

Summary of CPIC Investor Meeting

(Jan. 2022)

1. Q: It's been a while since you kicked off the reform of your life insurance business. What difficulties or challenges you have encountered?

A: For all reforms, one common challenge is the change of mindset. The insurance industry has been heavily dependent on recruitment to acquire new business. However, given diminishing agent headcount dividend, this development mode is no longer sustainable, which calls for a paradigm shift from massive recruiting towards productivity and professionalism. It also requires optimisation of resource allocation. Typically, 80% of industry resources are invested in new recruits, while retention rate was less than 10%. We will increase spending on existing agents to improve their retention, professionalism and productivity. Second, the capability of the agency force is yet to be enhanced. Agents have long been accustomed to group marketing, lacking skills in one-on-one sales, which is particularly important given restrictions on large marketing events due to pandemic control measures. The third challenge stems from staff capabilities. In the past, they mainly focused on the design of incentive schemes. But now they need to be

able to train and support the agency force in NBS (needs-based selling), CRM (customer relations management) and activity management, which requires enhanced capabilities.

2. Q: How do you balance between short-term pains and long-term gains when pursuing transformation?

A: Generally speaking, long-term gains result from accumulation of short-term, or interim progress, and so there is not necessarily a trade-off. When pursuing reforms, one may have to tolerate short-term pains. No pains, no gains. Most reforms fail because of the unwillingness to tolerate short-term pains, which sometimes cannot be avoided because it takes time for new models or new conduct to deliver tangible benefits. At the beginning of a transformation, short-term results may even worsen. But this is by no means the reason for us to balk or waver, as we know very clearly that sticking to the old ways will have far more adverse consequences in the long term. Last week, I convened a meeting with heads of branch offices. I told them when in the face of such short-term pains, I'll ask myself 3 questions: first, are we doing the right thing? Now we are pursuing customer-oriented transformation and focusing on compliance in business operation, business quality and customer service. No doubt that is the right thing to do, which is also in line with regulatory directions. Second, are we going about it in the right way? We are

working on optimisation of channels and platforms via a series of transformation initiatives. We believe that is the right way. Third, have we installed the right person? As long as we are doing the right thing in a right way, people will become the right people. In conclusion, all the answers are yes.

3. Q: Your peers are also pushing for agency channel restructuring. What makes yours different? How long do you expect the reform to last?

A: For agents, previously, their main job was to maintain customer relations, take them to marketing events, where sales activity is conducted. Now the sales mode is shifting to one-on-one. Second, in the past, the sales paradigm was underpinned mainly by product push, i.e., recommending a particular product to all customers for a period of time. Now agents need to provide comprehensive solutions covering more diverse products based on customer needs. For managers, their main responsibility was to recruit. The company spends heavily on this, but retention was low. This business model is costly and unsustainable. Therefore, the new Basic Law encourages managers to focus on retention, training them in activity management and coaching. In terms of recruitment, we are shifting from massive recruiting to only 4 new agents per manager per year under the new Basic Law, with requirements for retaining at

least 2. This would greatly improve recruitment efficiency.

Termination of the reform agenda half-way through for fear of short-term pains will only lead to slow deaths. The paradigm based on customer needs has been tested in markets of the US, Vietnam and Thailand, and it works. The core is the determination to press ahead with reform to enhance agency force quality. We will keep you updated on the progress. So far, there has been sequential quarterly improvement on certain metrics, and we hope we could share more information on this on the occasion of Q1 report.

4. Q: Given increased focus on recruitment of high-quality agents across the board in the industry, do you expect more intense competitions or more difficulties in recruitment?

A: Total agent headcount is no longer our focus, nor do we engage in massive recruiting any longer. This year, we will impose caps on the number of new agents each manager can recruit in a year, and with this we believe managers would be more prudent and selective in recruitment, focusing more on coaching and retention and helping them acquire necessary skill-sets. At the same time, this year our priority is to enhance the quality of agency force, fostering the growth of core manpower. When the agency force is productive and professional, it'll be easier to attract high-quality people.

5. Q: You are rolling out the NBS project, and put forward

the product “Golden Triangle”. In view of product mix, what is your guidance for NBV margin going forward?

A: As for protection business, our survey indicates that 67% of respondents plan to purchase more CI(critical illness) products, which shows that the demand for CI insurance remains intact. The weakness in recent months mainly resulted from sales push on the eve of CI Definitions switch, which somewhat brought demand forward. That being said, Huiminbao did have some crowding-out effect on CI insurance, as those who took out CI policies may actually think about medical cost reimbursement in the first place. With the enhancement of social security, and the launch of Huiminbao and million-yuan medical insurance programmes, customer needs for medical insurance can be better met, and CI insurance will focus more on income loss compensation, and its growth will recover on a more normalised basis.

NBV margin moves in step with product mix shifts. Our product portfolios are based on protection business, namely, CI, medical insurance and traditional life insurance. Apart from this, pension and wealth management products promise to generate incremental growth, provided that there is effective agent activity management. Currently, agents on the average can sell more than 1 insurance policy per month, and we hope this could be mainly protection products.

Next step, as their capability improves, agents can sell other products on an incremental basis, and this would minimise competition between our own products and help with margin. We are working on the adjustment of the product strategy. Of course, this takes time, and so does the adjustment of sales behaviours.

6. Q: You talked about shift towards need-based selling and adjustment of product portfolios. Would the change be step-by-step or one-off?

A: In emerging markets, behaviours of life insurance consumers evolve across 3 stages: first, relations-based selling, i.e., buying low-premium insurance from relatives or friends, and at this stage there will be lots of part-time agents; second, product-driven, with customers taking out CI and savings insurance policies with a larger “ticket-size”; with the expansion of the middle class, we believe China has entered the 3rd stage, namely, needs-based buying. Customers need to understand their own needs, such as types of insurance, premiums, product comparisons and suitable product combinations, etc.

7. Q: In the past few years, agents have churned very heavily for the entire industry, leading to worsening policy persistency. How do you cope with this?

A: Attrition of the agency force does have profound short-term

and negative impact on policy persistency, which we will continue to disclose in the upcoming annual report. But we are confident that this will considerably improve going forward. In the past, only staff on the payroll cared about this indicator. But under the new Basic Law, policy persistency would have substantial impact on agent bonus. So going forward this will be important for everyone, including agents, managers of agents(MoA), managers of managers(MoM), directors and internal staff.

8. Q: Many of your peers have developed or upgraded digital tools. What is your view on the balance between digitalisation and the agency force?

A: Frankly speaking, I do not think pure digital tools can replace the sales force. In the foreseeable future, on-line and off-line integration will remain a more viable option. Life insurance is intangible, based on trust. Without face-to-face communication, it's very difficult to sell complicated, long-term, and regular-pay products with large premiums. The pure on-line mode may work for short-term, single-pay products with small "ticket-size", but will not do for long-term, complicated ones, as has been proved in China's insurance market. So we'll continue to work on off-line and on-line integration.