Investor's Newsletter（January 25, 2021）

vol. No.2 in 2021

CPIC（SH601601，HK02601, LSE CPIC）

Stock Data (ending Dec. 31, 2020)

Total equity base (in million)	9,620
A-share	6,845
H-share	2,775
Total Cap (in RMB million)	333,741
A-share	262,850
H-share (in HKD million)	84,230
6-month highest/lowest	
A-share (in RMB)	39.85/28.29
H-share (in HKD)	31.00/21.20
GDR(in USD)	29.75/18.20

IR Calendar

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Premium Income (Unit: in RMB million)

	Jan. - Dec.	Changes	Dec.	Changes
P&C	148,095	10.85%	12,069	-6.95%
Life	208,460	-1.84%	5,860	1.91%

Industry Updates

●CBIRC issued Administrative Measures on Supervision of Liability Insurance

On December 25, CBIRC issued Administrative Measures on Supervision of Liability Insurance, which entered into force on January 1, 2021.

In terms of insurance coverage, the regulations further specified the scope of coverage of liability insurance, with a negative list of exclusions. For example, liability insurance other than motor insurance is banned from covering Automobile Third-party Liability, either as base policies or riders; insurance companies shall distinguish between liability insurance and property indemnity, credit & guarantee insurance, and choose the appropriate business line. **As for insurance service,** the priority of insurance service is to minimize the claims risk, and insurance companies shall ensure that the service they provide is both "reasonable" and "necessary", and shall strictly abide by accounting standards in book-keeping, in order to prevent unjustified expansion of the scope of service and irregularities in accounting treatment by insurance companies. **When it comes to internal control,** the rules set out specific requirements in business management, staffing, IT systems and statistical service, with the requirement for the filing of annual business operation report of liability insurance by the end of February each year.

● CBIRC promulgated The Circular on Development of Independent Individual Insurance Agents

On December 29, CBIRC promulgated The Circular on Development of Independent Individual Insurance Agents, which is a follow-up document of the Administrative Measures on Insurance Agents issued in November last year, a document introducing differentiated management of individual insurance agents.

The document put forward concrete rules on the positioning of individual independent insurance agents, criteria and code of conduct. **First,** it focused on "independence", seeking to abolish the hierarchical relationship between agents. Independent agents can hire up to 3 people to assist at work. **Second,** it sets out more stringent requirements for qualifications. Independent agents shall have at least a junior college education, and shall receive special training and pass the tests in basic insurance knowledge and in particular insurance products. For those with 5 years of work experience in the insurance sector, the threshold may be lowered to high school education. **Third,** the document defines the mode of distribution of independent agents. They can sign agency agreements with one insurance company, and conduct business in insurance sales, assistance in claims investigation and claims handling. They may also be authorized to engage in non-insurance service of insurance companies with partnership channels or licenses for non-insurance financial products. Insurance companies will bear the management responsibility of independent individual agents.

The regulator indicates that compared with developed markets, independent agents in China can only be individual persons, not institutions. Given the early stage of its development, their independence from insurance companies in business is not yet a priority, and this may evolve with further trials and studies.

- **CBIRC released The Circular on Regulating Short-term Health Insurance Products**

CBIRC recently released The Circular on Regulating Short-term Health Insurance Products.
The document intends to ensure more rational market competitions via enhanced supervision of short-term health insurance products. **First** is increased supervision of product renewals to prevent "selling de facto short-term insurance as long-term policies". Insurance companies shall explicitly indicate "non-guaranteed renewals" in policy terms and clauses. Wording to the effect of "guaranteed renewals" or "automatic renewals" are banned from either policy terms or advertising materials. **Second** is pricing and loss ratio. Pricing shall be justified, and insurers shall not set excessive sum assured which grossly deviates from claims experience. At the same time, insurers shall disclose on a regular basis the loss ratio of their short-term health insurance business on their official websites. **Third** is the ban on imposed bundling of products. **Fourth** is on disclosure of health conditions. The design and content of disclosure shall not go against the medical common sense. **Fifth**, in the event of voluntary withdrawal or regulatory imposed suspension of insurance products, insurance companies shall disclose such information to consumers on official websites or instant messaging devices.

Q&A on IFRS 17

1. Q: Could you briefly talk about the new accounting standards?

A: China's Ministry of Finance recently issued the amended accounting standards on insurance contracts (Enterprise Accounting Standards No. 25 – Insurance Contracts), which will enter into force on January 1, 2023 for firms simultaneously listed in China's mainland and overseas, and overseas listed companies following IFRS or Chinese Enterprise Accounting Standards. Other companies can defer the adoption till January 1, 2026.
The new standards intend mainly to improve the comparability and

transparency of financial statements of insurance companies. The comparability refers to comparison across industries and that within the insurance sector. Transparency focuses on presenting users with a clearer view of financial statements of insurance companies. The new standards will have more impact on operating revenue of life insurance companies. The revenue, under the new regime, will consist of contract service margin release, expected claims payout, expected expenses and risk margin release. The new accounting standards would offer users a new perspective. But that only changes the timing of the booking of profits, not the loss or profitability of insurance contracts. The new regime will increase focus on value-creating capabilities of insurance companies, and offer a new perspective into their profit sources.

2. Q: What impact will the new accounting standards have on net profits?

A: In recent years, we and some of our peers have disclosed OPAT on the basis of accounting profits. OPAT cushions the impact of non-operating factors on earnings, and offers a different perspective to investors. Given the long-term nature of life insurance business, the movement of the reserve discount rate on traditional insurance may have a profound impact on earnings, in particular for those with a high share of traditional business. Under the new accounting standards, earnings and OPAT can be somehow reconciled, with lowered impact from changes of economic assumptions and policy surrenders of investment components. Thus there will be less volatility of earnings, and the financial statements will be clearer and more transparent.

3. Q: What progress have you made so far on this front? How will the new accounting standards impact your business management?

A: We are in the process of testing and quantifying the impact of IFRS17. **First,** management will pay more attention to low-margin insurance policies. Under IFRS17, insurance contracts need to conduct profitability testing and then classification, the losses from loss-making contracts will be booked at the reporting period. So low-margin insurance policies will get more attention from management. **Second,** management will pay closer attention to operating revenue and its sources. Operating revenue is a key performance indicator for the capital market. Management will be more attentive to the drivers of operating revenue under the new accounting standards, and vigourously explore ways to increase operating revenue on the supply side. At the same time, the components of insurance contract revenue will also get more management attention, which helps to enhance “protection” as the central insurance value proposition. **Third,** management will take closer look at the release of risk margin and contract service margin. To sum up, with the adoption of IFRS17, management will focus more on the underlying dynamics of business operation, such as operating model, profit model, comparative advantages, differentiation of products by geographies, and improvement in operating quality, and adopt more differentiated business strategies.

4. Q: What progress have you made so far on this front?What is status of your research into and preparation for the adoption of the new accounting standards?

A: We attach great importance to the implementation of the new standards, and have established a project team, which has conducted studies and preparations for a long time. The project was implemented in July 2019, and we expect to complete the migration of IT systems and computation by 2022. There have been several rounds of discussions on key technicalities, and we are confident of proceeding in an orderly manner for the next step and finally achieve a smooth adoption of the new standards.