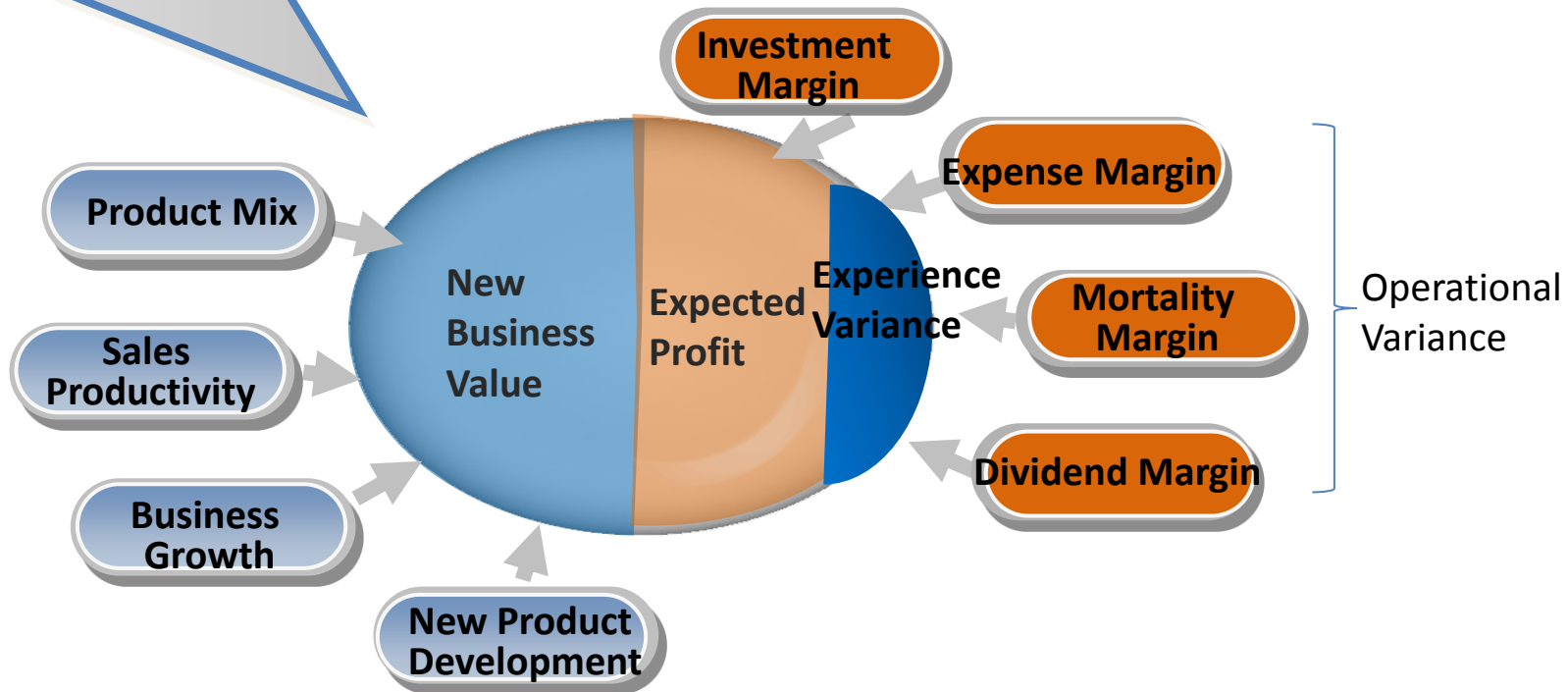
## New Business Value Margin



Note: EV in 2015 and before was based on the old evaluation regime. EV in 2016 was based on C-ROSS.

# “Road-Map” for Value Growth of Life Business

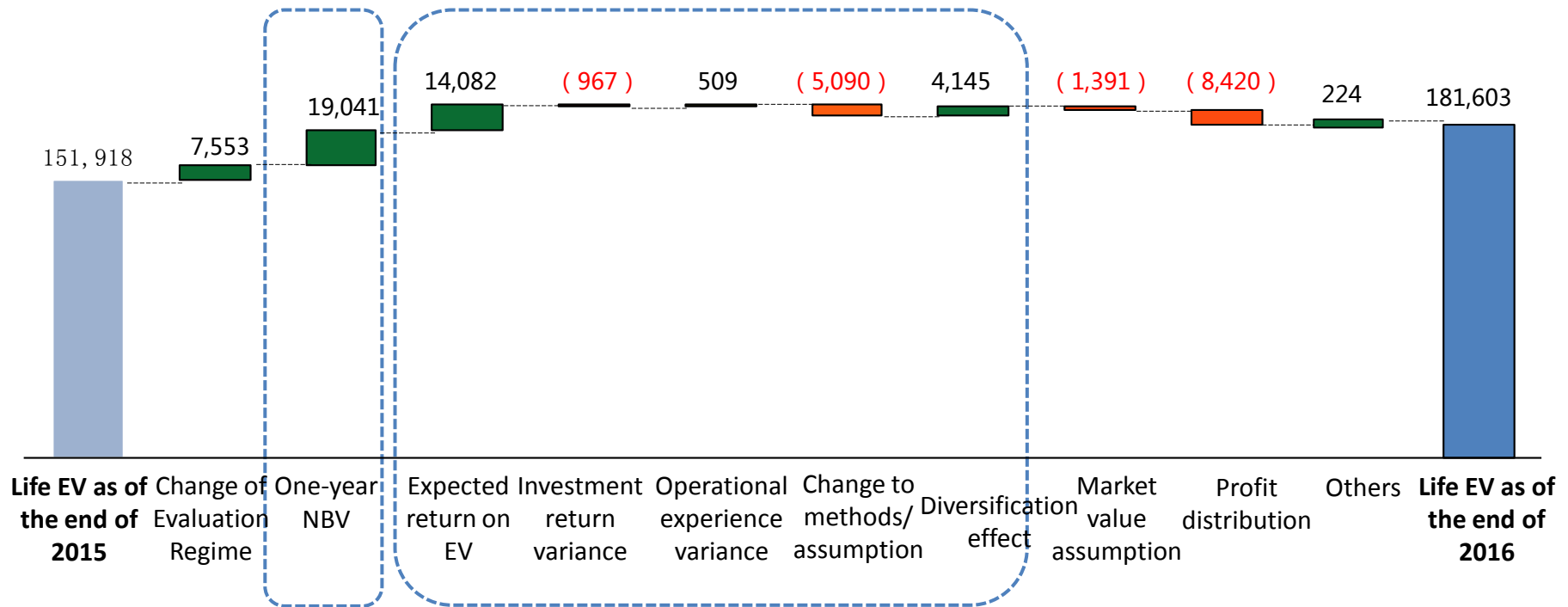
$$\text{EV Profit} = \text{NBV} + \text{Expected Profit} + \text{Experience Variances}$$



# EV Movement Attribution Analysis an Effective Way to Monitor Business Performance

## 2016 EV Movement Attribution

unit: RMB million



Note: The switch into C-ROSS in 2016 had impact on EV.

# Prudent Assumptions Help with Value Realization (1/2)

- The actual investment yield of CPIC Life over the past 10 years exceeded the stable actuarial assumption.
- Since 2013, CPIC has strengthened asset liability management, resulting in more stable investment return as well as improved risk-return ratio.

## Investment Yield of CPIC Life

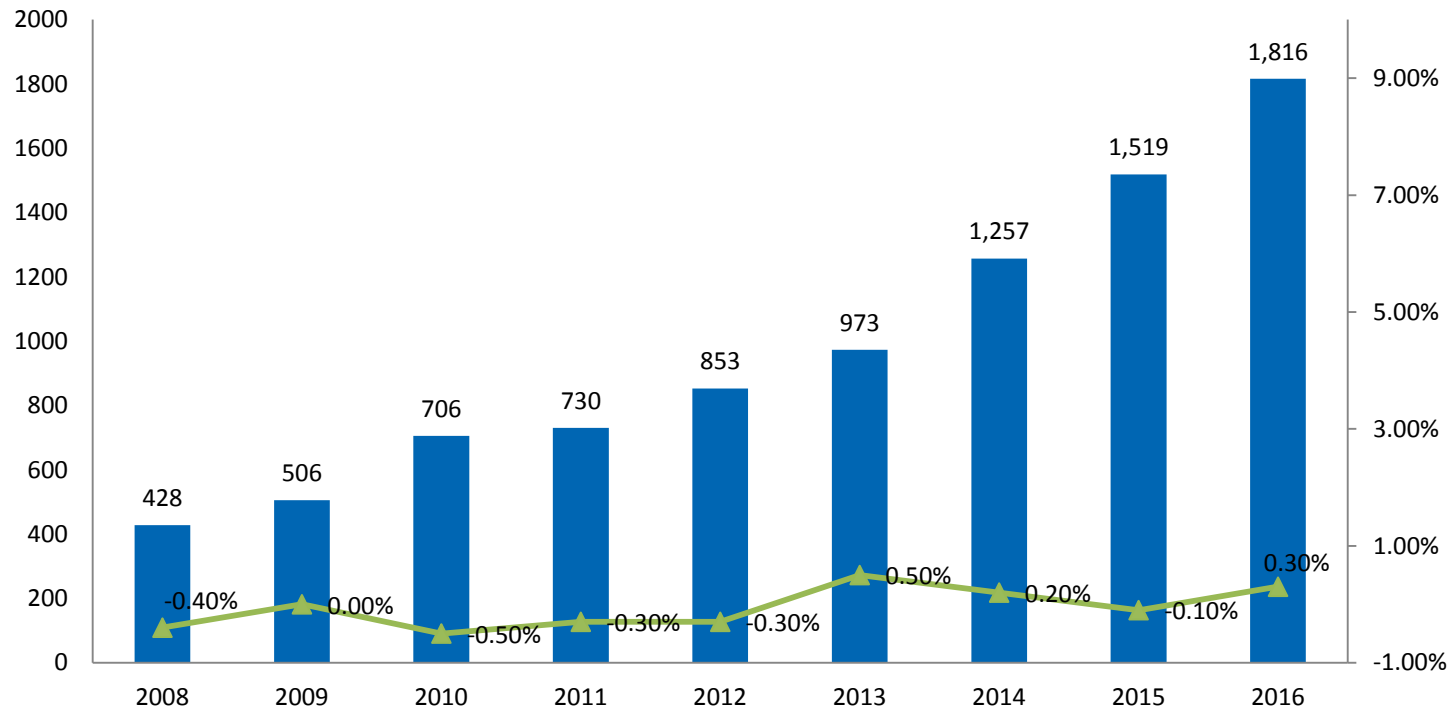
Year	Net Investment Yield	Total Investment Yield
2007	5.7%	12.6%
2008	6.6%	4.3%
2009	4.2%	6.4%
2010	4.5%	5.3%
2011	4.7%	3.5%
2012	4.9%	3.5%
2013	5.1%	5.1%
2014	5.3%	6.1%
2015	5.1%	6.8%
2016	5.7%	5.4%
<b>Average</b>	<b>5.2%</b>	<b>5.9%</b>

# Prudent Assumptions Help with Value Realization (2/2)

- Small operational variance of CPIC Life over the past 10 years, with the average operational variance ratio from 2008 to 2016 of 0.03%.

## EV & Operational Variance Ratio

unit: RMB hundred million



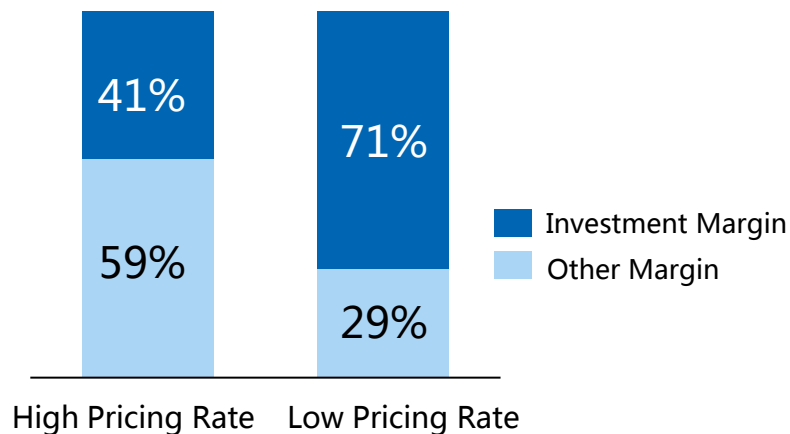
Note: Operational variance ratio=operational variance/EV



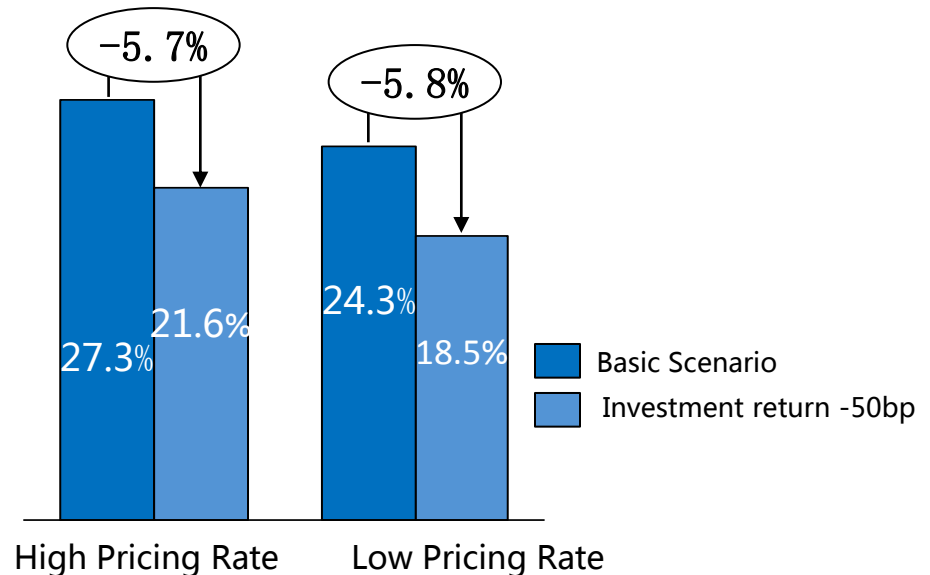
# Stability of Value under Various Pricing Scenarios

- Interest rate risk is the major risk for long-term life insurance.
- Products with the same premium based on the same insurance liabilities but different pricing strategies have similar margin levels.
- Products with high pricing interest rates have a much smaller share of investment margin, but similar exposure to investment risk.
- A low pricing interest rate coupled with participating features is still a more prudent pricing strategy.

## Composition of Profit under Different Scenarios (Example)



## NBV Margin under Different Scenarios (Example)



# A Vast Market Supports Multiple Pricing Strategies and Diverse Profit Sources

China is a huge insurance market with big potential.

- Difference in customers by geography, age, gender, income levels and educational background.
- Diverse insurance needs from health, accident, pension to children education and death.
- Difference in profit mix by market segments and channels.

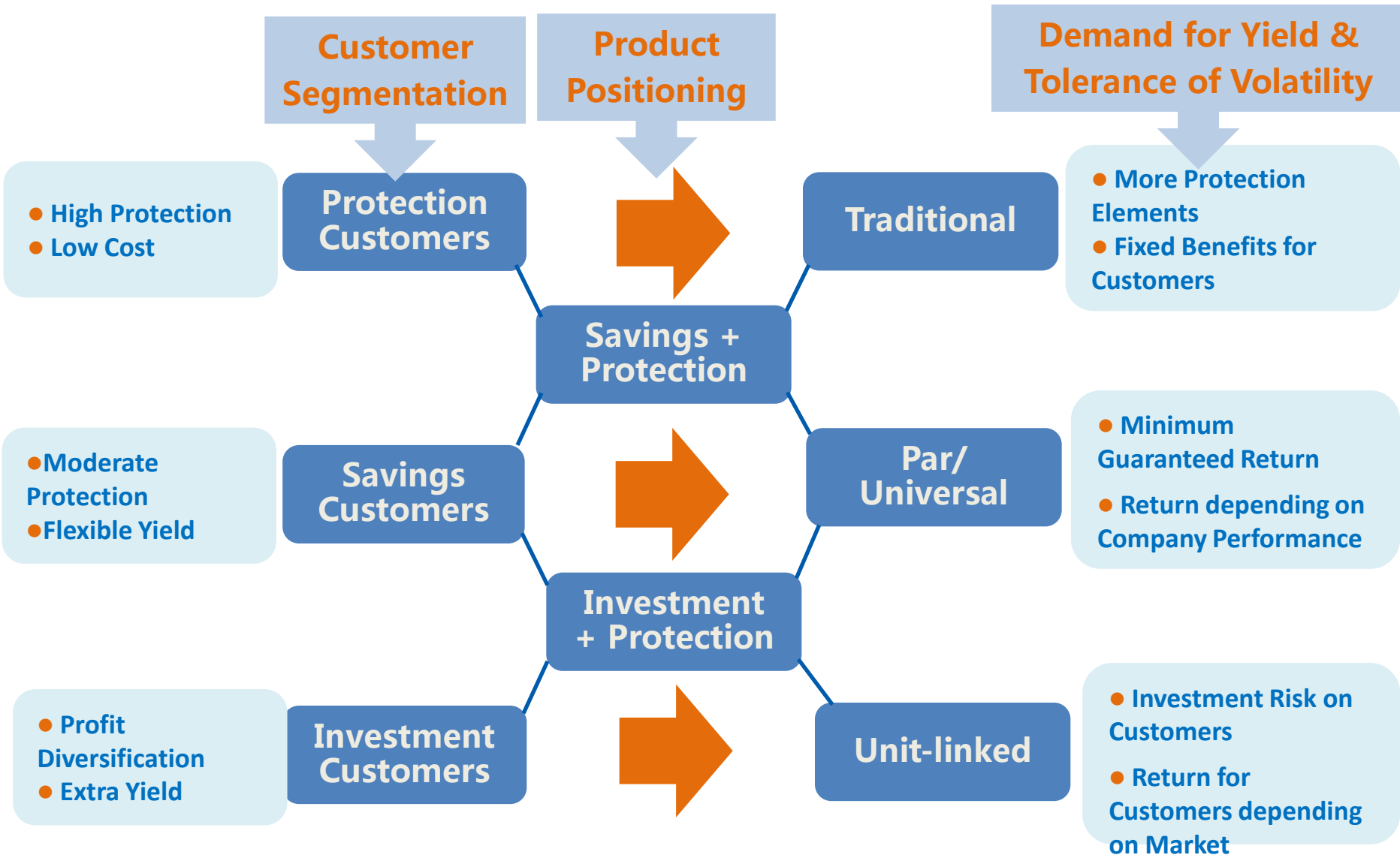
Different customers have different priority in yields and protection.

- High-end customers give priority to the diversity and flexibility of wealth management. Yields and customer experience are more important.
- Mass market customers prefer simple products, with stable returns and a strong protection leverage.

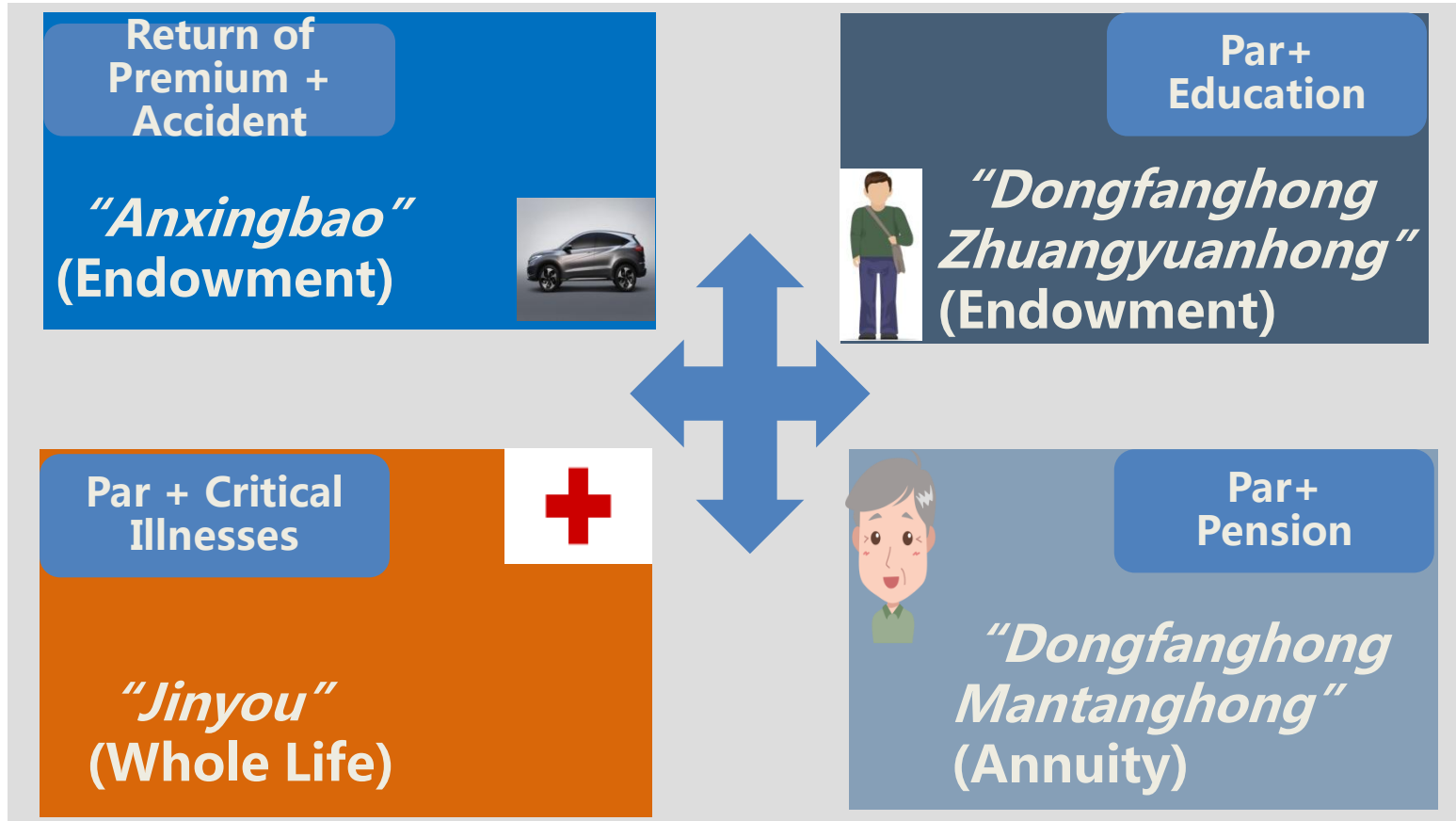
Different levels of yields and protection on different products.

- “Consumer goods” products offer high level of protection for low premiums.
- Customers expect return of premiums for long-term protection products.
- Customers for pension and children education funds care more about yields.

# Sources of Profit for Life Insurers - Diversity in Market and Products Provides Stable Sources of Profit (1/2)



# Sources of Profit for Life Insurers - Diversity in Market and Products Provides Stable Sources of Profit (2/2)





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## Part 2

**1** Upholding protection as the key insurance value proposition to drive the growth of long-term protection business

**2** Product strategy in the context of new regulations

# Sustainable Development of Life Business Driven by the Balance of Value, Profit and Solvency



## Value Growth

New business balancing between value and volume important for value growth.



## Profit Accumulation

Enhanced operation and investment management contributes to profits from mortality and investment margin.



## Solvency Management

Solvency management: Effective C-ROSS required capital management and risk management help to lower cost of capital.

# Life Business Achieved Sustained Value and Profit Growth with Strong & Stable Solvency

- Adhering to business philosophy of “centering on customer needs, staying focused on insurance and pursuing sustainable value growth” . Consistent focus on long-term protection (LTP) business which has higher quality and more sustainability, leading to sustained value and profit growth and strong solvency.

23%

5-year NBV  
Compound Growth

## New Business Value

In recent years, LTP business saw rapid growth, resulting in improved business mix and pay duration, as well as new records in NBV growth.

## Accounting Profits

Accumulated net profits over the past 6 years amounted to 40.1 billion, with rapid growth of residual margin on new business and a big residual margin on VIF, which stood at 172.6 billion at the end of 2016.

Residual Margin as at  
the end of 2016

172.6  
Billion

267%

Comprehensive Solvency  
Margin Ratio as of Q1 2017

## Solvency

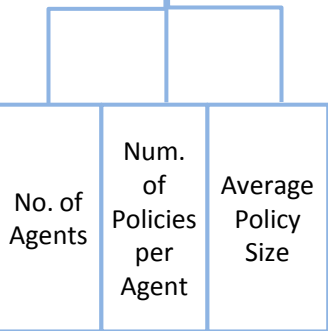
Strong and stable solvency under C-ROSS. As of Q1 2017, comprehensive solvency margin ratio reached 267%, and the core solvency margin ratio 265%.



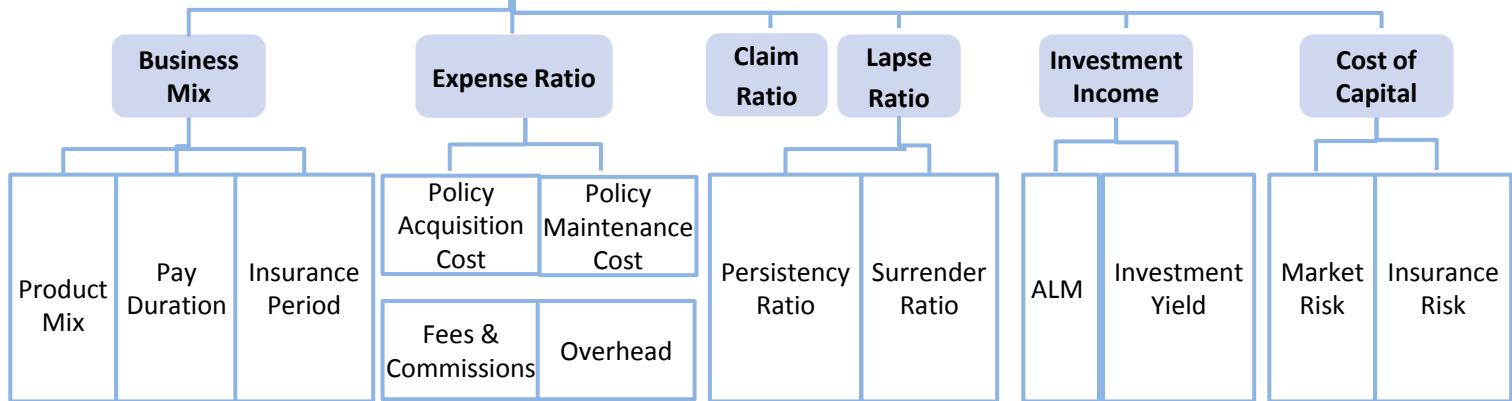
# Business Mix a Key Driver of New Business Value Growth

## New Business Value

### New Business Premiums



### NBV Margin



- NBV growth driven by new business growth and NBV margin.
- NBV margin improves on good business mix, healthy business quality and effective management of cost, investment and solvency.



Sales Capability



Business Mix



Cost Control



Business Quality



Investment Management



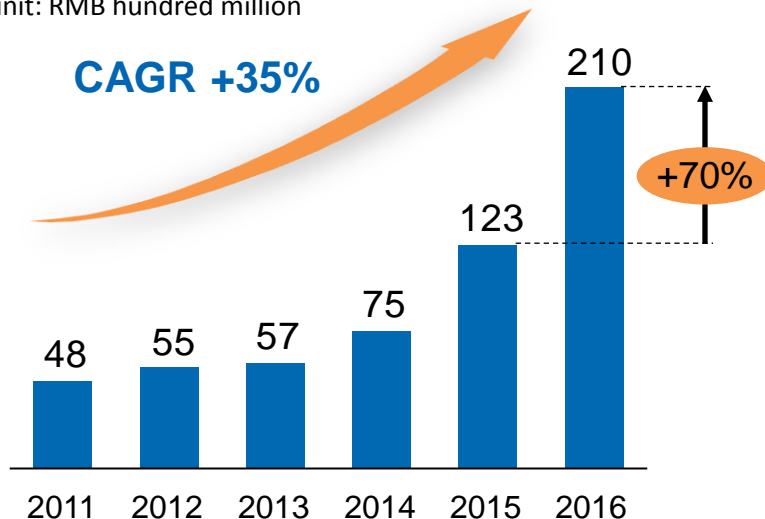
Solvency Management

# Long-term Protection Business Grows Rapidly, with Increased Share of New Business Premium

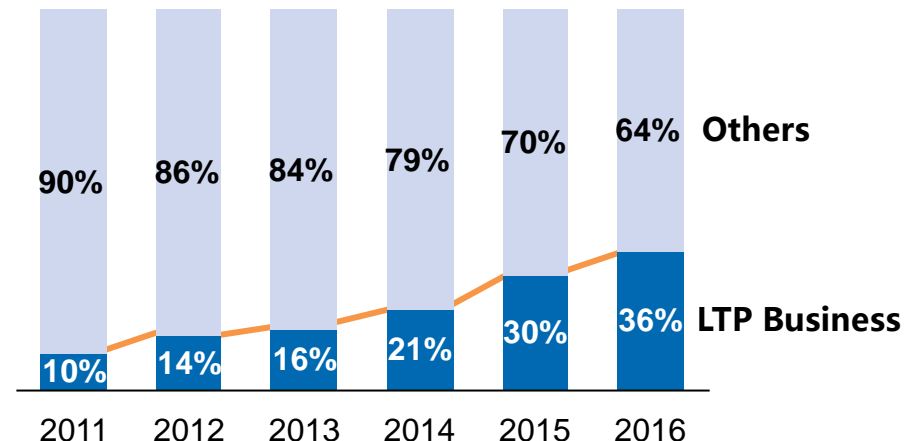
- Given our commitment to protection as the key insurance value proposition, first-year premium growth from LTP business in 2016 was as high as 70%, and its share increased from 10% in 2011 to 36% in 2016.

## FYP Growth from LTP Business

unit: RMB hundred million



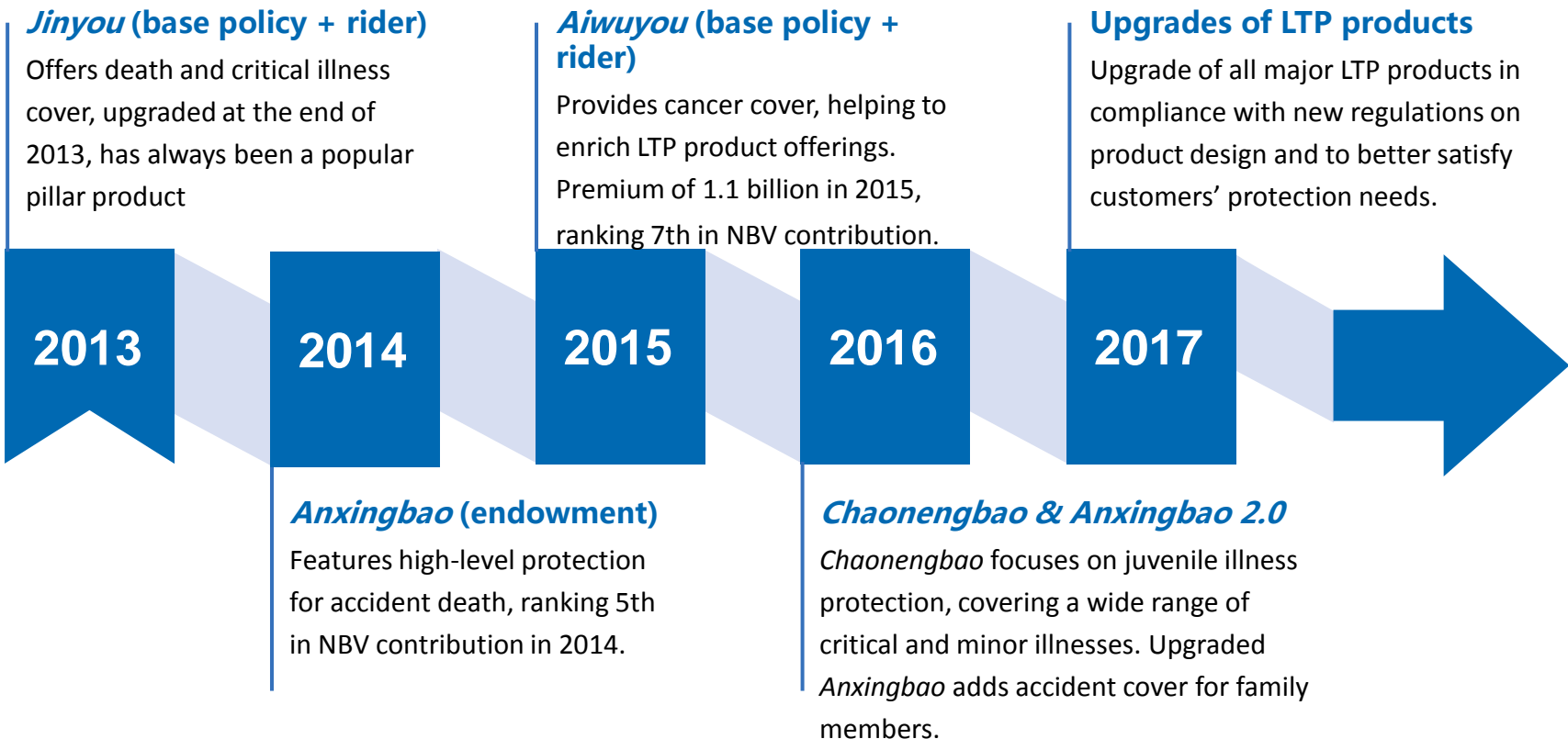
## LTP Business as a Share of FYP



Note: Long-term protection business consists of whole life insurance, term insurance, long-term A/H insurance, which, among others, include products like *Anxingbao*, *Chaonengbao* and *Aiwuyou*. Savings business is composed of endowment and annuity insurance. Long-term is defined as a pay duration of 10 years and above, and short-term less than 10 years. Short-term insurance includes short-term A/H.

# Diversified Offerings of Long-term Protection Business, with Improved Product Line-up

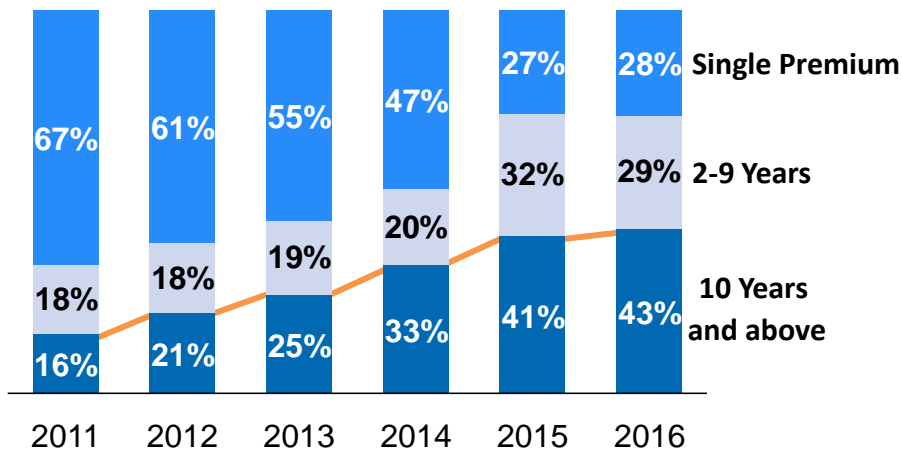
- LTP product line-up continues to diversify. A product system providing comprehensive protection for death, accident and critical illnesses has been taking shape, with products such as *Jinyou*, *Anxingbao*, *Aiwuyou* and *Chaonengbao*.



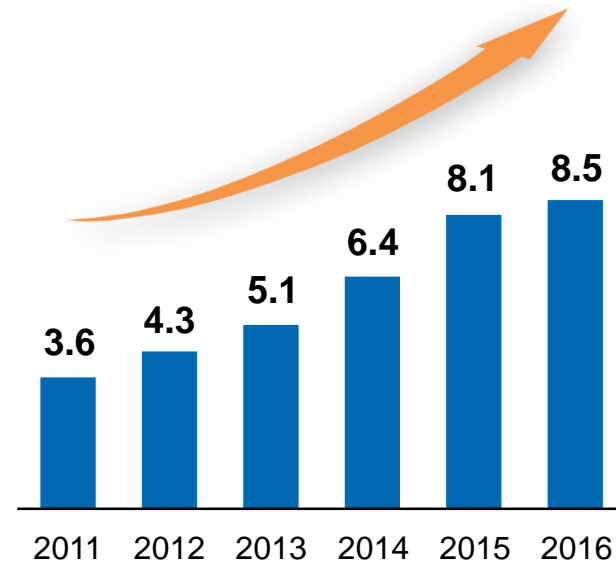
# Continued Growth of Regular Premium Business, with Longer Average Pay Duration

- Given sustained growth of regular premium business, pay duration of 10 years and above as a share of FYP increased from 16% in 2011 to 43% in 2016, with an average duration of 8 years in 2016.

Mix of Pay Duration by FYP



Average Pay Duration

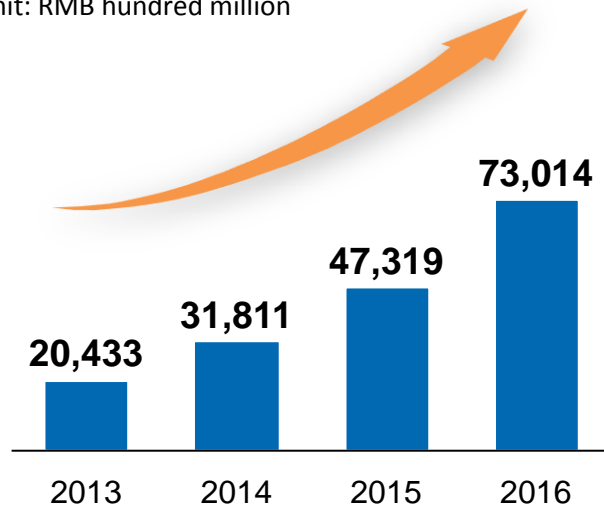


# Fast Increase in Effective Sum Assured, with Higher Levels of Protection for Customers

- Fast increase in effective sum assured (SA) on long-term business, with higher levels of protection for customers. As at the end of 2016, total effective SA on in-force long-term business amounted to 7.3 trillion, with average SA per customer of nearly 200,000.

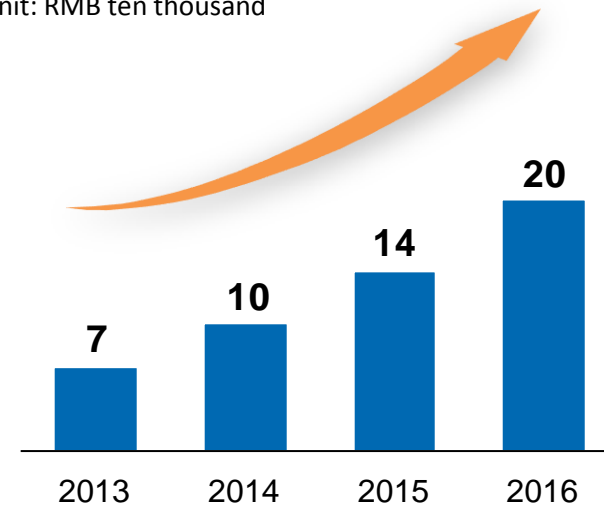
## Effective SA on In-force Long-term Business

unit: RMB hundred million



## Average SA per Customer

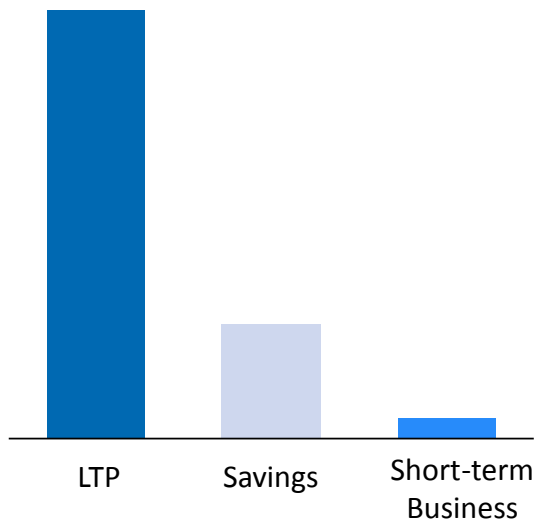
unit: RMB ten thousand



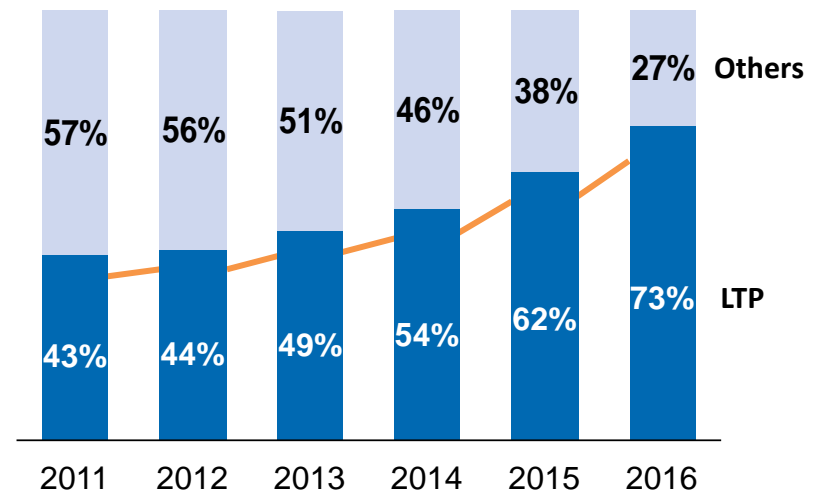
# NBV Margin on LTP Business Considerably Higher

- Given its higher NBV margin, LTP business is a major contributor to overall NBV.
- LTP business as a share of NBV increased sharply.

NBV Margin on LTP Business



LTP Business as a Share of NBV



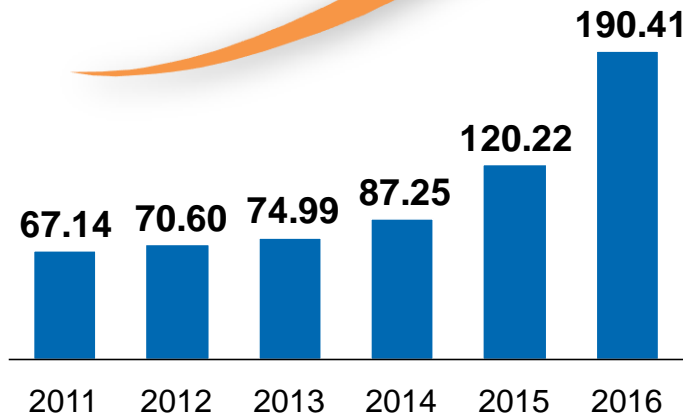
# Rapid Development of LTP Business Leads to Strong NBV Growth and Steady Margin Improvement

- Given continued business mix improvement, rapid development of LTP business, longer pay duration, as well as much higher levels of protection, the 5-year average compound NBV growth reached 23%, with NBV margin improving by 3.9 pt annually.

## New Business Value

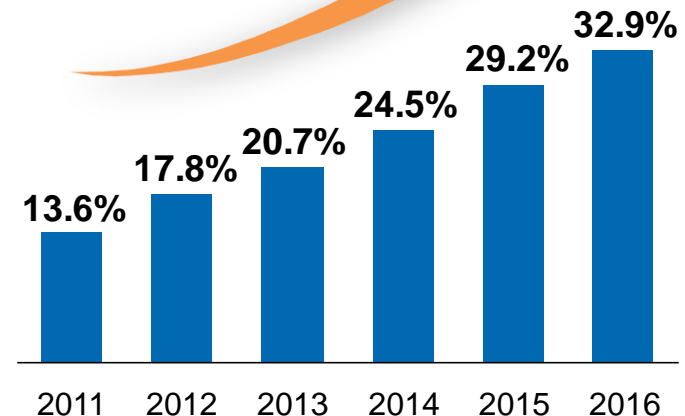
unit: RMB hundred million

CAGR +23%



## NBV Margin

CAGR +3.9pt



Note: NBV from 2011 to 2015 was based on the previous evaluation regime as disclosed by annual reports, and NBV for 2016 on C-ROSS.

# Factors Impacting Accounting Profits

**Release of residual margin:** its schedule and amounts fixed at the time of underwriting, barely impacted by interest rate environment. LTP business boasts relatively large residual margin.

**Investment margin:** linked to investment results of the year.

**Release of risk margin:** adding to profits in proportion to the release of risks.

Accounting  
Profits

**Operational variance:** the difference between a life insurer's actual operational experience and the assumptions.

**Yield on net asset:** investment return on shareholder's fund.

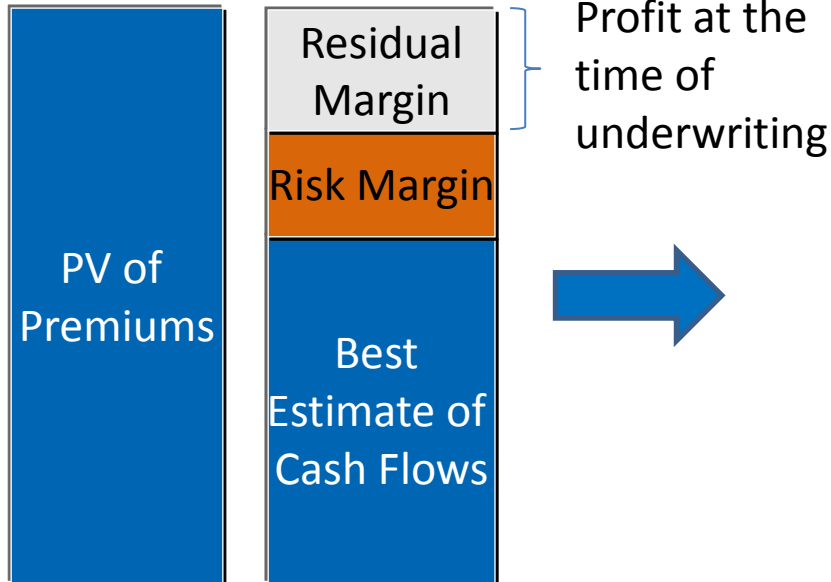
**Assumption changes:** the impact of shift of discount rate curve and other assumption changes on accounting profits.



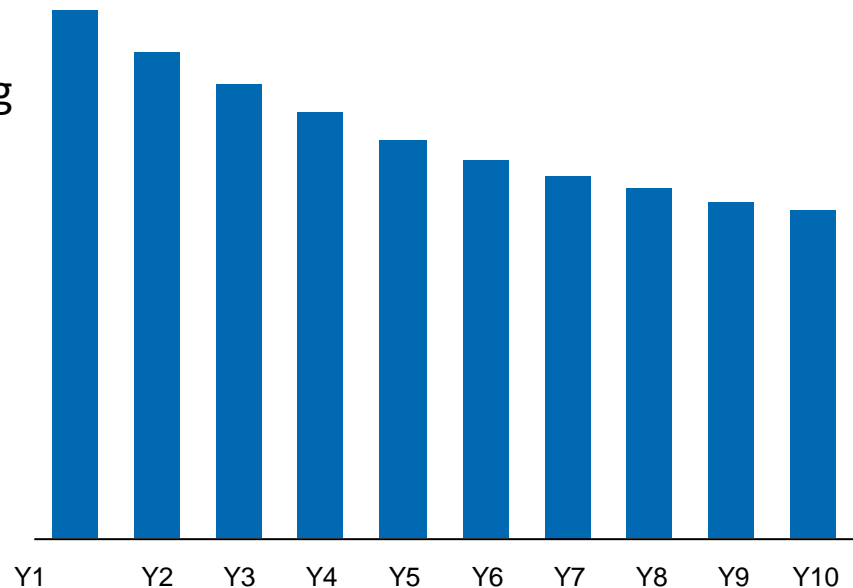
# Residual Margin Amortization as the Main Source of Profit

- ❑ Profits cannot be booked at the time of underwriting, hence the residual margin as reserves, which is to be released as profits over time.
- ❑ Residual margin amortization is the main source of profit, determined mainly by the quality and volume of the business.

Accounting Reserves  
at the time of  
Underwriting



Pattern for Release of Residual Margin  
(Example)

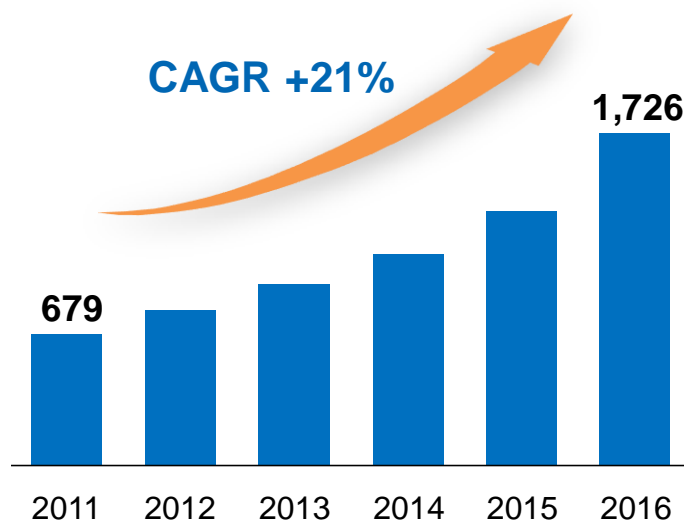


## A Big Residual Margin on VIF Constitutes a Stable Source of Future Accounting Profits

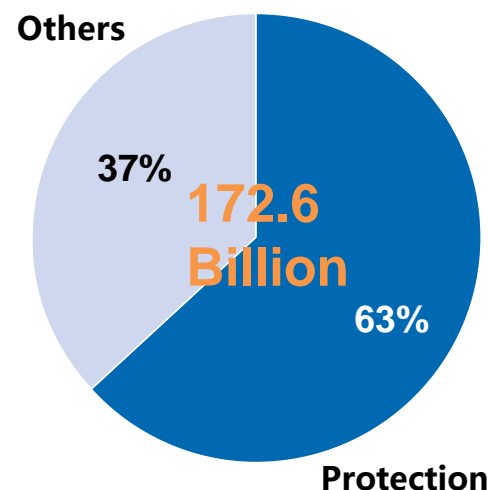
- The compound growth rate of residual margin for the past 5 years reaches 21%. As at the end of 2016, the residual margin stood at 172.6 billion, constituting a stable source of future accounting profits. Of this, the share of protection business reached 63%.

### Residual Margin over the Past 6 Years

unit: RMB hundred million



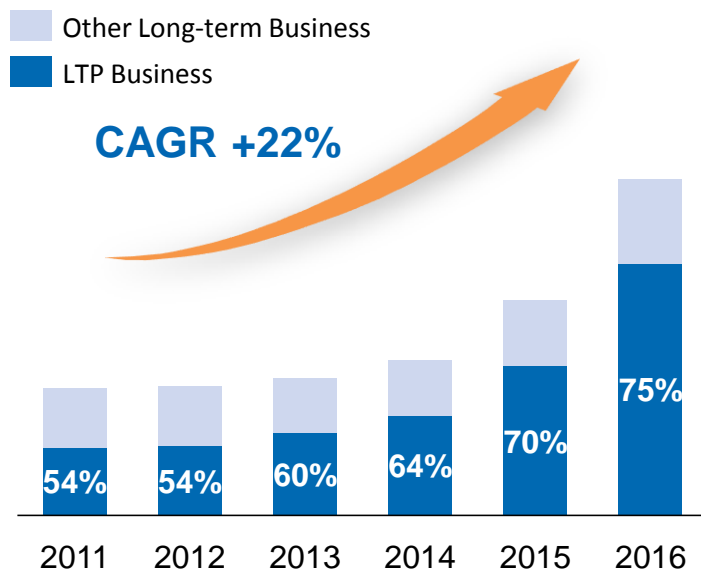
### Composition of Residual Margin



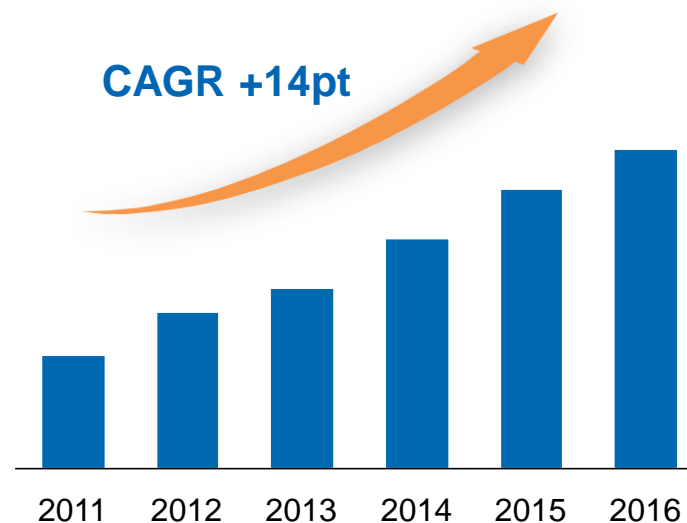
## Fast Growth of Residual Margin on New Policies of Long-term Business

- On the back of new business growth and increased share of LTP business, residual margin on new policies of long-term business saw fast growth, with steady improvement of new premium margin ( residual margin/ FYP) over the years.

### Residual Margin on New Policies of Long-term Business



### New Premium Margin of Long-term Business



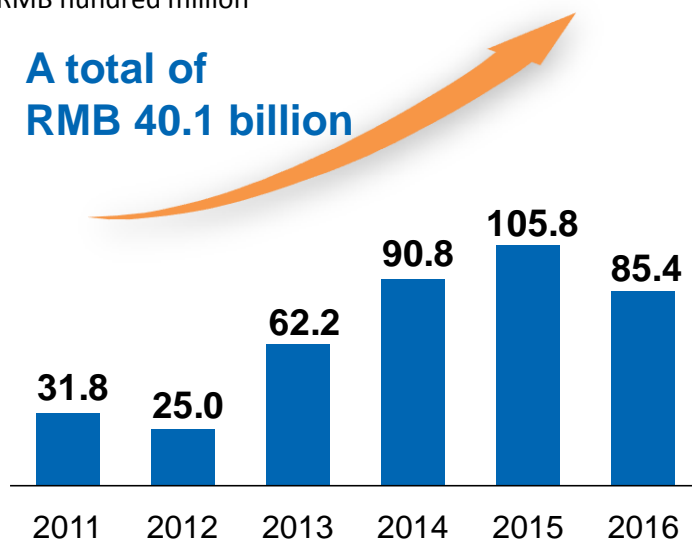
# Realized Vast Sum of Profits, with Continuous Growth over the Years Excluding the Impact of Discount Rate Curve Movement

- Accumulated net profit of 40.1 billion over the past 6 years. Reached a new high in 2013 and afterwards.
- Operating profit, which strips out the impact of discount rate curve movement, is a better measure of underlying business performance. In recent years, operating profit grows steadily, with the compound growth rate of 44% in the past 5 years.

## Accumulated Net Profit

unit: RMB hundred million

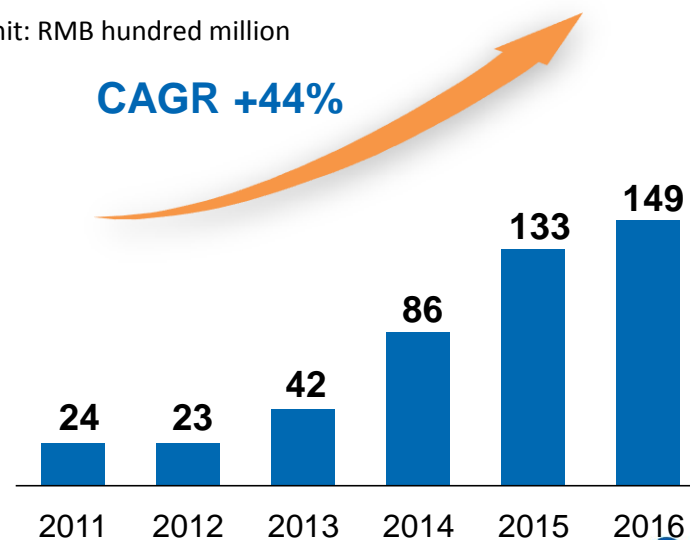
A total of  
RMB 40.1 billion



## Net Profit Excluding Impact of Discount Rate Movement

unit: RMB hundred million

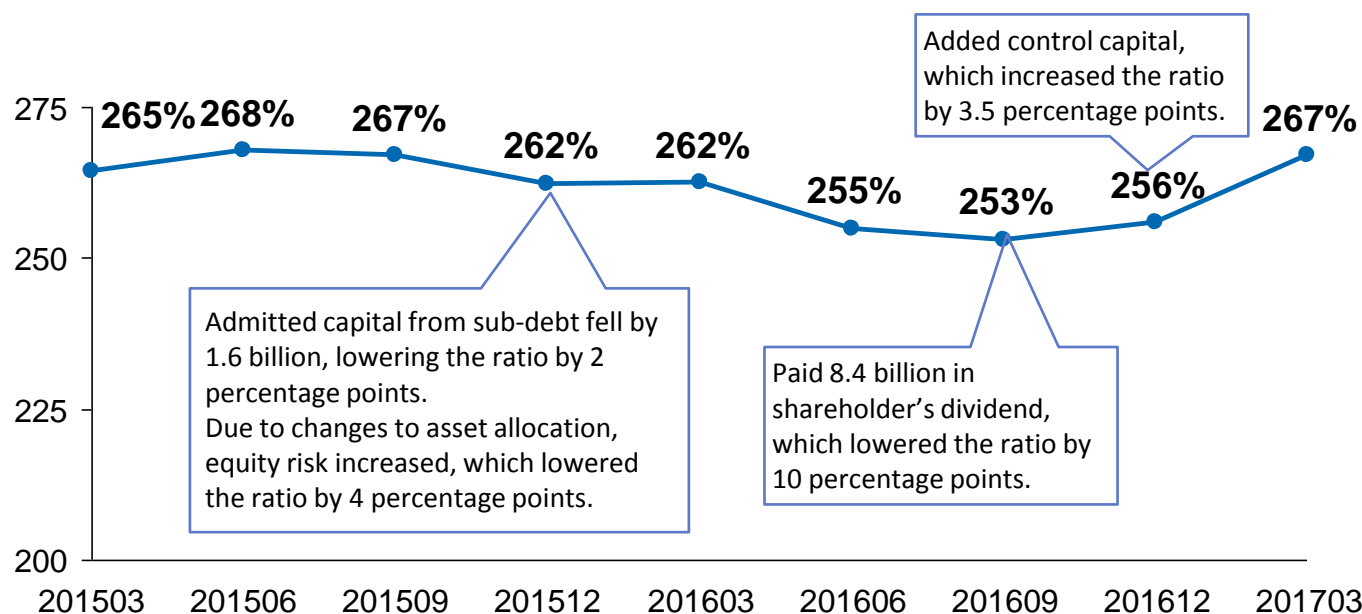
CAGR +44%



# A Strong Capital Position, with Comprehensive Solvency Margin Ratio of 267%, and Core Solvency Margin Ratio of 265% Q1 2017

- Strong and stable solvency margin ratios, with resilience in the context of lower interest rate and capital market volatility.
- 2017 Q1 solvency margin ratio rose significantly due to large volume of new business, and in particular, rapid growth of highly profitable LTP business like *Jinyou*.

## Solvency Margin Ratio under C-ROSS

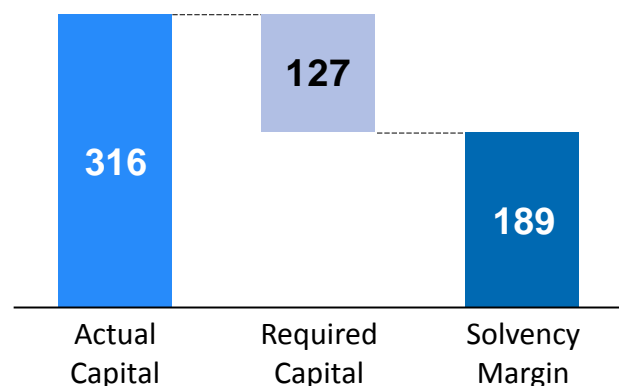


## Strong solvency margin ratio on new business, being self-sufficient in capital needs

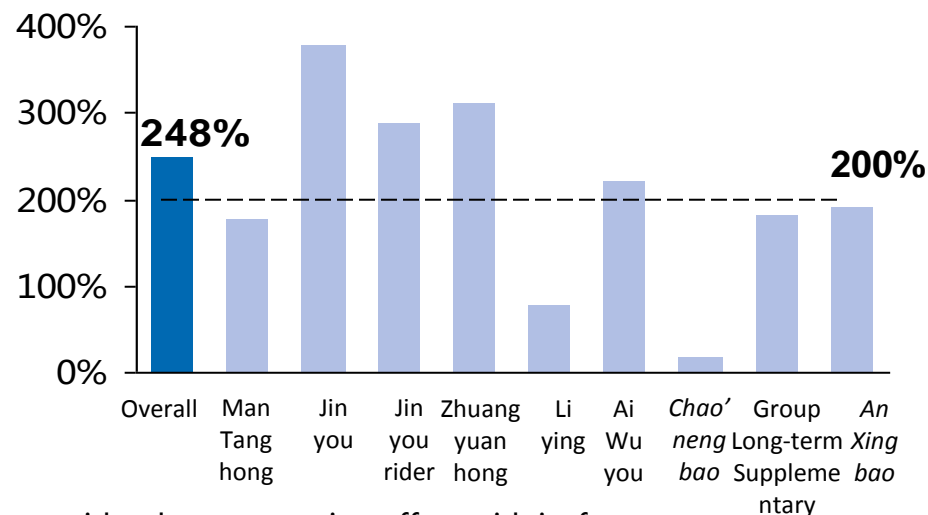
- Solvency margin ratio on new business of Q1 2017 under C-ROSS reached 248%, being self-sufficient in capital needs.
  - New business contributed actual capital of 31.6 billion.
  - New business consumed required capital of 12.7 billion.
  - Solvency margin on new business amounted to 18.9 billion.

### Solvency Margin on New Business

unit: RMB hundred million



### First-year Solvency Margin Ratios on New Business of Major Products



Note: The required capital of new business does not consider the aggregation effect with in-force business.

## Part 2

**1** Upholding protection as the key insurance value proposition to drive the growth of long-term protection business

**2** Product strategy in the context of new regulations

# A Raft of New Regulations Released Recently

- Since April, CIRC has released multiple new rules to tackle 9 types of risks and 8 kinds of irregularities, aiming to enhance the effectiveness of the regulatory regime.

## April 20th

CIRC Notice on Further Enhancing Insurance Supervision and Safeguarding Healthy Development of Insurance Industry. CIRC Document No. 34

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## April 23rd

CIRC Notice on Further Enhancement of Risk Prevention and Control of Insurance Industry. CIRC Document No. 35

## April 28th

CIRC Notice on Fight against Illegal and Non-compliant Behaviors and Clampdown on Market Mal-practice. CIRC Document No. 40

## May 4th

CIRC Guideline on Role of Insurance Industry in Supporting Real Economy. CIRC Document No. 42

## May 8th

CIRC Notice on Addressing Regulatory Weaknesses and Developing Effective Regulatory System. CIRC Document No. 44

## May 16th

CIRC Notice on Enhancing Regulation of Product Development of Life Insurance Companies. CIRC Document No. 134

## May 19th

CIRC Notice on Further Strengthening Sales Management of Life Insurance Companies. CIRC Document No. 136



# Deviation from Core Value Proposition of Insurance Becomes Key Targets of Regulatory Scrutiny

## Key Areas of Regulation

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graph LR; A{{Key Areas of Regulation}} --> B[Products deviate from core value proposition of insurance]; A --> C[Product design not incompatible with product nature]; A --> D[Product liabilities not aligned with product nature];
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### Products deviate from core value proposition of insurance

The sales pitch emphasizing investment portfolios and investment returns, misleading consumers. Return of premiums right after the cooling-off period, and wording the payment of living benefit as discount.

### Product design not incompatible with product nature

Some universal products only allow single premium payment without top-ups. Some insurers adjust investments on unit-linked products to accommodate a fixed return and advertise guaranteed returns misleading consumers.

### Product liabilities not aligned with product nature

The payment of survival benefits of some long-term care products is not preconditioned on whether long-term care is provided. Some group medical insurance products are designed in such a way that the benefits are paid up to the limit of premiums paid, only offering investment services.

# CIRC Document No. 134 Aims to Rationalize Product Development

- CIRC Notice on Enhancing Regulation of Product Development of Life Insurance Companies (CIRC Document No. 134) strives to rationalize insurer's product development and prevent operation risks.

## 3 Principles

- Be consumer needs oriented
- Take into consideration China's realities and industry development
- Guided by the laws of insurance

## Encourage the Development of 4 Types of Products

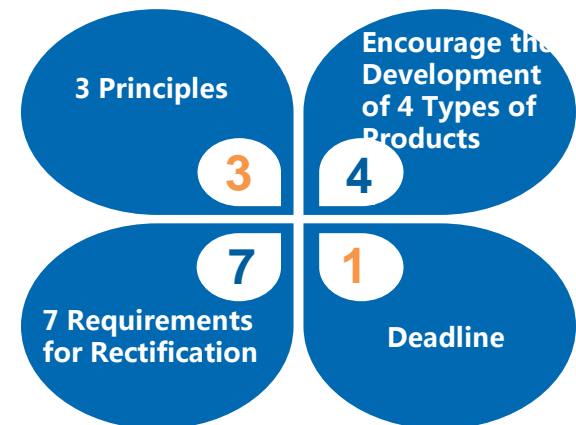
- Term life and whole-life products
- Long-term annuity products
- Health insurance products
- Customized niche products

## 7 Requirements for Rectification

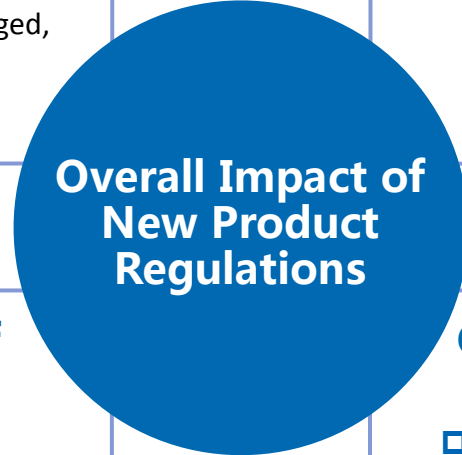
- The first payment of survival benefit shall be at least 5 years after policy issuance, and shall not exceed 20% of paid premiums.
- Universal and unit-linked insurance shall not be sold as riders.
- Survival benefit of long-term care insurance shall only be paid when the insured requires care and assistance for daily life.
- Survival benefit of disability insurance shall be conditioned upon the loss of the ability to work.
- Premiums of group medical insurance shall only be used for payment of medical liabilities.
- The term "wealth management" shall not be included in the name/manual/handbook/promotional materials of insurance products.
- Promotional materials shall clearly state that it is an "insurance product portfolio".

## Deadline

- Finish self-assessment and rectification of all the products already approved by or filed with the CIRC by October 1 2017.



# New Regulations on Product Design Conducive to Long-term Healthy Development of Life Industry



## Impact on Product Supply



- Starting from October 1, supply of short-term investment-oriented products will shrink considerably, while the investment element of long-term products would weaken.
- Protection business is encouraged, prompting insurers to expand the supply.

## More Disciplined Behaviors



- Major impact on platform insurers, which heavily depend on mid-and-short-duration products like universal insurance.

## Better Protection of Consumer Rights



- Mis-selling would be effectively curbed, with consumers more rational.
- More diversified and differentiated product offerings, better satisfying needs for risk protection.
- Consumers turn to other channels for investment.

## Conducive to Long-term Industry Development



- Shifts in products and clampdown on mis-selling will prompt the industry to focus on its key value proposition, helping to improve industry image and being positive to its long-term healthy development.

# Future Product Strategy in Response to New Regulations



Abide by regulatory rules to rectify fast-return-of-premium products and universal life riders.



Revamp the survival benefit of *Dongfanghong* product design (featuring fast return of premiums) to focus on the long-term accumulation and provision of survival benefit and annuity.



Promote protection products to strengthen the core value proposition of insurance.



Revise the universal riders (*Guanjia* series) to allow flexible premiums top-up and adjustment of sum assured.

Focus on provision of death benefit, develop term life products with differentiated pricing based on the insured's health conditions (smoking, life style, etc.).



Focus on protection against health risks, offer broader and more targeted coverage. Enrich the supply of critical illness and medical insurance products.

