Summary of Q & A of 2020 Investor Day

(Shanghai, Sep. 24, 2020)

1.Q: It has been a week since the launch of the auto insurance comprehensive reform on September 19. How are things doing in your company? Will premium per vehicle inevitably come down? What is the impact on the combined ratio?

A: The reform lowered the standard premium of commercial auto insurance considerably, with adjustment of the pricing factors for both commercial and compulsory business, which offered more pricing flexibility. So total premiums were expected to fall, which is in line with the targets of "lowering premiums, expanding coverage and improving quality" set by CBIRC.

In terms of its impact, the loss ratio will go up. As per requirements of CBIRC, the expected loss ratio will reach 75%, 10 percentage points higher than before, with the expected expense ratio down by 10 percentage points, so as to benefit consumers as much as possible. In the past week, there has been a steep fall in commercial insurance premiums and a slight decrease in compulsory premiums. Basically, premium adequacy came down in tandem with the expense ratio, offsetting each other. In the short term, there are still some uncertainties, but in the long run, the situation will gradually stabilise.

We will increase investments in new vehicles and commercial lines so as to consolidate our strengths; generate more value per customer via integrated development of auto and non-auto business; upgrade quality management to retain high-quality customers; cut costs through technology empowerment; differentiate over service and enhance customer experience.

The reform will pressurize insurance companies to change. With effective cost control and enhanced operational centralization through technology empowerment, we believe we can maintain reasonable business results in due course.

2.Q: In management presentations, you talked a lot about top-level design of transformation. For the sake of better understanding, could you give us a few examples?

A: An example is renewal of auto insurance. In spite of profound changes to the business environment, we maintained steady auto premium growth, underpinned most importantly by better renewals. This comes first of all from a big improvement in auto insurance customer data integrity, with the share of quality data rising from around 50% to nearly 90%; second is a bigger role played by direct channels in customer retention such as telemarketing and Internet sales; third is the implementation of the accountability system, covering each and every insurance policy. Besides, there is also the use of technology, which enhanced customer experience and contributed to a fast increase in renewal rate. Actually, the net incremental growth of auto business in recent years was entirely from higher renewal rate.

Another example is agricultural insurance. In 2015, we ranked 6th in agricultural insurance market share, and in the first half of this year, 3rd place. There were 2 drivers: technological innovation and product innovation. The presentation showcased tangible benefits we reaped from technological innovation of the “e-Agricultural Platform”, including unmanned aerial inspection for crops and biometric labelling of livestock, to name just a few. We are also a market leader in product innovation, covering both cost indemnity and income protection.

3.Q: The comprehensive reform seeks, among other things, to lower expenses, and what channels will be most impacted? How long will the transition period last?

A: The reform will squeeze the space for expenses, and cutting expenses is both an industry consensus and a regulatory requirement. To this end, we need to improve channel mix, and increase the share of direct channels such as telemarketing, Internet and cross-sell. These channels offer direct access to customers, and their costs are manageable. Actually we have been working on this for many years, not just in response to the reform. We will continue with this going forward, in order to enhance operational efficiency and customer experience and cut sales costs.

The comprehensive reform is intended first and foremost to protect consumer rights and then to pressurize insurance companies to offer more diverse and better products with more competitive prices via operational centralization. The reform has just started, and at this moment it is difficult to tell how long this transition will last. But capacity-building in the following areas will be helpful: first is capability to reach customers directly, which is the common focus of insurance companies, i.e., the share of customers from direct channels; second is capability in centralization. The expense loading was lowered from 35% to 25%, and this requires an all-around enhancement of centralized operation; third is capability in customer service, which is the key differentiator going forward.

We have been pushing forward transformation initiatives centering on these 3 priorities. There is a project on distribution channels, seeking to enhance our direct access to customers. The project on the operational side focuses on centralization and specialization, which, among others, include digital underwriting. By enhancing centralized operation, we can offer more competitive products. The innovative UBI product we launched in Hong Kong, known as *Lichengbao*, was based on a high level of centralization. Once we get regulatory approval, we will roll it out in mainland China. There is also a project on "CPIC Service", striving to provide comprehensive service to customers, both standard and personalized, along the insurance value chain.

4. Q: In non-auto insurance, apart from agricultural insurance, what other business lines do you think boast big potential in premiums and profitability?

A: We classify non-auto business into 4 engines and 3 cornerstones. The former refers to innovative business and the latter traditional business. Our non-auto insurance delivered market leading top-line growth, while maintaining underwriting profitability, mainly because we did well in certain key business lines. For example, personal credit guarantee insurance has recently raised a lot of concerns amid a flurry of defaults. But this year our guarantee insurance performed even better than before on certain indicators, as we have always given first priority to compliance in business operation and risk management. Another example is personal insurance business, which has become an important source of profits for non-auto insurance. There is also government-sponsored business which boasts big potential. In short, we are fully confident that we can maintain both rapid business development and underwriting profitability.

5. Q: At the Group level, what are the KPIs for the P/C company?

A: CPIC has 3 pronounced features: first is the focus on insurance; second is relatively balanced development of property and casualty insurance, life insurance and asset management, which is rare among top players on the market; third is putting quality first. Our KPI system is based on these characteristics. The first most important KPI for CPIC P/C is the combined ratio, with a stable weighting in the system; the second is premium growth rate; third is total profits; fourth is indicators in relation to transformation, subject to adjustment from time to time, which in recent years include mainly renewal rate of auto insurance, development of non-auto business and productivity per person.

6.Q: How does CPIC P/C determine its dividends for the Group?

A: CPIC is a wholly-listed insurance group. So the shareholder dividend policy of our P/C subsidiary is formulated based on the needs of the entire Group. Given continued improvement in underwriting profitability and investment performance, the contribution from our P/C operation in earnings has been rising steadily. From the perspective of Group shareholder dividend, DPS has been on the steady increase, and dividend yield ratio is very attractive.

7.Q: Compared with traditional insurance companies, Internet firms seem to have advantages in direct access to customers, or their customer service. What is you view on this?

A: Auto business is essentially a traditional insurance. But we are also seeing the diversification of its business types and distribution channels. Earlier on we talked about direct channels, which include Internet insurance. We are striving to combine telemarketing and Internet sales closely, and this on-line and off-line integration can better accommodate changing habits of consumers. For example, insurance quotes can be done on the Internet, while more complex services can be provided via a call. The differentiation of the 2 approaches can not only satisfy customer needs but also save operational costs.

Internet insurance requires investment in technology. Actually we have stepped up investment in mid- and back-office support on the Internet, seeking to lower costs through more on-line services and team management. This will help to reduce the overall operational cost of the company.

8.Q: What do you think of the opportunities and challenges of health insurance? At the Group level, how do you co-ordinate for synergy between P/C and life operations?

A: Our property and casualty insurance subsidiary is vigourously making preparations in institutions, personnel, platforms and IT systems and conducting business development within the framework of the Group so as to seize the opportunities of the health insurance market, while following the principle of prudence and ensuring that risks are manageable and its risk management capability can match its market development capability.

Since the beginning of the year, the health insurance seems to have been the only business line with secured high growth amid great market uncertainties. That being said, it still faces 3 challenges: first is quality management, i.e., competitions over prices, instead of over services; second is product innovation. Short-term medical insurance products are the mainstream, and the health product line-up is yet to be diversified; third is that service is yet to be the key differentiator in competition.

We have 3 strengths and 1 mechanism which we can leverage. Our first strength is co-ordination of the P/C, life and health insurance subsidiaries. CPIC P/C maintains good relationship with governments, and it has just been entrusted with the government-sponsored *Huiminbao* Programme, an affordable health insurance scheme in Hu'nan Province; our life insurance operation has many years of business operation of long-term health insurance and our health subsidiary specializes in innovations of health insurance products and services. The second strength we can utilize is the integrated payment of commercial insurance which covers medicine and medical services. And insurance is probably the only player in the health-care ecosystem with the integrated payment function. In practice, the key is how to do the integration and enhance customer experience. Third is the long-term nature of insurance money. The business operation of health insurance involves the building of value chain, which requires long-term funding. The mechanism refers to market-based mechanisms to build a service platform and get various players on board.

This year we have drafted an integrated development program for health insurance, and its implementation is now underway. First is the establishment of an Internet hospital, and we are working very hard on that. Through this institution, we seek to provide “Family Doctors” to our employees, life insurance agents and customers. It offers service around the clock, supported by physicians and dedicated teams. At the same time, we plan to experiment with service for special illnesses, such as those for women, for the elderly populations, those with high blood pressure, high blood sugar or blood fat, and other types of chronic diseases. We have formed cooperation with the Ruijin Hospital of Shanghai to give us capability support.

9.Q: Exactly how much claims cost does the use of new technology save for auto insurance? Do you foresee any further room for cost reduction from technology?

A: We conduct detailed analysis of the loss ratio on a regular basis. And for the loss ratio of auto insurance, we would look at causes of the change, whether it is due to business mix shift, or reduced claims cost, or change to market environment such as inflation. Usually claims cost reduction accounts for 40%-70% of the fall in the loss ratio. Technology is a very effective tool for claims cost reduction, which in turn, improves the loss ratio and lowers claims risks.

This is confirmed by actual applications, such as self-service claims management on mobile apps based on customer’s credit-ratings, achieving high efficiency. We have centralized use of new technologies such as big data and AI in our 4 operational centres for the handling of big cases, ex gratia cases, or cases involving human injuries. We also use voice recognition to detect frauds, with a success ratio of over 90%, and this technology has been rolled out across the country. We believe technological empowerment will continue to help with claims cost reduction and service centralization.

10.Q: In the long run, where does the management believe the "second growth curve" will come from?

A: One's interpretation of the "second growth curve" may vary depending on one's market insights, and for me, it calls for continued attention to potential growth opportunities instead of only looking at current growth drivers. Actually we have been chasing the "second growth curve" for years. For example, as early as 2015, we began to deploy along agricultural insurance, with continued investment in technology and product innovation. With this, our market share rose from the 6th place in 2015 to 3rd place in H1 2020. We seized opportunities in liability insurance arising from the transition of social administration, developed *Fangpinbao*, an anti-poverty product, and focused on development of work-place safety insurance and environmental pollution insurance. With this, premiums from liability insurance have surpassed those of commercial property insurance. In 2015, we also began to foster growth of personal credit guarantee insurance. We believed there were great growth opportunities, but we were also aware of the challenges in risk management. So we took a path of prudent and healthy development, developed relevant risk control tools, set up dedicated teams and focused on our own auto insurance and life insurance customers.

In personal lines business, digitalization, the accumulation of personal wealth and personalization will increasingly define the needs for insurance. Products like *Lichengbao* can serve as a case in point, an example of the “second growth curve” for individual customers. As for commercial lines, we are shifting from traditional cost indemnity to risk management service. We have joined hands with large firms and built platforms for the sharing of data and risk management capabilities. When it comes to government clients, we focus on their demand for quasi-public utility insurance products which are inclusive, personalized and affordable. Essentially, the “second growth curve” is innovation, which is the source of vitality and new market opportunities.