

Opening Speech at 2017 Investor Day

by Board Secretary MA Xin

Yinchuan, Ningxia

June 26th, 2017

Ladies and gentlemen:

At the outset, please allow me to welcome you to our 2017 Investor Day in Yinchuan. Yinchuan is a city famous for its long history and historical sites, and we are very delighted to have you with us here.

This year marks the 10th anniversary of CPIC's listing. Over the past decade, we have unswervingly adhered to the development philosophy of "focusing on the core business of insurance and pursuing sustainable value growth", upheld protection as the basic value proposition of insurance and attached great importance to the prevention of major risks, while forging ahead with innovation via the customer-oriented transformation initiative. After 10 years of unstinting efforts, CPIC has been transformed into one of the leading domestic insurance groups well positioned for sustainable development, with strong solvency, markedly-enhanced capabilities in value creation and risk management and a high level of professionalism. In particular, we launched the

customer-oriented transformation initiative 5 years ago, which centered on 3 objectives, namely, understanding customers' needs, improving customer interfaces and enhancing customer experience. As a broad-based effort across the entire organization, it has achieved breakthroughs in multiple areas and made a big difference to the company. In the first five months of the year, the agency channel of our life business maintained its strong growth momentum, and delivered impressive results in both value and volume growth, which highlight the changes brought about by the transformation.

1. Shift of value growth mode on the back of channel mix improvement. China's life insurance business experienced nearly 30 years of rapid development, with the emergence of multiple distribution channels. However, in 2010, with the release of CBRC Document No. 90 and other regulations, the bank channel faltered, and its risk in business quality and customers' experience began to surface. We concluded, after a review of many years of our business operation on China's life insurance market, that the agency channel was the way towards sustainable value growth, given its direct control of customer resources, higher margin and better customer experience. In particular, since the launch of the

transformation in 2011, we have shed 40.9 billion of low-margin bancassurance, and in its stead acquired 80 billion of high quality agency channel business, achieving impressive results in channel mix improvement. Bancassurance as a share of GWPs fell from 54.9% in 2010 to 5.3% in 2016, with its volume decreasing from 48.2 billion to 7.3 billion. During the same period, GWPs from the individual business grew from 35.3 billion to 115.4 billion, with its share rising from 40.2% to 84.0%. With continued business mix improvement, new business value grew from 6.714 billion in 2011 to 19.041 billion in 2016, with an annual compound growth of 23.2%. The NBV margin also rose from 10.5% in 2010 to 32.9% in 2016. On the back of transformation over the previous 5 years, in 2016, CPIC Life delivered strong performance in both value and volume growth, with rapid growth of both new and renewal business, at 33.0% and 23.2% respectively. Business quality saw continued improvement, with a surrender ratio falling from 4.2% in 2015 to 2.0% in 2016. The transformation initiative successfully built the agency business into the core driver of both value and volume growth, with the momentum continuing into the first 5 months of this year.

2. Growth of value per customer driven by product

innovation. The transformation prompted a big shift from the pursuit of premiums towards the improvement of value per customer. Over the past 5 years, the number of customers, the number of policies per customer and premiums per customer have all seen steady increase, pointing to better customers' satisfaction, expanded coverage, and higher level of protection. As of the end of 2016, the number of Group valid customers exceeded 100 million, at 104.44 million, up 10.7% from the end of 2015, with 80 million life insurance customers added in 2016 alone. Over the past 5 years, while the number of customers grew by 24%, that of policies per customer increased by 20%, and premiums per customer by 25%.

On the basis of customer data governance and targeting 9 insurance policies per customer in their life cycle, we pushed forward product innovation focusing on protection business and put in place a differentiated product system. We launched *Anxingbao*, a long-term personal accident product to cater for needs for high-level protection, with sum assured up to 5 million. *Yinfa Ankang* offers cancer cover with age limits for the insured raised from 65 to 75, targeting the elderly population. Another product innovation was *Xin'Anyi*, with expanded

coverage such as reimbursement of out-of-pocket medical expenses. For female customers, we launched *Huayang Nianhua*, providing cover against both cancer and woman's mental illnesses, with lower premiums, at RMB182 on the average per policy. Thanks to our accurate risk-pricing capabilities, we were able to translate customers' needs for higher protection, raised age limits, expanded coverage and lower premiums into levers for improvement in customer numbers, number of policies per customer and average premium per customer.

3. Winning customers' trust via enhanced customer experience and recognition. The 5-year transformation forged the consensus on the central role of customers in driving sustainable value growth. We concluded that the competitive landscape of China's insurance industry will shift away from competing over products and channels towards over customers' experience for better customers loyalty, and more up-sell and referrals.

To this end, we've rolled out innovative mechanisms and initiatives, such as the mechanism for the company's senior management to hear customers' voices regularly, the closed-loop management of customer experience and the

establishment of NPS (Net Promotion System). These measures provided the management with profound insights into customers' real needs, and translated our declarations about improving customer experience into concrete actions in products, channels, services and branding. Instead of reacting to individual cases, now the company solves common issues via optimization of business management processes. Accordingly, the company has made remarkable progress in reducing customer complaints, improving regulatory indicators and key customer journeys. In 2016, the number of complaints per hundred million in premiums for both CPIC Life and CPIC P/C was well below the industry average.

For example, feedback from our grass-root organizations indicates that, with increasing migrant populations in China, people have growing demand for insurance purchases for their relatives or family members in a different city. But the purchase could not be made as the insured must sign the insurance policy in person and it would be practically impossible for either the insured or the agents to travel long distances to sort out the paperwork. In response to this customer pain spot, CPIC Life revamped its insurance application process and developed the "cloud insurance

application system” for long-distance interaction and insurance purchase. With this, the insured can sign the policy on their mobile phones. Their photos can also be taken and transmitted back to our back office, another innovation of CPIC Life after the electronic signatures and electronic tax invoices. We estimate that there will be 2 million customers experiencing the new system each year.

Automobile insurance customers usually have no idea what to do when claims events occur. To address this pain spot, we launched the Golden Key Program, which provides a full range of services to first-time claimants, from on-site consulting, vehicles repairs, status updates, quality monitoring, and vehicle delivery. The program is now available in 40 provincial capitals, covering an increasing number of high-quality customers, all of whom have expressed satisfaction.

4. Using new technologies to enhance mid-and-back office support for the front-end. Proactively adapting to the era of internet and mobile telecommunications, we see the application of new technologies as a key factor of our transformation. We increased the use of new technologies to enhance mid-and-back office support for the front-end. The company’s *Zhongguo Taibao* We-Chat platform provides

self-services such as loans and welcome calls, as well as social net-working. Our on-line platform integrates e-commerce and the official website, offering a wide range of services. In Q1 of this year, there were over 170 million interactions with customers on these interfaces, with post-sale self service more convenient for customers, accounting for 59% of total post-sale services. We equipped our life insurance agents with over 320,000 terminals of *Shenxing Taibao*, a smart mobile insurance platform, covering all new policy issuance from the agency channel. The system transcends limits of traditional interfaces in time and space, empowering our agents and bringing ease and convenience to customers. Connectivity, our video advertisement which won China's Great Wall Prize, is based on the true story of Mr. LI Hongchun, a life insurance agent in a remote rural village in China's north-western Gansu Province. The *Shenxing Taibao* system, with its new functions like electronic signatures, instant premium payment and entry into force of insurance policies within 15 minutes, appeals to customers, and helps Mr. Li conclude business with much ease and convenience even in remote and tucked-away places, saving cost and time.

All of our transformation initiatives over the past 5 years, from channel mix improvement and product innovation to enhancing customer experience and mid-and-back office support, have all centered on customers' needs, and will ultimately put our development on a even more sustainable footing. What we achieved could not have been possible without the unstinting support from our investors and analysts. I would like to take this opportunity to express our sincere thanks. At our annual shareholders' assembly on June 9th, the proposal for the new board of directors was approved, and Mr. KONG Qingwei was elected chairman of the new board. Under the stewardship of the 8th Board of Directors, CPIC will continue to move towards "the right direction of development", and press ahead with transformation and upgrade. We do look forward to your continued suggestions and support, helping us to improve and create even more value for our investors.

Later, Mr. ZHANG Yuanhan, CPIC Group Chief Actuary, and Ms. CHEN Xiujuan, CPIC Life Chief Actuary will make presentations about the drivers of sustainable value growth of the life insurance business. They will share with you their thinking on profit mix, release of residual margin, impact of C-ROSS and the product strategy, followed by a Q&A session.