Summary of 2018 Investor Day Q & A

（Chengdu, November 15）

1. **Q: The SA on your CI insurance grew by over 40% in 2015 and 2016, and in 2017 it slowed down to 7%. Why?**

A: When we calculate the average sum assured, the denominator is the number of total CI insurance customers, which saw a big increase in 2017, and this, in turn, diluted the average SA. But as a whole, the SA saw steady and fast growth over the years.

2. **Q: Yields on wealth management products are declining, which, in theory, should be good news for life insurance sales. Some of your competitors have launched products of 4.025% for the jumpstart in 2019, and some other are playing down its importance. What about CPIC? What is your strategy for the jumpstart?**

A: We are still working towards fulfilling the annual business targets of 2018. In Q1, there was a steep drop of new sales, and then sales began to recover starting from Q2. This presented us with an opportunity to smooth out volatility. We will officially kick off the jumpstart in December. As for products, we know that some of our peers have prepared products with an interest rate of 4.025%. But we do not have such products. We will closely track the development of our listed peers and formulate a contingency plan. Going forward, our product strategy will see more differentiation in terms of geographies and customer segments. As for guidance for the 2019 jumpstart, we are cautious about its outlook, and I believe this is also the view of our competitors. Basically, China's economy is still under downward pressure, which means challenges for the sales of large "ticket-size" insurance policies. Of course, protection business will hold up relatively well and economic uncertainties may also help with agency channel recruitment.

We pursue more balanced business growth and will try our best to avoid negative growth for the jumpstart. We are more confident about the whole year for the following reasons. First, we accumulated more experience when tackling challenges in 2018. Second, we believe the Transformation 2.0 will begin to yield more fruit. Third, the number and the share of active and high-performing agents have been growing, pointing to steadily improving sales force quality. Fourth, the synergy between health and the elderly care business will deliver more benefits, given big progress in real estate projects for the elderly care communities and the recent signing of an agreement on health management with a Canadian firm during the Shanghai International Import Expo.

3. Q: ***Xianghubao*****, a newly launched mutual critical illness plan has attracted fast-growing participants. What is its impact on your traditional CI business?**

A: We think internet platforms do have some advantage in acquiring customers. As a matter of fact, CPIC launched the digitalization strategy as part of its Transformation 1.0, which essentially seeks to empower insurance business with technology, based on “customer footprints”. This product complements the current health insurance product system, but is unlikely to disrupt it. Because it is essential for private health insurance to customize in order to meet people’s diverse and personalized needs. Standardized products may be able to amass larger numbers of customers, but their benefits tend to be fixed and level of protection low. Going forward, customization will be even more important, and we hope we could achieve long-term and healthy development of the business with improvement in risk pricing and customer segmentation.

4. Q: What is the key success factor of health insurance? What is your view on the competitive landscape of critical insurance?

A: Health insurance consists of disease insurance, medical, disability income and long-term care. Our focus now is on disease and medical, mainly through our life and health subsidiaries.

Health insurance has a much higher frequency of interaction between insurers and customers than any other product, and particularly so when it comes to claims. So we are working hard to enhance our operational capability in health insurance, and the Lingxi robot series is but an example of our efforts and progress in the area. CI business is a key driver of NBV, while medical insurance boosts customer interaction and loyalty. We will not pursue low margin strategy for the CI business. The transformation which started in 2011 essentially shifted away from the low-margin bancassurance toward high-margin agency business, and therefore it makes no sense to step backwards. Besides, price is only one of the factors customer consider when purchasing insurance. In particular, given the importance of customization of private health insurance, we find that some customer segments may prefer products with lower premiums and yet higher margin.

5. Q: Compared with your competitors, CPIC has delivered more improvement in sales force quality, even though the total headcount dropped. What did you do differently, and what steps will be taken in recruitment and training?

A: Productivity improvement is a long-term effort. We focus more on the quality and mix of agents than the sheer number of total agents. In the first 9 months of 2018, the performance ratio measured by long-term insurance policy was 48%, up 0.6 percentage points. The share of active agents on a monthly average basis improved by 4 percentage points, at 38%, and that of high-performing agents by 0.4 percentage points.

That being said, we seek to balance this with headcount growth, and plan to recruit 150,000 new agents for Q4 to help us achieve this year’s targets and also prepare for the 2019 jumpstart. So far, things are going according to plan.

Our strategy is to deliver productivity improvement on top of steady growth of active agents. The implementation will be on a differentiated basis. For example, provincial-level branch offices already have a large sales force, and increasing productivity is a priority. On the other hand, city-level offices will focus more on growing the number of active agents. Moreover, improving the quality of new recruits will be higher on our agenda. Training will be intensified. Now new recruits receive an average of 3.5 days in training. This will be increased in the future.

6. Q: How has the split between savings and protection in agency FYC been trending in recent years?

A: The agency FYC in the first 9 months dropped slightly, and pre-tax income was over RMB3,000. Protection business as a share of FYC would definitely be over 60%, as it now represents over 80% of NBV and 60% of agency channel FYP, with higher commission rates. Admittedly, in 2018, agency channel FYP declined, but cross-sell maintained rapid growth, including 15% for automobile insurance sales and 128% for health business, meaning more diversified sources of agent income.

7. Q: How do you define "active agents"? How will this cohort of agents trend?

A: The criteria vary from region to region. Typically it is RMB1,000 in monthly FYC for active agents, which averaged 320,000 on a monthly average basis, up 9% and an increase of 4 percentage points as a share of total agents. The threshold for high-performing agents is 2,400, and this cohort grew by 0.7% in the first 9 months, with the share increasing by 0.4 percentage points.

8. Q: Since 2011, you have made remarkable progress in the implementation of the strategy of "focusing on the agency channel and regular premium business", and what about the future?

A: The Transformation 1.0 basically centered on this dual focus strategy, and has delivered great benefits. Transformation 2.0 floated the vision of "achieving leadership in healthy and steady development of the Chinese insurance industry", with 3 concrete objectives in business quality, customer satisfaction and risk management. It is more ambitious and pursues high quality development. This translated into customer orientation, sustainable value growth and the pursuit of productivity improvement on the life insurance side. The traditional agency channel will be further enhanced, and on the other hand we will empower the channel with internet. In short, the key strategy can be summarized as productivity improvement and technology empowerment.

9. Q: What is the size of your technology investment? Your approach is the focus on in-house development or outsourcing?

A: The 3-year investment under the digitalization initiative equals the combined investment of the 18 projects under Transformation 1.0, including outsourcing to IT vendors, in-house IT manpower and infrastructure. Generally speaking, our investment in technology grows steadily, in line with the growth of revenues. Its share of total revenues will increase gradually. Now the proportion of in-house R & D is relatively low, and our plan is to increase it to 50% by 2021.

10. Q: Any plan of customer acquisition via internet? How well are your digital platforms supporting cross-sell? Now health

insurance is already a key contributor of both premiums and value. How will it trend going forward?

A: Starting from last year we have been working on putting in place a unified Group-level customer big data platform. Traditional established insurance companies may have different approach towards customer acquisition. First, they tend to focus more on up-sell to existing customers. Second, they may acquire new customers via analysis of customers' insurance needs (say AlphaInsurance) or health management value-added services.

Now our life insurance agents can sell auto business on their cell phones, and we are also pushing forward the Digital Agency Channel project, which would integrate all functions for up-sell.

It is true that the share of protection business has been increasing, already reaching a high level. But it is not the higher the better. Given the adjustment of the industry, we will adhere to 2 principles, namely, satisfying diverse needs of our customers, which means balanced growth between wealth management and risk protection, and the pursuit of sustainable value growth.

We also have catalysts for the development of the industry. For example, "*Xianghubao*" would raise people's awareness of private health insurance, and the program of tax-deferred pension will increase in the visibility of private pension insurance. We will seize these opportunities through, say, product upgrading to meet needs of specific customer segments or geographies.