太平洋保险 CPIC

中国太平洋保险(集团)股份有限公司
China Pacific Insurance (Group) Co.,Ltd.

Investor's Newsletter（September 25, 2021）

vol. No.10 in 2021

CPIC（SH601601, HK02601, LSE CPIC）

Stock Data (ending Aug. 31, 2021)

Total equity base (in million)	9, 620
A-share	6, 845
H-share	2, 775
Total Cap (in RMB million)	230, 512
A-share	180, 025
H-share (in HKD million)	60, 779
6-month highest/lowest	
A-share (in RMB)	43. 35/25. 59
H-share (in HKD)	35. 75/21. 35
GDR(in USD)	34. 13/20. 10

IR Calendar

Investor Relations Department
Tel: 021-58767282
Fax: 021-68870791
E-MAIL: ir@cpic.com.cn
Add: 15F, 1 Zhongshan Rd. S.
Shanghai, P.R. China, 200010
Contact: GONG Zheng
Tel:021-33968661
E-MAIL: gongzheng-001@cpic.com.cn

Contents

Premium Income (Unit: in RMB million)

	Jan.- Aug.	**Changes**	Aug.	**Changes**
P&C	105, 177	4. 27%	11, 455	−4. 21%
Life	166, 390	−0. 13%	15, 126	−16. 25%

Regulatory Updates

- **Regulator launches public consultation for amended rules on supervision of insurance group companies**

On September 3, CBIRC released the Exposure Draft of the amended Provisional Regulations on Supervision of Insurance Group Companies.

The amendments, first of all, seek to step up supervision of corporate governance of insurance groups. Shareholding structure shall be simple, clear and easy to look through. Layers of indirect shareholding by the group in member companies shall be "reasonable". Group companies shall bear primary responsibility for corporate governance of the entire organization. In principle, cross-shareholding between member companies of a group is prohibited. Subsidiaries or other members of a group shall not hold stakes in the group company. Group senior managers can serve as senior management of only one insurance subsidiary in principle. Cross-appointment of senior management between subsidiaries or member companies, in principle, is not allowed. Second, under the draft document, risk management of insurance group companies will be enhanced, with requirements for realigning group risk management resources and establishing an enterprise risk management system compatible with group strategic objectives, organizational structures and business models. Third, the new rules step up supervision of non-insurance subsidiaries, with stipulations on the scope and pre-conditions for insurance groups to invest in non-insurance operations, internal control, banned conduct, outsourcing management and information filing. Insurance groups shall file annual reports of non-insurance subsidiaries by the end of April each year. Fourth, the document seeks to improve supervision of insurance groups in other areas in a systematic way, such as group-consolidated supervision, which is "based on control while considering correlation in risks", with definition of the scope of consolidation; increased requirements for group information disclosure, crisis response and response capacity-building; clarification that the rules are applicable to foreign insurance groups.

- **Regulator sets target for lower P/C insurance business operation cost by 2023**

On September 2, CBIRC issued Guiding Opinions on Promoting Professional, Differentiated and Integrated Development of Property and Casualty Insurance. According to media reports, the Opinions set the target of "lowering the business operation cost of the industry considerably, with expense ratio falling by at least 10pt versus the level at the end of 2020 by the end of 2023"; and "marked improvement in business mix, with the share of non-auto insurance rising by at least 10pt by the end of 2023 from the end of 2020".

- **CBIRC seeks comments on Internet P/C insurance regulations**

The Exposure Draft seeks comments on definition of Internet P/C insurance, market access, business geographies, business conduct, management of intermediaries, off-line delivery, internal management, regulatory measures and administrative penalties. In particular, the draft stipulates that to conduct Internet P/C insurance business, insurance companies must have a minimum comprehensive solvency margin ratio of 120%, a core ratio of 75% and an IRR rating of B or above for 4 consecutive quarters. Besides, there shall be no major administrative penalty for Internet P/C insurance in the past one year. CBIRC set a deadline of September 16 for industry feed-backs.

Company News

- **New life insurance plan of endowment + critical illnesses makes its debut**

On September 1, a new product combination of CPIC Life, known as Haoshi Chengshuang, made its debut. It is composed of an endowment product with riders of whole life critical illness. Plan benefits include health cover against 120 critical illnesses defined in the contract in the event of first-time diagnosis during the insurance period, with payment of 150% of basic SA on riders or cash value (basic policy + rider), whichever is larger; payment of retirement benefits upon maturity (exclusive of CI claims) of 150% of basic SA on base policy, which is equal to 150% of paid premiums on base policy and riders; pay-out of death/ full disability benefits equal to paid premiums if the insured are under 18 years, and 150% of basic SA on riders or cash value (basic policy + rider), whichever is larger, if the insured are above 18 years. Age of the insured ranges from 28 days to 62 years, with flexible mode of pay, i.e. 3/5/10/15/20 years. Insurance period of the base policy is until 60/65/70/75/80/85/90 years, and that of rider whole life, with basic SA of 10,000 yuan.

- **CPIC wins award of Exemplary Case in 2021 China International Trade Fair in Services**

During the Exemplary Cases & Awards Ceremony of 2021 China International Trade Fair in Services, Urban Rail Managers, a risk management solution for urban rail transit developed by CPIC P/C was awarded the Exemplary Case, the only one of its kind won by a property and casualty insurance firm.

In recent years, the solution has become an on-line knowledge base for rail transport. It promoted information sharing and exchange in risk management expertise under different scenarios, claims case studies, insurance knowledge, comparable service programs and access to top-notch experts between CPIC and other stakeholders such as owners of rail transit projects, contractors, sub-contractors, supervisors, builders, insurance brokers, covering 26 service items in 10 categories spanning design & construction, operation & evaluation and operational support.

- **CPIC AMC launches first insurance asset management product with carbon neutrality mandate**

CPIC AMC recently launched an insurance asset management product specifically with a carbon neutrality mandate.

As a "fixed income+" product with target yield strategy, it focuses on investment opportunities surrounding carbon neutrality, such as clean energy, energy saving or carbon emission reduction. This would encourage more public companies to fulfill their environmental responsibilities, raise investor awareness of carbon neutrality and promote the sharing of experience on this front.

Briefing

- **Summary of Q&A of CPIC Interim Results Announcement**

On August 31, CPIC hosted its 2021 Interim Results Announcement, and below is a summary of the Q&A session.

1. Q: The past half year has been very tough for listed insurance companies. For investors, there has been a great deal of uncertainties surrounding the industry. What is management view on the trends and dynamics of the sector going forward? What is your thinking on strategies to ensure development in the medium and long term?

A: The first half of 2021 was indeed difficult, with lots of "unknowns", testing the tenacity, wisdom, patience and confidence of business leaders. I'd like to describe the past half year as "stable". As an enterprise, in the face of profound changes rarely seen before caused by COVID-19, maintaining "stability" is of paramount importance. But that does not mean "business as usual". Instead, it calls for the pursuit of improvement, progress and change while ensuring stable fundamentals.

"Improvement" means maintaining an upward trend in fundamentals no matter how the environment changes. This year marks our 30th anniversary. What helped to navigate us through twists and turns of economic and industry cycles was our commitments to the long term, to high-quality development, to transformation centering on customer needs and to generating returns to our shareholders so that they can share in the company's growth. We have persisted in value growth of life insurance business, high-quality development of property and casualty insurance, and stability and prudence of investment, which formed our fundamentals and were regarded as the label of CPIC.

"Progress" can be seen from the figures we released in the interim report. New business sales of life insurance pretty much met our target, with MDRT members passing 1,000 for the first time; we stood the test of automobile insurance comprehensive reform, with rapid development of non-auto business; premiums from agricultural insurance are expected to surpass

RMB10bn; we also reported solid results in investment.

"Change" refers to reshaping of growth drivers in a new stage of development of the insurance. Our deployment in retirement and health care sectors are well underway, which has gained further traction recently. By the end of the year, we will complete 2 projects in Chengdu and Dali, which will go operational in due course. We joined hands with Ruijin Hospital and established Guangci CPIC Internet Hospital, which launched its first product "CPIC Family Doctor", offering services like on-line consulting, off-line referrals and drug delivery. CPIC Fin-tech, in the preparatory stage, is now in test-run, being more pro-active and efficient in providing services. At the same time, with the support of the board, we are working on the strategy of sustainable development for the next 5 years, covering liabilities, assets and our own operation, so as to contribute to the fulfillment of national strategies and the green and low-carbon socio-economic transitioning of China.

An enterprise always faces uncertainties, and the commercial logic of insurance is to tackle the uncertainties of tomorrow by investing in today. We have learned a lot from the past 30 years of operating in this market. We will continue doing the right, and perhaps also difficult thing, and we know this takes time.

No matter how the environment changes, we will not waver in our determination and direction. We are confident that what we are doing now is a CPIC solution in the face of growing uncertainties, which, in time, will bear desirable results, and provide a satisfactory answer to our customers, employees and shareholders.

2. Q: Investors pay much attention to your dividends. Given the gap between OPAT and net profit growth, could management give us more guidance on the dividend policy for this year?

A: Our dividend payment may aptly be described as generous, which has also become a label of the company, evidenced by nearly 50% of average pay-out ratio since our listing. We are committed to generating reasonable returns to our investors.

As a company, we are expected, and understandably, to maximize returns for our shareholders while ensuring healthy business operation. To achieve this, we need to overcome difficulties, and a favorable environment is also necessary. But ultimately it depends on our own effort. Going forward, the company, and the board as well, will maintain the sustainability and stability of the dividend policy, and set a suitable dividend level based on the company's business performance, capital needs arising from business growth, regulatory requirements and capital constraints. This not only ensures a reasonable return for shareholders but also enables us to capture opportunities in innovation, especially in deployment in "products + services" so that our development can be on a more sustainable footing.

3. Q: Could you elaborate on the plans and progress of the Health Strategy, and areas you focus on?

A: In terms of overall development of health insurance at the Group level, combining our subsidiaries, the business line as a whole realized double digit growth in the first half of this year. The growth rate was roughly twice that of the industry average. Of this, medical insurance, which is more closely linked with service, grew the fastest. By the way, health insurance mainly consists of medical insurance and critical illness insurance. We seek to boost up-sell to increase the level of protection on CI insurance, while enhancing capabilities in medical insurance upgrading to improve customer penetration by medical services, thus continuously enhancing customer satisfaction.

There are two definitive trends in the health insurance business. One is long-term inflation of medical costs, with China having the highest inflation rate among major economies of the world. The other is that medical service is a must for customers. Therefore, building an ecosystem for health insurance is vital. To a large extent, investment in the health sector has to start from scratch, and in this equation, marketization and professionalism are key levers.

On the one hand, we use market-based mechanisms to help us start the business. We established an in-house team of 400 medical professionals and another team of 200 technology professionals for tele-medicine in 6 months. We put in place a technology platform which is capable of handling huge traffic coming in at the same time, forged the brand of “CPIC Family Doctor” for generalist medical services. Market-based mechanisms enabled us to achieve this within such a short period of time. Now our start-up teams are working around the clock to upgrade products and services. I’d like to invite friends of the capital market to visit us on the site and share with us your insights. Besides, we set up an industry equity investment fund for the health business within the shortest possible time. In the past 6 months, 24 projects have been reviewed and passed, covering medical appliances, bio-pharmaceuticals, tele-medicine and laboratory testing, testifying to the central role market-based mechanisms played in improving work efficiency.

Another approach is to ensure quality via professionalism. Our generalist Family Doctor Program is based on cooperation with top-notch health care providers like Ruijin Hospital, which is responsible for the selection, certification, training of our in-house doctors, making sure the quality is up to the standard. We acquired a stake in Shanghai Guangci Memorial Hospital under Ruijin Hospital, seeking to offer high-quality off-line care to mid and high-end customers. The thinking is to win our customers’ trust with professionalism. With the completion of shareholding restructuring of our health insurance subsidiary, we are promoting project-based transformation in new channels, new products and new technology, focusing on re-engineering of the core IT systems, product upgrading and conversion of on-line traffic. Our vision is to transform it into an agile and specialized health insurance firm, playing an important role in deployment along the health business.

4. Q: Your OPAT slowed down. Was it due to the impact of operating variance and investment income variance? Is operating variance treated in the same way under EV and OPAT?

A: In H1 last year, due to the pandemic, the claims ratio of illnesses was relatively low, and so OPAT growth this year slowed down, as the base from last year was high. However, this year there was an increase in both release of residual margin and contribution from operating variance versus last year, hence steady OPAT growth.

As for operating variance, surrenders deteriorated this year, and OPAT and EV have different treatment for this. EV not only considers the impact in the reporting period, but also over future years, and higher surrenders would adversely affect the operating variance and EV; for OPAT, higher surrenders would lead to increase in release of residual margin, thus having a positive impact on OPAT.

5. Q: What is the reason for slow-down in EV from the same period of last year?

A: One reason for the slow-down was the one-off impact of GDR issuance in the first half of 2020. Excluding this, the growth would have come down from 8.7% to 5.5%. The decline of VNB was also a major factor, in addition to negative impact from operating and investment income variance.

6. Q: What is your view on the current difficulties facing the life insurance sector. What happened? What are the drivers of the industry going forward?

A: Undoubtedly the life insurance sector this year is facing many challenges. But our annualized FYP in the first half of the year grew by 32.9%, pointing to opportunities as well as difficulties. I think the industry encountered difficulty for the following reasons, both external and internal.

Externally, the pandemic, economic slow-down and regulatory tightening are short-term factors for the slow-down. Internally, the previous development mode has met with great challenges. Demand remains strong, given China's per capita GDP, low insurance penetration and a Confucianism culture associated with high savings rate, risk aversion and the focus on families. However, consumers' preferences and behaviors have changed profoundly. Consumers are more rational, more sophisticated and require personalized products. The reform of the supply side has become an imperative, so that we can shift from relationship-based selling or mere sales spree to needs-based and professional marketing.

CPIC boasts potential in 3 areas. One is existing agents. After more than 20 years of accumulation, we have acquired a large number of high-quality agents and team managers. Their transition towards career-based and professional agents with digital capability would be a powerful driving force of growth. Second, CPIC has 160mn existing customers, who have a strong demand for insurance. There is huge potential in services and cross-sell. Third is “products + services”. Insurance products are becoming increasingly alike, but innovation in services presents vast opportunities, especially in health management and elderly care.

7. Q: Recently many cities in China have launched Huiminbao products, by which customers can have a high level of protection for low premiums. Would this type of inclusive health insurance products be a disruption to traditional commercial health insurance? How do you cope with the challenge?

A: Huiminbao business has been growing by leaps and bounds across the country since last year. CPIC actively took part in this, delivering satisfactory results. The products are positioned as an inclusive and affordable insurance program supplementary to social insurance, and premiums are low, catering for mass market customers. On the one hand, the product would help raise public awareness of insurance. On the other, it is complimentary to critical illness insurance, instead of an alternative. Customers, based on their own needs, can choose one of them or buy both. Particularly for mid and high-end customers, demand for commercial health insurance remains robust. We will step up customer segmentation, so as to better match customer needs with products and services.

8. Q: Mr. Cai, what is management outlook for the second half of the year? What is your thinking on the strategic direction and plans for the next step?

A: We will focus on a business model underpinned by existing customers, existing agents and “products + services”. On Jan.1, 2021, we launched the Changhang Action Plan, setting out concrete strategic objectives and steps. To facilitate the plan’s execution, we formulated the blueprint for phase one implementation which contains, first and foremost, the Career Marketing Project. The rationale is that part-time agents are unable to sell complicated, diversified and personalized insurance products. With customers becoming increasingly rational and knowledgeable, the supply side, i.e. our agents, needs to keep up and transition towards a career-based sales force. This will be our top priority for the second half of the year and next year.

Another priority is service-driven marketing, by means of revamping the current process, starting with service followed by sales to improve customer experience and service quality. This, in turn, will promote up-sell and cross-sell.

At the same time, we will further strengthen the “Golden Triangle” product line-up, enhancing product competitiveness in health protection, pension & retirement and wealth inheritance. This, coupled with CPIC Service, can help us achieve the shift towards a mode of business development driven by customer needs.

9. Q: What are the key metrics for life insurance in the next 6-12 months?

A: First is manpower, but this is not the same as the number of agents. We focus on active or productive agents. Second is productivity and income of active agents. Monthly average FYP and FYC per agent rose by 41.5% and 15.1% respectively in the first half of this year, a preliminary sign of improvement. Third is customers. In the short term, we use NPS to measure customer satisfaction, but in the medium and long term, we would look at repeated purchase ratio by customers. We hope that they could be converted from insurance buyers to insurance customers, with a marked increase in the number of policies per customer.

10. Q: Why did the policy persistency ratio continue to drop? What is your outlook?

A: In terms of business quality, indeed, the whole life insurance industry is facing challenges mainly for 3 reasons. First, the previous model of massive recruiting has taken its toll on business quality. Second, the pandemic, coupled with economic slow-down, affected customers' ability to pay premiums. Third, surrender racketeering became a further complication.

Therefore, we recently floated the Changhang Action Plan. In particular, at the turn of this year, we began to pro-actively adjust business and agency force mix, focusing on business quality and high-quality recruitment. I am sure this will make a big difference. At the same time, as the regulator takes actions to enhance consumer protection, the industry will pay more attention to honesty and high-quality service. I am confident that, in time, the life insurance business will win back consumers' trust with first-class service.

11. Q: The combined ratio of automobile insurance, including the loss ratio, was higher than those of your listed peers. How do you plan to improve the underwriting profitability?

A: Reasons for higher combined ratio include, first, premiums fell post the comprehensive reform; second, the upper limit of sum assured on all in-force compulsory automobile insurance policies was raised from RMB120,000 to RMB200,000, driving up the loss ratio; third, the pandemic situation has stabilized this year, which means much more travelling, and in turn, higher claims frequency. Besides, this year marks the 1st anniversary of automobile insurance comprehensive reform, and in anticipation of greater uncertainty, we adopted an even more prudent approach towards reserving, evidenced by a much higher ratio of claims reserves to earned premiums.

We strived to mitigate the impact of comprehensive reform through continuous efforts in customer operation. In the first half of this year, individual customers of CPIC P/C grew by 11%, and automobile and non-auto integration, i.e. cross-sell of non-auto insurance to auto insurance customers, jumped by 89%, involving more than 48% of auto insurance customers.

In the second half of the year, pressure from the comprehensive reform remains. Moreover, the terms and clauses of new energy vehicles insurance are in the stage of public consultation. New energy vehicles are an emerging market segment. It is estimated that this year their sales will surpass 2mn vehicles. For CPIC, the share of new energy vehicles is relatively high, and for various reasons, the overall loss ratio is not yet satisfactory. So next step, we will think about ways to seize the opportunity of this emerging market segment while enhancing claims cost control in the context of rates and terms & clauses of electric vehicle insurance.

Going forward, our priority is to explore a new path of development underpinned by intensified and differentiated business management and operation, and continue enhancing capabilities for high-quality development. We are confident that with the roll-out of a series of measures and initiatives, we will attain a new level in customer operation and automobile insurance management.

12. Q: The comprehensive investment yield fell, with unrealized losses on AFS assets. Why?

A: In the first half of 2021, annualized net investment yield fell by 0.3pt from the same period of last year, mainly due to lower held-to-maturity yields on new investments in the context of declining interest rates.

Total investment yield rose by 0.2pt, largely because of adherence to pro-active and disciplined Tactical Asset Allocation based on market strategy analysis, which delivered solid investment results. At the beginning of the year, at a Group-wise investment research meeting, we discussed the economic and market conditions of the year, and concluded that there was likely to be some structural rather than systemic opportunities. We seized such opportunities, and achieved an investment income far exceeding our budgets, which reduced the pressure on investment in the second half of the year, and provided more leeway in asset allocation so that we could analyze the market in a more prudent manner and focus on some long-term investment opportunities.

In the second half of 2021, we will continue enhancing analysis of trends of the capital market to ensure fulfillment of annual business targets.

As for asset impairment charges, under applicable accounting standards, impairment charges shall be recognized when fair value on equity investments stays continuously below costs for more than one year, or falls below 50% of the cost. In our case, all charges stemmed from stocks with high dividends, to the tune of RMB1.2bn, and there was no newly-booked charges on enterprise/corporate bonds.

13. Q: Your investment performance has been stable over the years. However, according to disclosure in your interim report, your

investment results seemed a bit lower than those of your listed peers. Why?

A: The investment yields of listed insurance companies are based on different methods, particularly in the calculation of annualized investment income in interim reports. Some of our peers, when calculating total investment yield, would annualize trading gains and profit/loss from change of fair value movement, which partly explains the difference in investment results. We took a more prudent approach and did not annualize such income, and so our investment yields are not entirely comparable.

CPIC persists in value, long-term and prudent investing, continuously optimizing asset-liability management across economic cycles. Guided by Strategic Asset Allocation, we lengthened asset duration and maintained a flexible TAA. Besides, in a longer-term horizon, CPIC delivered sound investment results with less volatility.