Summary of 2019 Investor Day Q & A

(Shanghai, Oct. 19, 2019)

1．Q: In the long term, foreign insurers will compete for high-end customers, and internet players for low-end customers as well as the younger generation. In the short term, you are also facing pressures from low-cost and competitive investment products launched by some of your peers. What is your view on industry competitive landscape, and how do you cope with these challenges?

A: I think your question is essentially about foreign competition, competition from other industries and the divergence of competitive strategies in the insurance industry. Firstly, China's insurance market boasts big growth potential, and is becoming increasingly concentrated, both for the life and property and casualty insurance. Secondly, competitions help to foster market demand. As the market grows, the competition is not necessarily a zero-sum game. Thirdly, we seek to differentiate in our strategies in the face of competitions, be they from other industries or other insurers. We focus on value growth, which was manifest in our decision to exit bancassurance in 2011 and enhance the agency channel as the key driver of both volume and value growth. Going forward, we'll continue to follow the path of high quality development, which is also an industry consensus.

To be specific, that involves segmented and differentiated agency force management, which is also a clear message sent to branch offices regarding top-level design, policy formulation and performance evaluation. Value growth is driven by premium growth, which comes from customers. We depend on agents to reach customers. The type of agents determines the type of customers we may acquire. The past “one-size-for-all” approach is no longer viable. Of course, given the size of our sales force, we cannot realize the transformation overnight. Firstly, we need to segment agents and eliminate non-performing ones, i.e., enhancing the mechanism of elimination. Secondly, we need to step up training, and in particular differentiated training for agency segments based on stringent rules and enforcement.

As for product mix, strategies vary from company to company. CPIC, upholding prudence, has rarely adopted any short-term and aggressive strategies. In the 2nd half 2019, we continued to focus on high-margin products, which resulted in lower volume growth in the short term, but better margin. Of course, we will not turn a blind eye to market needs. We are working on some long-term savings and pension products to meet customers’ growing demand for retirement provisions.

2．Q: You have just released your Q3 report and the decline in FYP from the agency channel worsened. What do you think about the results? Do you foresee any improvement in Q4? 2018 and 2019 will be the industry trough. When do you think things will get better? Will it be 2020? What is your plan for the next 3-5 years, and your expectation for NBV growth?

A: Indeed, there was some pressure on new business sales in Q3, but the gap was narrowing amid an industry NBV slow-down, given the launch of higher margin products in H2, which have wider coverage, lower age of the insured and larger average policy size. “Focusing on value growth” is not merely a slogan on paper. It implies that we do not have to be excessively worried about short-term volume growth volatility. Instead, industry adjustment presents an opportunity for us to focus on capacity-building in areas of agency force upgrading, service improvement and technological empowerment.

Admittedly, statistics point to an industry slow-down, but that was mainly because of mix adjustment, namely, the shift away from mid- and short-term business, in pursuit of high quality development. There will be short-term pains, but an even brighter future is ahead of us.

The market has abundant short-term investment instruments. But life insurance offers a unique value proposition as an instrument of stable and sustainable wealth management and long-term financial planning. As the market matures and customers become more sophisticated, the true value of life insurance will be appreciated, stimulating much greater demand. On the other hand, insurance companies also need to improve and diversify the supply of products and enhance customer experience to capture these opportunities.

3. Q: Specifically, what kind of help does technological empowerment provide to the field force? In your presentations, you defined core manpower as those "with certain management or sales capabilities", and why is it "or", and do you have any numerical indicators to measure "certain"?

A: Our presentation talked about the empowerment of the agency force with new technologies, such as O2O, AI-based training and the establishment of a "service eco-system". Of all these, training is the most important part of empowerment. Just now we talked about examples of knowledge graphs, using scenario simulations, product training and customer experience planning to enhance agent sales capabilities. AI technology facilitates differentiated training, improves service, underwriting and claims management capabilities, supports distribution and adds value to customers. Apart from AI and big data analytics, there is also understanding of natural languages, which enables agents to customize insurance recommendations and meet customers' potential needs, and supports post-sale services and health management.

In terms of agency force development, the priority of core manpower is retention, that of top agents is productivity and that of younger-generation agents is recruitment and training. Transformation 2.0 seeks to balance between new agents and existing ones. The former requires the establishment of mechanisms to foster new agents, including productivity-driven track and team-building track for career development. The latter centers on better retention. Indiscriminate recruitment is becoming increasingly difficult and expensive. Our experience shows that those agents who worked with us for more than 3 years tend to have stable productivity. So as for indicators, we look at retention of agents above 3 years and their productivity. For existing agents, there are also 2 tracks of career development, i.e., personal productivity-driven and team-building, which match the wording of "sales" and "management" in our presentation. Courses for horses.

Those on the management track would at the same time have strong sales capabilities. But productive agents may not be good team managers, or may not have the intention to develop on that track. We need to provide career development opportunities for both. We are working on amending the Regulations on the Management of Agents to better accommodate this dual-track system.

4．Q: My first question is about the agency force. Your report mentioned the target of increasing the core manpower from 25% to 40%. What about the headcount growth? You want to increase your MDRT members to 2,000 in the next 3 years. What about their contribution to value growth? New requirements for the agency force upgrading mean changes to the Regulations on Management of Agents, and could you elaborate on the key amendments? The second question is about preparation for the jump-start. When do you plan to launch the campaign? What is the plan for products? What is your guidance for NBV growth in 2020?

A: Our presentation contains a key expression, maintaining size and improving quality. Without a largely stable size of sales force, it is impossible to achieve quality improvement. It is expected that by the end of the year, total headcount will be around 800,000. Now industry-wise headcount number is declining, and therefore we are putting more efforts into mix improvement in terms of resources-allocation and management actions, in order to deliver a steady increase in productivity and retention. Why did I mention MDRT? To be honest, the social status of life insurance agents is not high, but the value of life insurance companies depends on their hard work and each policy they sell. There is no denying that the share of top agents like MDRT in terms of total headcount or premiums or NBV is not very high. But the agency channel is essentially about people, which means role-models or good examples are necessary for inspiration and motivation. If we had, say, 2,000 or even 20,000 MDRT members, a large number of agents would follow their examples. Because of this, earlier last year, we began to send out the message of pursuing long-term, steady and balanced development, which includes enhancing the professional capacity of the agency force.

5. Q: Recently China Life and Ping An both set up Internet subsidiaries. Do you have any plan along this line? What do you think about the competitions from Internet firms? You mentioned your focus on value, and how do you balance

between shareholders, customers and channels? What is your long-term outlook for health and other protection business?

A: Internet firms have been attracting a lot of attention. We've also noticed recent moves by some of our peers. We'll continue to follow the developments on this front. There is no trade-off between the Internet and traditional channels. Earlier, we mentioned the empowerment of traditional channels by mobile technologies. With the advancement of new technologies, the Internet will play an increasingly important part in insurance. As for specific moves or steps, we are not in a position to disclose such information.

We believe we could strike a balance between customers, channels and the company. It is not like the higher the margin, the better. We make money through products. But that is not all about interest rate margin, or gains from expenses and mortality. There is also what we call a "insurance +" strategy, such as the integration of retirement and health management services. I'd like to use the analogy of luxury products. It's about perception and experience. In short, we seek to balance between shareholders, channels and customers.

As for product development, we established the Product Development Department during the organizational restructuring, which will considerably enhance our product development capabilities. The improvement of NBV margin over the years was driven mainly by business mix optimization, instead of pursuing a very high margin for certain products. Going forward, the margin on core products will be stable to realize value growth, with increased efforts in the enrichment of protection functions. But when it comes to niche market products like LTC, surgical operation protection and PA, we focus more on customized products to help with value creation. For example, we are exploring the LTC market, based on China's realities.

6．Q: You mentioned being more selective in recruitment. Do you have any criteria such as educational background? You want to increase the share of core manpower from 25% to 40%, and what kind of role does policy size play in this equation? The average policy size of China's mainland market has been smaller than that in Hong Kong. Why? The industry has been talking about the basic things like activity management, training and retention for 10 years, and exactly what are your gaps compared with AIA?

A: It has to be one-on-one and face-to-face recruitment. Our criteria for new recruits include being able to attend training, attend morning sessions, make visits and achieve sales. Our conclusion is that retention and productivity of agents do not depend so much on their age or educational background, as on their income, because the agency system is based on commissions, not a fixed salary. Of course we seek to incorporate these requirements into the recruitment process via AI or big data analytics.

The increase from 25% to 40% means mix improvement. The basics of the agency channel remain unchanged, like activity ratio, training and retention. But the means of delivery needs upgrading, such as the integration of online and offline for better training efficiency, instead of merely depending on financial incentives.

Smaller average policy size may be due to differences in income level, customer and business mix between the mainland and Hong Kong. CPIC has 130 million customers nationwide, while AIA has a very different customer geographical distribution. Besides, CPIC is a fast-growing company, with rapid growth of new customers, with net annual increment of more than10 million over the past 3 years. New customers tend to have lower policy size compared with old customers, who usually ask for a higher sum assured during upsell. In a sense, it is not about “policy size”, but “customer size”. The decision to purchase insurance is driven by certain triggers, like when one receives their first month salary, or when they have their own children. This makes customer engagement very important. We are pursuing Transformation 2.0, and have confidence to deliver steady increase in up-sell customers. There is another thing. You mentioned the 3-year development plan. Actually, from the Group's perspective, the KPIs for life operation have been consistent, i.e., bench-marking against the average NBV growth of listed peers.

7. Q: Your report mentioned the Three Focuses. What is your budget in that direction? In the past two years, there has been a strong recovery of savings products, boosting the recovery of bancassurance. What is your strategy for this channel?

A: The "3 Focuses" strategy is the overarching strategy of CPIC Life. We are still in the process of preparing next year's budgets. As part of the organizational restructuring, we established the Technological Empowerment Centre, incorporating certain functions previously deployed at the Group level. Apart from regular IT investment, we will step up investment in AI, big data and agency force supportive technologies. In addition to technology, we also have earmarked funds for strategic investment in the agency channel to boost retention and activity management.

We have begun to see some signs of recovery in bancassurance. Firstly, bancassurance must be integrated into the development framework of CPIC Life. Secondly, it has to be different from the previous model, which essentially competes on prices and has a low margin. China's economic and financial restructuring presents opportunities for the financial services industry. China has 40,000 to 50,000 financial institutions, including both banks and non-banking institutions, employing almost 10 million people, who are existing or potential mid- and high-end insurance customers. We are working on approaches to better tap the potential of this customer segment, and explore the growth potential of long-term regular pay business.

8. Q: Could you elaborate on the strategic rationale of the GDR issuance? Any updates on the communications with potential investors and pricing?

A: The rationale of GDR issuance is first and foremost to optimize shareholding structure, and in turn, improve governance. Therefore, as potentially the first insurance company to issue GDRs, we will focus on long-term institutional investors.

Our history shows that CPIC has benefited from the improvement in governance. We are now having this Investor Day, in spite of industry challenges, because of our confidence in the future, and this confidence stems from effective corporate governance. Thanks to our IPOs in Shanghai in 2007 and Hong Kong in 2009, our corporate governance has been improving, with shareholding structure getting more balanced and diversified. The Board of Directors played its due role as the body of strategic decision-making, and the senior management focused on execution. At the same time, a 3-line--defense risk management system is in position.

We have also established our distinctive style. The first is the focus on insurance, with balanced life and property and casualty insurance, and good investment performance. The second is prudence. We think clearly before we leap, and successfully delivered on almost all projects we started, be they Transformation 1.0, improvement of the combined ratio since 2014, and an investment return exceeding the cost of liabilities. The third is dynamism, which is manifest in the resolve to pursue transformation from the 18 projects under Transformation 1.0 to the 15 ones under Transformation 2.0. I am sure you will see continued progress in our “insurance + services” strategy. The fourth is social responsibility. We have just won an award in poverty reduction by the State Council, being the only insurer which was granted the honor. That is because of the development of an insurance product aiming at poverty alleviation. In a nutshell, these attributes of CPIC are all based on sound governance. The other part of the rationale is to broaden our global horizon, raise our international profile and facilitate our internationalization effort. Of course, CPIC has been doing business in China for almost 30 years and we will remain focused on China going forward. If the issuance comes through, CPIC will be listed in Shanghai, Hong Kong and London, and this will increase the brand value of the company.

The pricing will be based on the supply and demand during the book-building. We will abide by the window guidance of the CSRC. We are currently in discussion with many interested parties. Given the robust growth of China's insurance market, and CPIC's market leading position, we are confident that we could issue at a reasonable price.