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（Nov. 16, 2021）

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CPIC（SH601601, HK02601, LSE CPIC）

Stock Data (ending Oct. 31, 2021)

Total equity base (in million)	9, 620
A-share	6, 845
H-share	2, 775
Total Cap (in RMB million)	242, 400
A-share	187, 554
H-share (in HKD million)	66, 607
6-month highest/lowest	
A-share (in RMB)	33. 92/25. 59
H-share (in HKD)	28. 51/21. 35
GDR(in USD)	27. 00/20. 10

IR Calendar

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Premium Income (Unit: in RMB million)

	Jan.- Oct.	Changes	Oct.	Changes
P&C	128, 539	2. 82%	10, 587	1. 79%
Life	191, 837	-0. 92%	10, 111	-6. 18%

Regulatory Updates

● Regulator issues rules on Internet life/health insurance

First, the document implements separate business management for Internet life/health insurance, which is limited to accident, health (excluding long-term care), term life, traditional life with an insurance period of more than 10 years (excluding term life), traditional annuity with an insurance period of more than 10 years, and other life/health insurance products as specified by the regulator. This means universal, participating and unit-linked products will no longer be sold online.

Second, it sets out criteria for market access. In the absence of local branch offices, insurance companies can still conduct Internet life/health business in these areas provided that they meet requirements in solvency, Integrated Risk Rating (IRR), reserving, and governance. CBIRC indicates that it supports companies with strength and capabilities, committed to compliance and customer service in their efforts to use Internet and big data technologies to provide high-quality and convenient insurance service to the public.

Third, the new rules raised the threshold for sales of traditional life (excluding term life) or annuity products with an insurance period of over 10 years. To qualify for such sales, insurers have to meet particular requirements in comprehensive solvency margin ratio, comprehensive solvency surplus, IRR, major administrative penalties and governance.

Fourth, it introduced “retrospective pricing supervision” for the first time. Insurance companies are supposed to review the deviation of actual experience from pricing assumptions on a regular basis, and put in place mechanisms for voluntary adjustments, information disclosure and reporting. Industry insiders pointed out that this would help the public to better understand and select suitable products, and would help to rein in price wars and ease product homogeneity.

Market analysts believe that a small number of insurers would have to withdraw from Internet business due to inability to meet solvency and IRR requirements. More insurance firms would be impacted in the sales of annuity products with an insurance period of over 10 years, and some radically-priced products will have to be rectified.

● Regulator seeks comments on universal life/health insurance regulations

In product management, first, the draft document stipulates that no products or riders other than whole life, endowment or annuity insurance can be designed as universal products. Analysts believe that this could mean the current combination of long-term care/term life + universal would be a past. Second, the insurance period of universal insurance shall be at least 5 years, and the payment of policy persistency bonus shall not be earlier than the end of the 5th policy year. Third, insurers are encouraged to develop products with an insurance period of 20 years or above, bundled with riders of critical illness or personal accident to further raise the level of protection. Industry insiders pointed out most of the insurance companies offer products of more than 5 years, and for those falling short, there will be a transition period.

In account management, first, policy benefits shall be paid in line with actual investment return of the account. Insurance companies shall not falsely inflate invest returns by adjusting assets or artificially inflating asset value. Second, crediting rates shall be set prudently, based on actual investment results while considering expected returns going forward. Insurance companies shall evaluate the impact of the crediting rates on the matching of asset and liabilities, and dynamically adjust the rate.

In investment, the document requires strict control of the share of high-risk asset classes, industry concentration and the share of a single instrument and counter-party, closely monitor the risk exposure to ensure that it is within the risk tolerance and covered by net assets of the insurance company, and rationally set the duration of investment assets, in order to enhance the liquidity management of the independent account of universal products.

In product sales, sales personnel shall have a minimum 1 year of sales experience, and shall pass special tests. Mis-selling is strictly prohibited.

● Individual accounts recommended for personal pension system

The Department of Insurance of Human Resources and Social Security Ministry recently highlighted 2 priorities in the development of “the 3rd pillar” of the pension system: one is to establish a personal pension system based on tax incentives or other government support for workforce covered by the basic pension insurance, providing an option for private retirement savings. The system will take the form of “individual accounts”, with caps on annual contributions. In the beginning, the account will be aligned with the pilot program of tax-deferred pension insurance, and going forward, the caps may be raised in step with economic development and growth of income. Investment instruments under the account could be bank deposits, bank wealth management products, commercial pension insurance, mutual funds to suit the needs of customers and also to create a level playing field for market participants. Second is to promote healthy development of personal pension financial products. There will be clear rules for those with tax incentives or other types of government support. Other products will operate based on market mechanism as part of the 3rd pillar.

Industry Info

● Participants of Huiminbao surpass 70mn

To date, 58 insurance companies have been involved in more than 100 city-specific customized medical insurance programs known as Huiminbao in 27 provinces. Program participation ratio varies greatly, with some cities exceeding 50%. The claims ratio is subject to conditions of claims payment, local social insurance policies and public participation ratio. Currently, most of the programs are in early stage of operation, not yet reaching their 1st anniversary, and claims may yet to develop, which means that programs in certain cities may incur underwriting losses.

- **Interim targets largely met on 1st anniversary of auto insurance comprehensive reform**

Consumer premium spending considerably reduced. As of the end of September, average premium per vehicle was RMB2,763, down by 21% from the period prior to reform last year, with 87% of consumers seeing lower premiums, which in total saved over RMB200bn for Chinese consumers. Average no-claims discount for commercial business rose from 21.1% to 24.6%.

Expenses greatly slashed. Market expense ratio was 27.8%, down by 13.5pt from the same period of 2020. Of this, commission ratio fell by 7.2pt to 8.4%; business and administrative expense ratio dropped by 7.1pt to 19.8%. On the other hand, claims rose sharply, with claims ratio increased by 16.3pt from 56.9% prior to the reform to 73.2%.

As for protection levels, while the SA on compulsory automobile business was raised greatly, that on commercial third-party rose by RMB610,000 to RMB1.5mn, and the share of policies with SA of RMB1mn or above reached 93%. The percentage of compulsory business customers taking out commercial policies increased to 87% from 80% prior to the reform.

Company News

- **2 retirement communities of CPIC Care Home make debut on same day**

On October 29, the retirement communities in Chengdu and Dali under CPIC Care Home was inaugurated on the same day, marking the on-the-ground operation of the company’s new model of “insurance products + retirement communities + specialized services”. Elderly people may either choose Dali for more leisure and holiday-like experience, or Chengdu for more long-term continued care services.

At the inauguration ceremony, CPIC Blue Charity Fund donated RMB500,000 to the Charity Foundation of Wenjiang District of Chengdu for elderly people with cognitive impairments; Shantai Health Technology Co., Ltd. presented vouchers of health management services to representatives of the first group of customers of the Chengdu retirement community; CPIC Elderly Care will conduct in-depth cooperation with Dali Nursing School in cultivation of talent with specialist skills in elderly people nursing. CPIC also joined hands with the Social Insurance Research Centre of the Chinese Academy of Social Sciences and launched the White Paper on Retirement Planning and Risk Management.

Briefing

● Summary of Q&A of Q3 results investor meeting

On October 29, CPIC held an investor meeting for its Q3 results. Below is a summary of the Q&A session.

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 centers 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 digitalized 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 emphasize 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 favorable 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 behaviors. 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 center on the “golden triangle” of customer needs for protection, retirement and savings, and we will launch suitable products for different customer segments.

5. 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 proactively 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.

6. 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.