Summary of Q & A of CPIC 3Q21 Results Conference Call

（October, 2021）

1. Q: C-ROSS Phase II is about to be implemented. What is your solvency testing results under the new regime? Would the new rules impact your investment and shareholder dividend policy?

A: The specific rules are yet to be issued. We have conducted simulation testing, which shows that the Group core solvency margin ratio is above 150%, and that of the life insurance business in particular is over 100%, similar to results of most of our peers. Our projection also indicates that under the new regime, our solvency margin ratios will not be under sustained pressure, and will improve steadily afterwards. We are committed to generating long-term and stable returns for our shareholders, and as was explained earlier, the reform will not have prolonged impact on our life insurance business, and so in the long run, our shareholder dividend policy will stay largely consistent.

2. Q: You recently unveiled the road map for the 1st stage of the Changhang Action Plan, which focuses on enhancing customer experience and restructuring the sales force. Could you elaborate on the concrete steps to be taken? What long-term vision do you expect to achieve? What are the main changes of the new rules on agent compensation and management (the Basic Law)?

A: As management indicated at the Annual Results Announcement, the answer to this question does not come from a particular person, but from the market, the front-line and branch offices. Management of CPIC Life convened a strategy seminar in June, and decided to initiate the road map of the 1st stage of Changhang Action Plan on July 1. After a hectic 3 months, we came up with 7 projects, and what comes first is the project on career agent, seeking to transition towards a career-based, professional and digitally-empowered agency force. The blue-print is nearly finished. The second project is re-invention of value-oriented bancassurance, which has become totally different from what it was 10 years ago. Given customer needs and the need for more balanced growth drivers, we will carry out value-oriented bancassurance business based on long-term strategic partnerships. The third project is "products + services". We will review current product offerings and realign them with services. Innovation of insurance products is more or less limited, but that of services can be infinite. What we are trying to achieve is to shift away from short-term sales push on the eve of products withdrawals towards a truly customer-oriented approach, and develop a competitive, differentiated product line-up centering on the "golden triangle" of customer needs, i.e., protection, retirement and long-term savings. The fourth is tapping the potential of existing customers and agents, which is the most valuable asset of the company. The 7 projects will be launched successively.

Of these, we are focusing on preparation for the launch of the Career Agent Project, marked by implementation of the new Basic Law. That being said, the Basic Law is only one of the levers of this transitioning, and should not be viewed as a "magic touch", changing everything in a swing. The new Basic Law centres on the reform of the operational mode of the agency channel, including driving innovation of the operational mode and agent conduct, which, first and foremost, is about improving productivity. The new Basic Law will be aligned with the new operational mode, closely linking income with productivity. Then there is consistency. We need a marathon, not a short-distance sprint. The more consistent the performance, the higher the income. Third, bonus is closely tied with business quality. No bonus if policy persistency falls short, and extra bonus if it outperforms. At the same time, there are also incentives for managers to build and develop teams, and it is not enough just to recruit. The incentive is conditioned on performance of new recruits in the next 3 years, which would encourage retention as well as recruitment.

Besides, we will launch a new management system early next month to better support our agents. Our target is to achieve "5 Mosts", such as the most generous income, which was touched upon when I explained the Basic Law; and the most professional career development system. To do this, we will conduct strategic cooperation with foreign training institutions to put in place a needs-based selling system, which is to be digitalised together with activity management system so that agents can easily grasp the skills for needs-based selling, being able to recommend suitable plans or solutions to meet customer demand in protection, retirement and saving, instead of merely depending on sales push of new products or during switch of products. This means an over-haul of the entire operational platform.

3. Q: According to your disclosure, new premiums in Q3 fell a lot. What about VNB performance in Q3 and for the first 9 months?

A: As a leading insurer in China, we face the same challenges and pressures as the industry. **First,** given increased regulatory requirement for consumer protection and "elimination of artificially-inflated elements", we introduced stringent measures to resolve the issues of false manpower, false insurance policies and false premiums, which had an adverse impact on business growth. But it was the right thing to do, and will pave the way for long-term development of the industry. **Second** is a steep decline of agent headcount, which on the one hand resulted from our effort to transition the agency force and enhance agent validation, and on the other hand, was due to the short-term impact of elimination of false manpower in compliance with regulatory requirements. This was a common challenge for almost all insurance companies in Q3. **Third** is weakness in consumption, especially in the wake of adoption of new CI Definitions. So far there has been no sign of improvement of CI sales, which also led to a lower share of protection business. In our case, prior to the launch of the Changhang Action Plan on Jan.1 this year, we began to step up agent validation, which continued into Q1 and the first half of the year. This caused some disruption, but we regard it as short-term pains of transitioning, and so we will continue to do the right thing, as we believe it lays a solid foundation for long-term development of the company and the industry.

Management remains confident of the future of China's insurance market, which is still in an early stage of development in terms of consumer demand. Of course, customer needs are changing. Consumers now value professional and long-term advisory service, instead of price comparisons. However, the supply fails to keep up, hence the urgency for supply-side reform.

4. Q: The industry is still facing lots of headwinds. Do you expect a positive VBN growth in 2022? Any thinking or measures in the agency force or products?

A: What we'd like to emphasise is with change come pains, costs and risks. When we were formulating the Changhang Action Plan, we considered both risks and rewards, and our conclusion is there is a confluence of favourable circumstances for reform: the market environment compels us to change; the company has reached the consensus for change and consumers need us to change.

In 2022, we will switch to a new Basic Law on January 1, with the launch of 4 systems. **First** is NBS (needs-based selling), seeking to help agents shift from product push to needs-based selling. The system development is completed. Staff and agent lecturers have finished training, and the feed-back is good, saying the system is easy to use. So in the next few months we will gradually roll it out. Equipped with this, agents will start with needs analysis, and then recommendation. And they will recommend comprehensive plans, instead of a single product. **Second** is activity management system, which can already be accessed via cell phones. Agents do not have to fill out many forms, but the key information will be extracted and uploaded automatically, enabling tracking and management of agent behaviours. The system will run on a trial basis in two branch offices in early November, and be rolled out across the country by the end of December. **Third** is the R&R (Recruitment&Retention) system. A new platform is set to be launched on November 12. **Fourth** is customer relations management (CRM) system, which we expect to launch in 2022. In short, the 4 systems will support the agency force in tandem with the new Basic Law. At the same time, we will spend the next 3 years upgrading the workplace of our agents so that it can be more compatible with the professional, career-based and digital transitioning. I mentioned “5 Mosts”, and the fifth “Most”is the most caring service and products. Going forward, our product strategy will centre on the “golden triangle” of customer needs for protection, retirement and savings, and we will launch suitable products for different customer segments.

5. Q: What is the criteria for recruitment of career-based agents? At what level will total number of agents stabilise?

A: We no longer look at total headcount, and instead, we focus on productive agents, and we hope we could disclose more information on this going forward. In the context of a career-based agency force, competence is not the same as good education. Agents of high insurance competence tend to have 5 common qualities: first is their belief in the value proposition of insurance, with certain knowledge of insurance; second is motivation and drive; third is self-discipline; fourth is altruism, ready to serve and help other people; fifth is tenacity, not afraid of being rejected. You cannot detect these attributes via AI or a paper resume. You need to have face-to-face communication. The centrepiece of the recruitment and retention system is how to select an eligible candidate. Of course, our training system will teach managers how to do this in great details. At the same time, the incentives for new recruits, like subsidies or start-up funds will all be designed to help high-calibre agents to succeed.

6. Q: What percentage of your existing agents fit the criteria you just outlined?

A: We have retained quite a large number of experienced agents from early years, and they are ready to continue with insurance selling and look forward to the reform. These agents were recruited between 2002 and 2012, when the company introduced a top-notch management and training system, conducted one-on-one sales training and equipped them with solid selling skills. The retention of such core manpower is vital to VNB growth in the future. In productivity, previously the operational mode was driven by headcount growth, with very low productivity. Going forward, the mode will be based on steady growth of core competencies to drive rapid productivity gains.

7. Q: Your business is mostly in tier-2 and tier-3 cities, and do you think your agency force transitioning strategy would apply to these regions?

A: Our market survey shows that consumers prefer the same type of agents, regardless of tiers of cities the consumers come from. **First** is honesty and professionalism, and this is particularly important in places with a higher penetration of agents and in turn more exposure to the traditional mode of product push. **Second** is personalised service. **Third** is the ability to provide long-term service. We do not think these standards have much to do with the maturity of a market. Our findings show that in tier-3 or tier-4 cities, insurance penetration and density are relatively low, especially in comparison with those of tier-1 cities, and so the demand is huge. Our career-based reform fits in well with the company's realities, and in implementing the reform, we will adopt market and customer strategies based on our own situation.

8. Q: On the 1st anniversary of the automobile insurance comprehensive reform, have you seen signs of a turning point for premium growth? What is the main reason for non-auto premium slow-down? What is your outlook for the combined ratio for 2021?

A: The comprehensive reform indeed has a profound impact on the automobile insurance market, manifest in two aspects: one is decline of market premiums; second is rising combined ratio. In the past year since the reform was introduced, CPIC P/C took effective steps and largely maintained the stability of business performance, delivering an increase in market share, the number of customers and the renewal ratio. In Q3, automobile insurance premium dropped further, and that is mainly due to a high base from Q3 last year, when industry players, in anticipation of the comprehensive reform, stepped up business acquisition. However, the premium growth began to turn positive in October, and we expect the YTD premium decline to narrow going forward. On the non-auto side, in the face of the comprehensive reform of automobile insurance, we accelerated shift of growth drivers, and intensified business development of non-auto insurance, which maintained rapid growth in the first half of the year. The objectives of our property and casualty business are to ensure profitability, intensify differentiated management and improve sustainability. Therefore, to better control business quality, adjustments have been made pro-actively in response to issues such as high loss ratios of health insurance and accident insurance, which led to a slow-down in these business lines in Q3. But this will put our business development on a more sustainable footing. Next, we will continue to drive healthy and steady development of non-auto business while enhancing risk selection and business quality control.

9. Q: What is your combined ratio like in Q3?

A: Automobile insurance comprehensive reform has had a great effect on both industry premiums and underwriting profitability. In response to the challenge, we have dynamically adjusted our strategies. The combined ratio of auto insurance worsened in the first 3 quarters this year versus the level prior to the reform, and afterwards has started to stabilise, similar to the situation of our main competitors. Into September, the policy-year combined ratio showed signs of improvement, which gave us even more confidence. Going forward, **first**, we will continue to strengthen customer operation and renewal business management so as to lower business acquisition costs; **second**, we will continue to increase the share of proprietary channels and digital capabilities in a bid to optimise cost structure of customer operation and improve the renewal ratio; **third**, we will step up cost control, enhancing risk pricing and optimising resource-allocation on the one hand and stepping up claims management on the other, particularly with regard to human injuries. In a nutshell, we have confidence to keep stable costs of automobile insurance.

As for non-auto insurance, there is no denying that the business has been under big pressure, given the magnitude of natural disasters. However, we still managed to deliver underwriting profitability in Q3 for the business (excluding agricultural insurance), and even for agricultural insurance, we have hopes of realising underwriting profits for the whole year.

10. Q: What is the size of your exposure to the real estate via non-public financing instruments? Will the risks of the sector pose a threat to your company?

A: We persist in value, long-term and prudent investing, attach great importance to risk management, and do not pursue higher yield at the cost of credit-worthiness. So far the troubles of the real estate sector have no impact on us. The issuers or guarantors of our fixed income investments in the sector boast strong debt servicing capabilities, with credit risk under control. The majority of our investment properties are high-quality assets located in tier-1 cities, with sound investment yields. Given the uncertainty of the property industry, we will maintain prudence in investments, both fixed income and equity, in the sector.