

Insight into Changhang Transformation

--CPIC 2023 Investor Day

July 4th, 2023

Development opportunities in China's life insurance market

Four internal and external factors present opportunities to China's life insurance market



Demographic shifts

With China's **ageing population**, the number of people over 65 is expected to nearly double in the next 30 years; due to a **huge gap in individual pension**, the individual pension market is expected to reach USD1-3 trillion by 2030, continuing to **drive up the size of the life insurance market**



National policy for common prosperity

China's 14th Five-Year Plan proposes to promote common prosperity more proactively. By 2030, the number of mid-and-high-income households¹ is expected to reach 395 million, **accounting for over 25% of China's total population**, and these households will be **the mainstay of the future life insurance market**



Rise of China's economy

The stability and rise of China's economy drives up China's life insurance market, and with individual financial assets set to reach RMB316 trillion by 2025, Chinese households will need **more categories of financial assets** for allocation, further boosting the growth of insurance



Huge protection gap

China's current health protection **gap is USD805 billion**, the highest in Asia

1. Household with annual income of RMB 157,000 or above

As shown by history, "continuous reform" is the key for life insurance industry

In retrospect, the insurance industry around the world has gone through a number of industry cycles and insurers have shifted their business models amid the changes...

Japan



- 3** major transformation cycles
- from recruitment-driven agency to professional agency, to store-based agency

Taiwan, China



- 3** major transformation cycles
- from agency to FTE model, to performance-focused BD, while also focusing on bancassurance channel

USA



- 4** major transformation cycles
- from FTE to exclusive agent model, gradually to independent agency, and ultimately diversification



Insurance markets are always changing;
Generally speaking, markets transform on a **10-**
year cycle and companies **5-**year cycle.

With fast growth over the past 20 years, China's life insurance market keeps transforming and optimising

Life insurance re-launched with rapid growth

- **Separation of life and P/C operations**; successive establishment of major life insurers; and foreign investment gradually introduced.
- **Life sector expanded significantly** due to a strong government push.

Diversified development on both asset and liability side

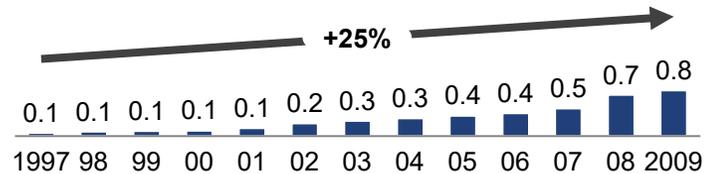
- Ban on on-site sales at bank outlets boosted Agency and thereafter **asset-driven insurers** gained popularity, promoting investment-based products
- **Cancellation of insurance agent qualification exam** in 2015 led to a spike in the size of Agency

Transformation of Agency channel after a surge

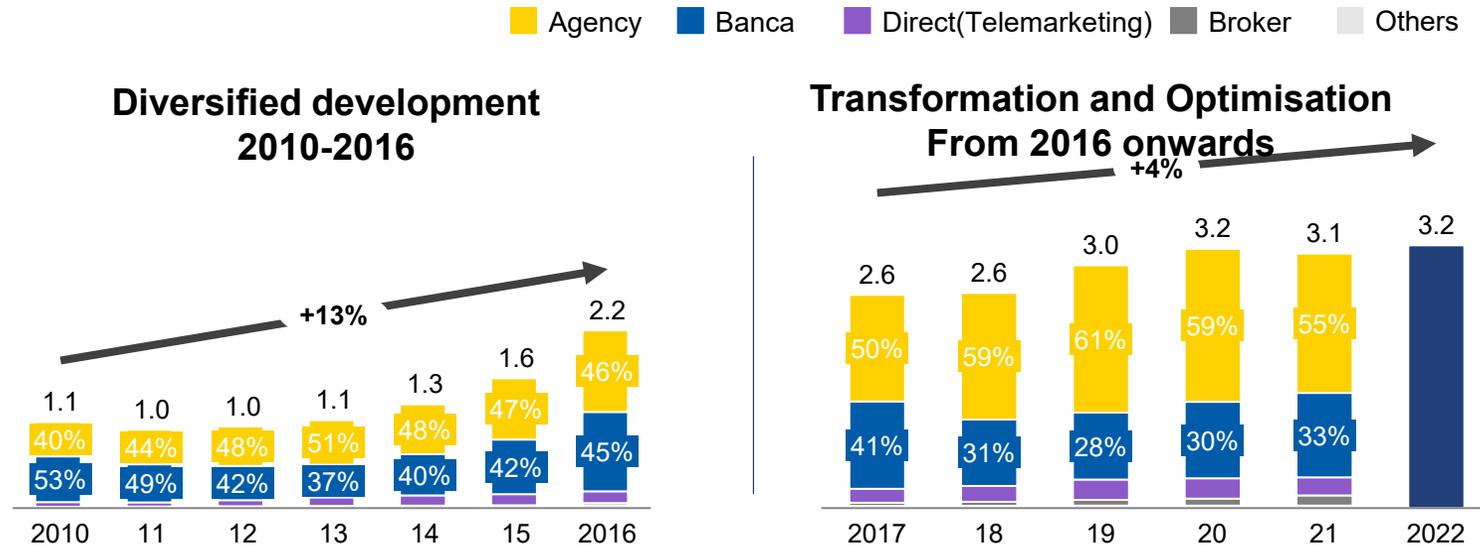
- **Restrictions on aggressive asset-driven models** forced the sector to refocus on its protection value proposition by promoting protection products
- **Reckless expansion of agency is not sustainable**
- In the wake of Covid-19, **agency transformation became inevitable** due to a combination of economic and purchasing power factors.

GWP of China's life sector, RMB trillion

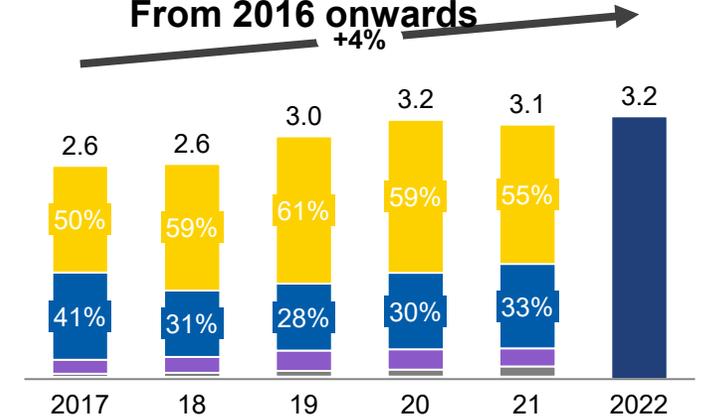
Fast Growth 1997-2009



Diversified development 2010-2016



Transformation and Optimisation From 2016 onwards



Fast growth and transformation of China's life sector made supply-side reform inevitable

Demand side: What customers want?

Mismatch
in channels



The demand for life insurance is increasingly moving towards **the mid/high end customers and wealth-management customers**, with mass market moving towards “Hui Min Bao”- inclusive/affordable products

Mismatch
in products



Demand shifted from the purchase of a single insurance product to **integrated financial asset allocation**

Mismatch
in services



The demand for services has shifted from "reimbursement and payment" to "**enhancement of life quality**", which even affects the sensitivity to product pricing

Mismatch
in concepts



Product penetration of and rise in the number of policies held by loyal customers is becoming increasingly important, a truly **low cost, high yield** business

Supply side: What insurers offer?



Heavy reliance on traditional agency. **Their referral resources** and expertise are not enough to reach and satisfy new customer groups



Insurers lack the capabilities to allocate financial assets and are at a competitive disadvantage compared to other financial institutions (especially banks)



Only a **small number** of leading insurers have started to **develop a presence in the health care and wellbeing market**, differentiating themselves from the competition through value-added services.

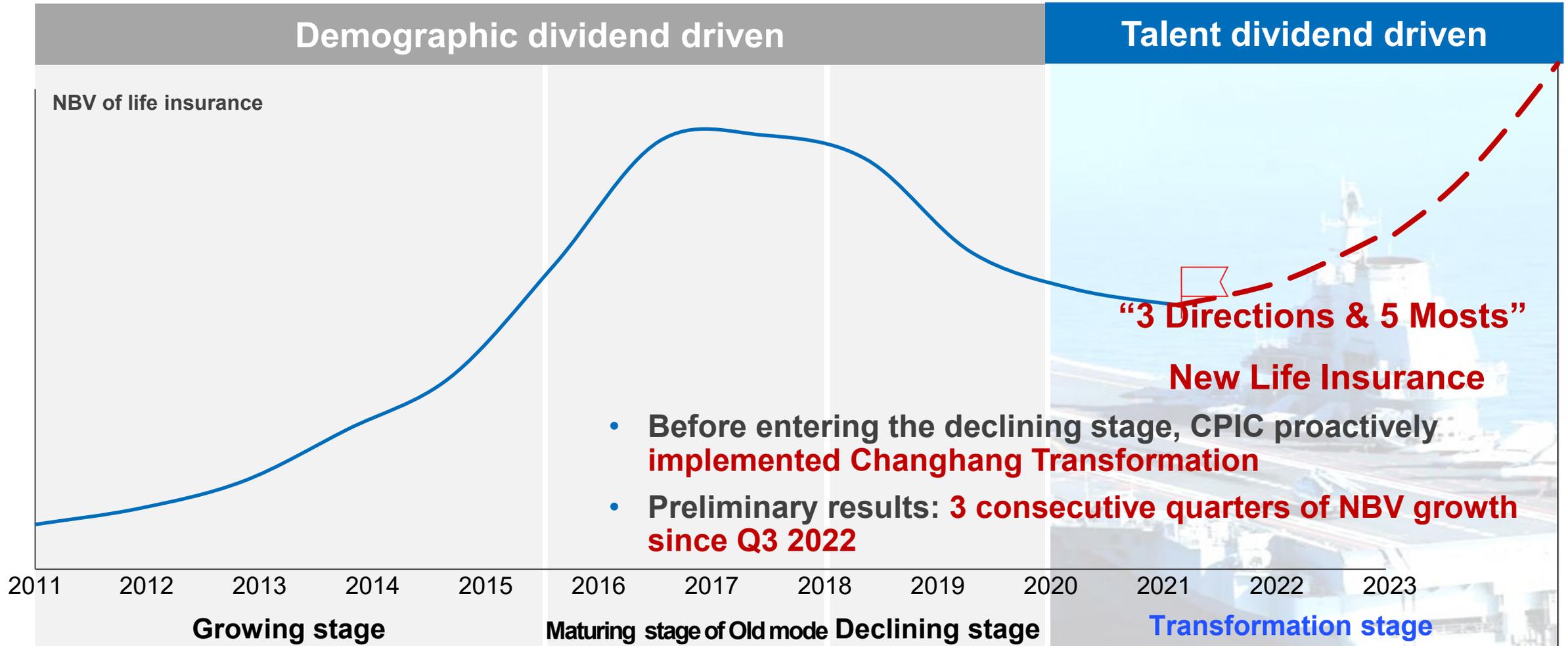


The traditional business model still focuses on acquiring new customers, and a large number of existing customers are not fully covered and should be further developed

CPIC Life leads the industry with its Changhang Transformation and builds strength for new growth drivers



Changhang Transformation
Stage of transformation



CPIC Life stepped up strategic transformation efforts through the Changhang Transformation, with significant results during Phase I

Leader

Industry leader

Fastest regular premiums growth
Accelerating NBV growth MoM
Industry leader in various evaluations

New

New life business model

New business model
New business channels
Upgraded products + services systems

Long term

Long-termism

Stablised recruitment and retention
Increased income for agents
Improved business quality

CPIC Life continues doing the right thing under Changhang Transformation to promote high-quality growth

Changhang Transformation — Core strategies —



Career-based Agency

“Basic law”
Recruitment
Customer Management
Coaching



Value-oriented Bancassurance

Core cities
Strategic channels
High-quality teams
Tech platforms



Products + Services Systems

Golden triangle
Closed-loop R&D
Product-Service Synergy
Comprehensive solution



Corporate governance, risk management and investment

Market-oriented operation
Enhanced risk control
Prudent investment
Improved business quality



Culture and leadership

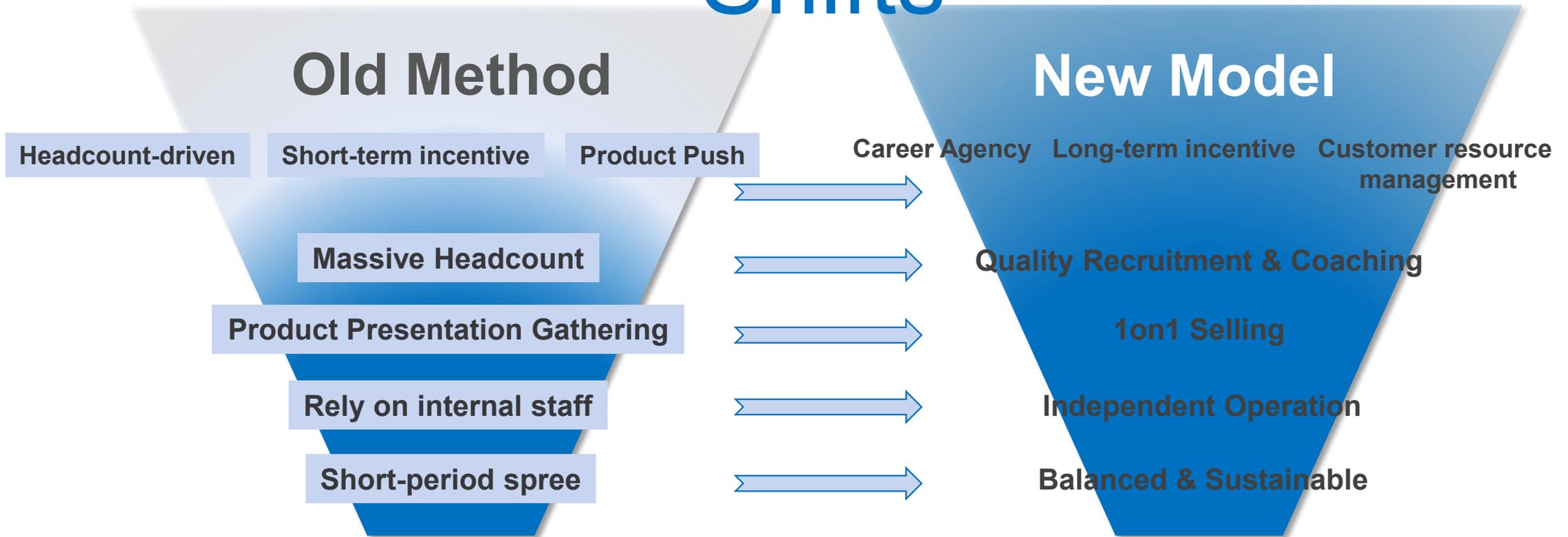
Customer-orientation
Agile organisation
Talent support
Improved efficiency

Career-based Agency

--March forward and adhere to long-termism, in a bid to achieve high-quality development of agency channel

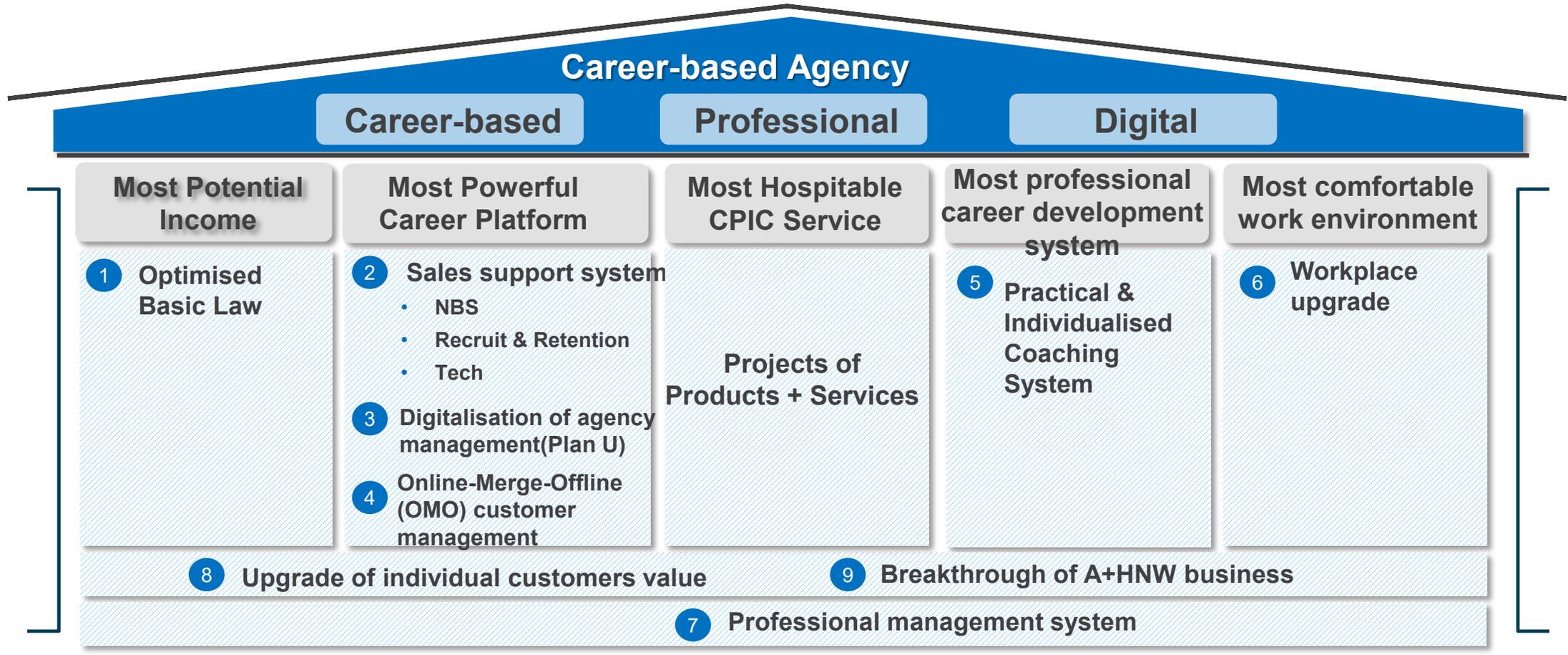
Industry changes

Shifts

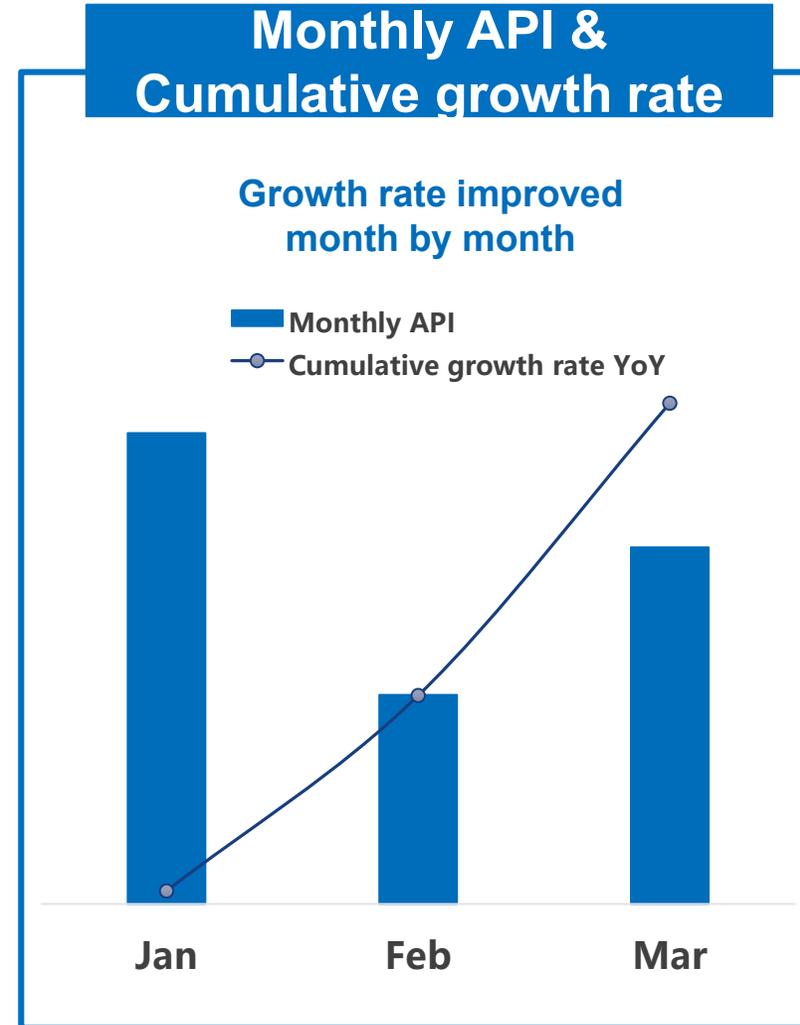
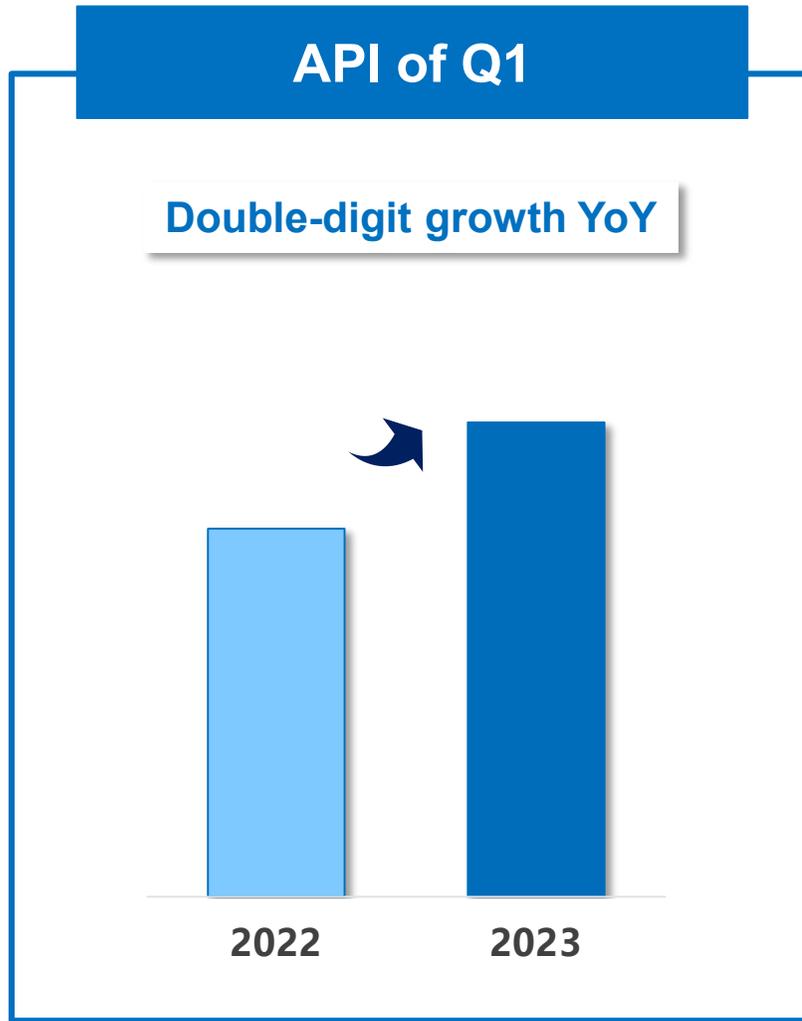


Agency reform

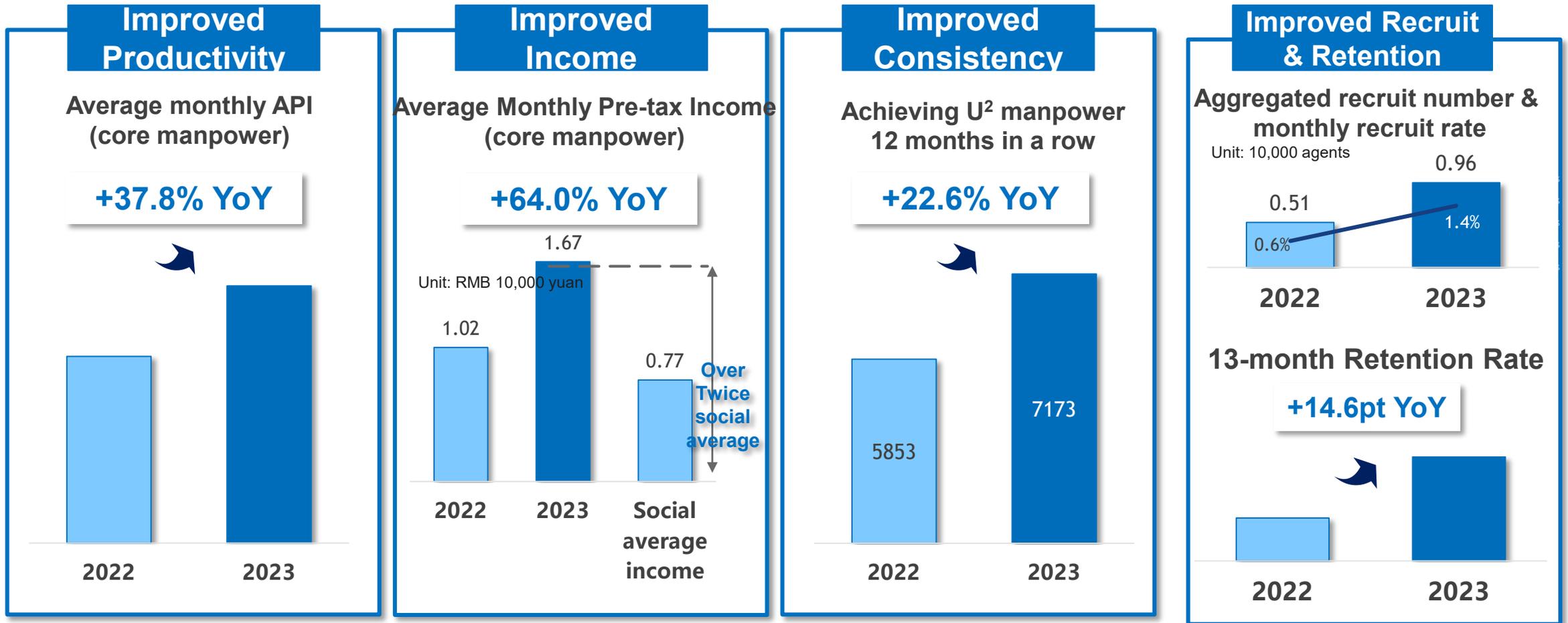
- Promote agency reform by building a career-based, digital and professional agency force.



Stable business performance



Improved quality of agency force



Note: Data of productivity, income, consistency, recruit and retention are as of March 31st; social averaged income is disclosed by National Bureau of Statistics; the term U² refers to selling 2 long-term policies in one month with FYC reaching level U.

Improved business quality

Improved biz indicators

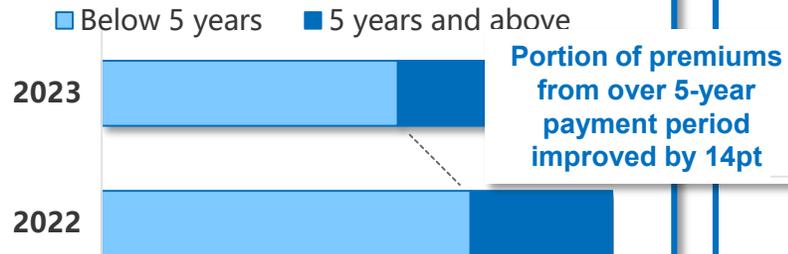
CI performing ratio

Improved MoM



Payment

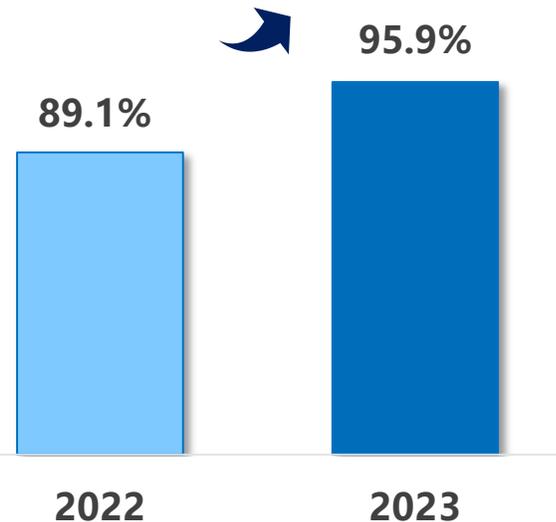
Improved payment period



Improved persistency

13-month persistency ratio

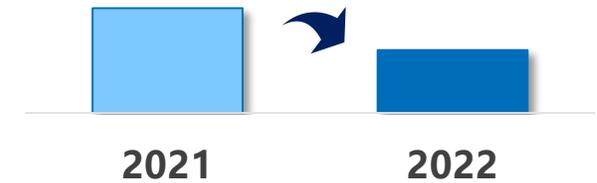
+6.8pt YoY



Improved operation efficiency

Claims ratio of long-term policy

Down by 20.0pt



2022 Insurance service quality Index

94.83

Ranked No. 1

Note: Figures of business indicators and persistency are as of March 31st; figures of claims ratio refer to year 2021 and 2022; insurance service quality index is disclosed by CBIT.

Value-oriented Bancassurance

-- Position value creation as core strategy, achieving sustainable development of bancassurance channel

Bancassurance in a new context



Capital market changes

- Further reform of interest rate leads to declining rates in recent years
- Bank wealth management business carries out transformation
- Radical capital-driven business model phases out



Tightening regulation

- Joint supervision on banking and insurance sectors
- More compliant operation and healthier development of insurers
- Better competition landscape for bancassurance



Customer demand release

- Fast growth of household assets, faster accumulation of HNW customers' wealth
- High savings rate, preferring stability
- Integrated asset allocation as mainstream, with diversified demand in insurance protection and services



Cooperation preference from banks

- Narrowing interest spread and profitability under pressure
- Exploring lighter business operation model
- Developing intermediary business becomes focus of transformation

New positioning of Bancassurance, fast growth of new policies of RP business, sustainable and stable value creation

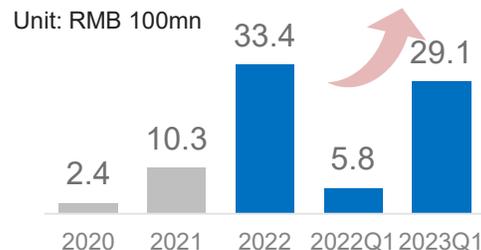
Contribution of NBV

Contribution gradually climbed, up by **11.3pt** YoY in 23Q1



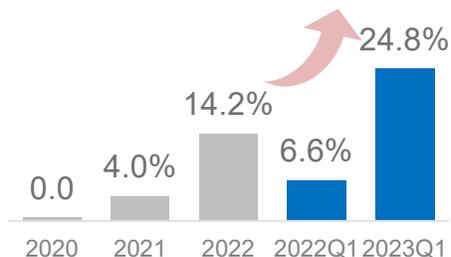
Premium from new policies of RP business

399.1% YoY growth in Q1



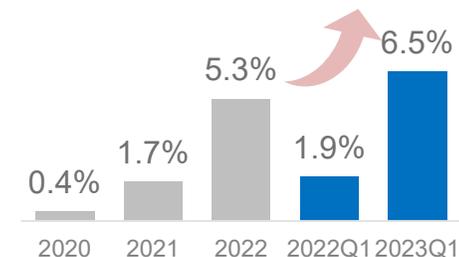
Share of new policies of RP business

Up **18.2pt** YoY in Q1

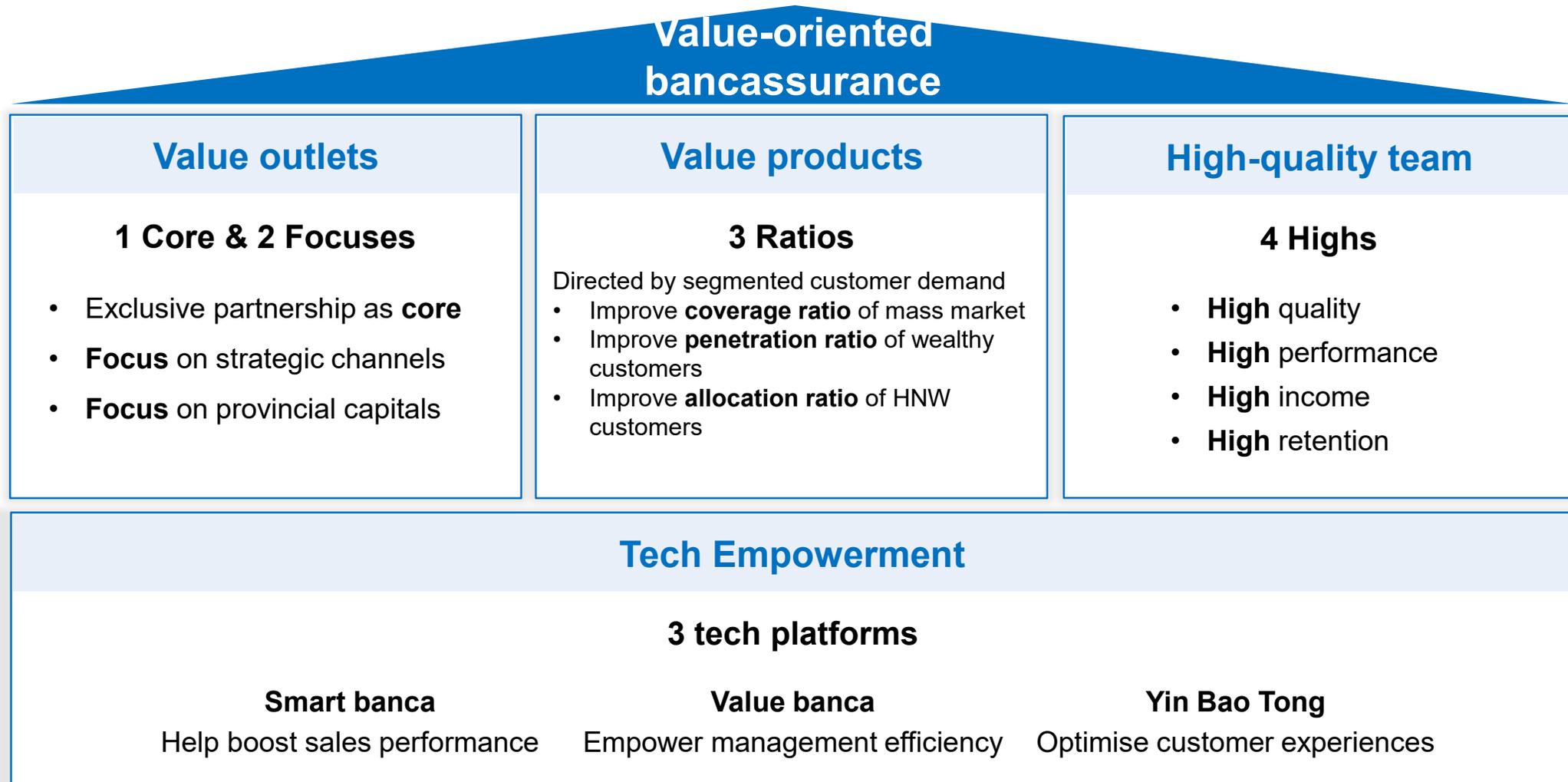


Share of new policies of RP business in leading peers

Up **4.6pt** YoY in Q1



Top-level design of bancassurance channel



Core Advantage

1. Strategic cooperation with banks and co-develop outlets in core areas

 Broad, shallow, short/mid-term cooperation

 Long-term partnership, deep integration and win-win cooperation

2. Wide range of products and services to meet differentiated customer needs

 Product-based, simple promotion

 Customer-oriented, differentiated business operation

3. Build a high-quality team with leading coaching and activity management model

 Rely on headcount, low efficiency

 Quality team, high efficiency

4. Empower team and improve customer experiences with 3 tech platforms

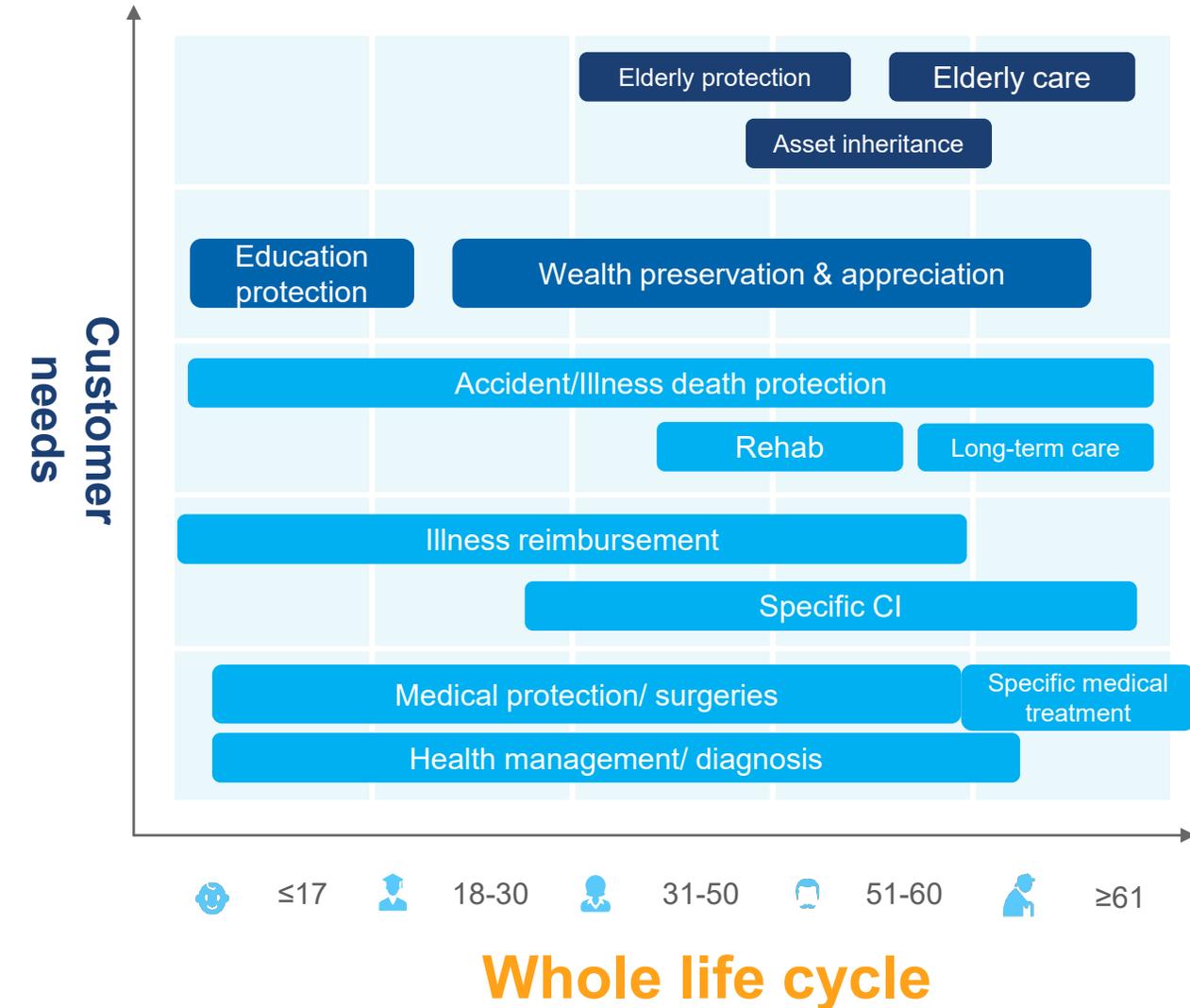
 Tool for policy issuance

 Full digital empowerment

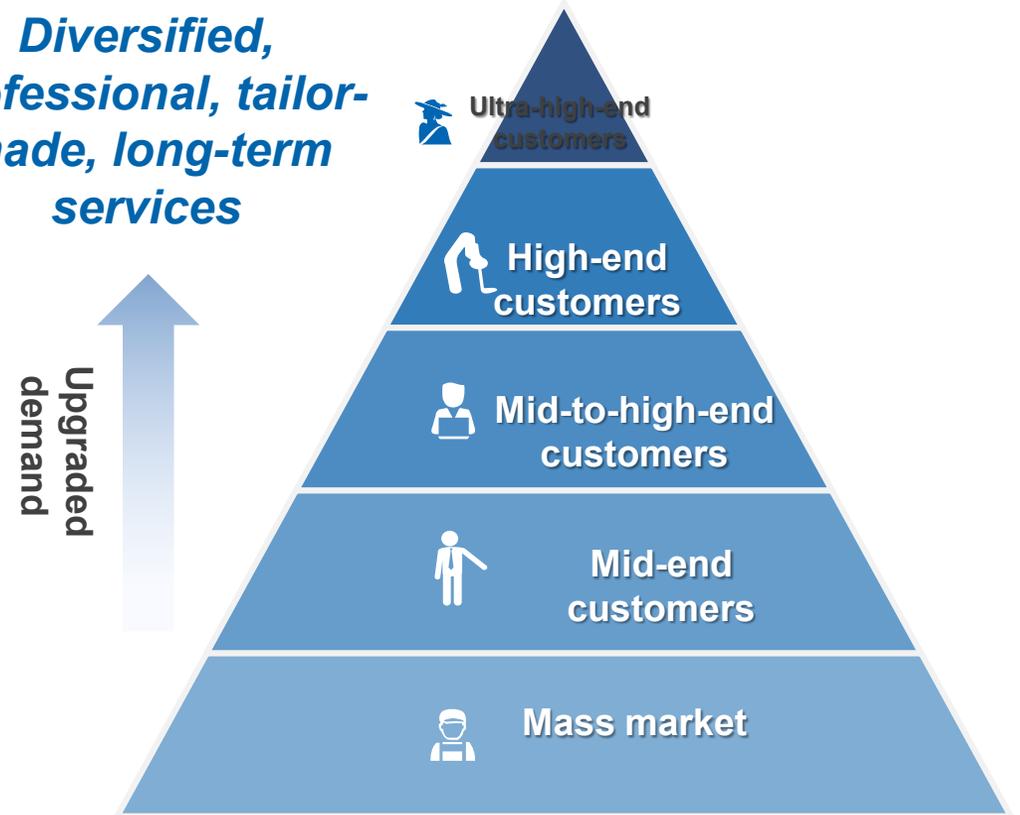
Products + Services

--Offer tailor-made solutions for customers

Clearer tendency of customer needs for whole life cycle & segmented protection

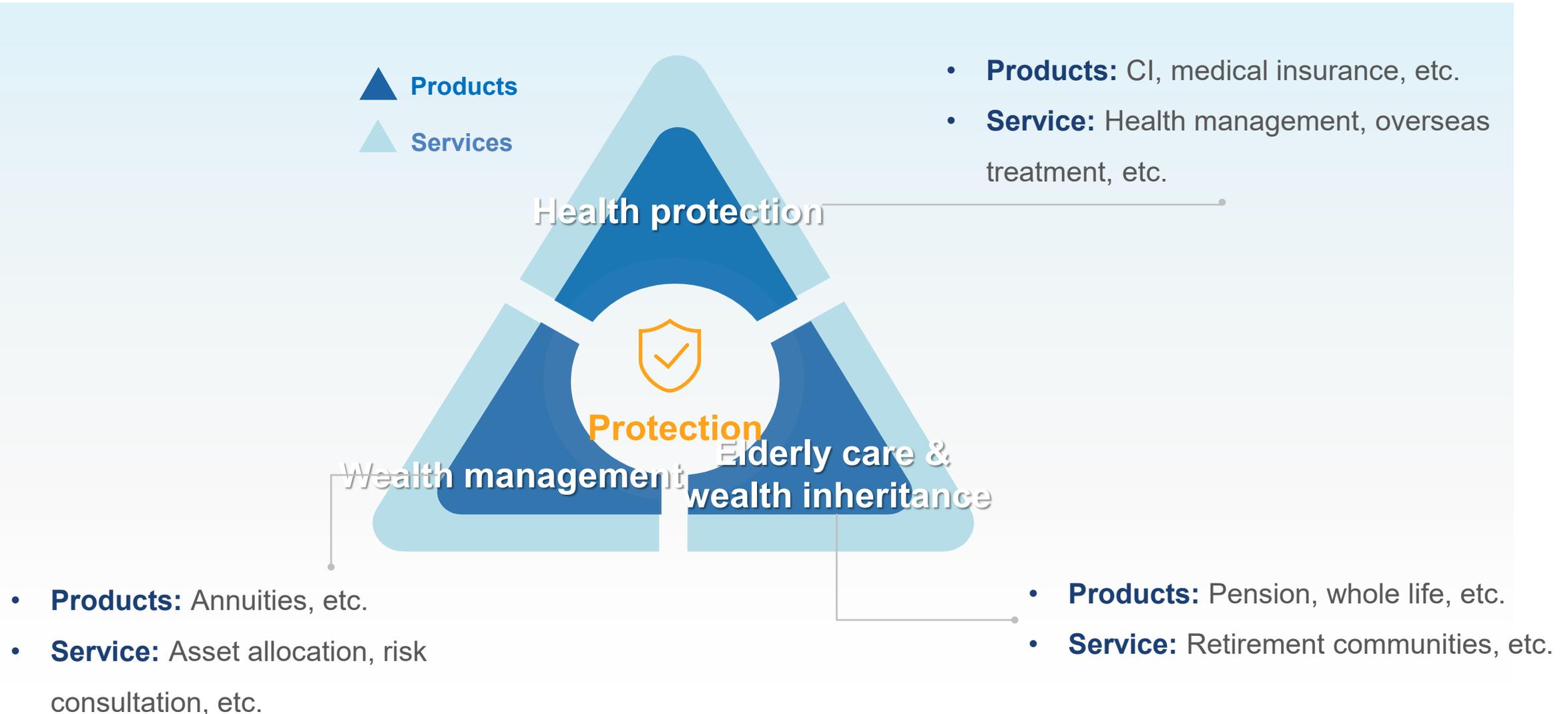


Diversified, professional, tailor-made, long-term services



Segmented customers

CPIC solutions: start from customer needs, build products + services “golden triangle”



Critical illness solutions: creating a new generation of CI products and one-stop service

Targeting health protection gap

- Integrated product + service design
- One-stop service through exclusive partnership with Sinopharm
- Agile iteration and continuous upgrading of critical illness products



Jin Sheng Wu You

New generation of CI

Intensive protection for people under 60

Extensive protection for people over 60



CPIC Blue Passport + Wu You Guan Jia

A powerful combination of one-stop health management service

One-on-one personalised service

One-stop solution for medical care

Elderly care solutions: focusing on specific customer segments to meet the full range of senior care needs and promote “products + services”



Corporate governance, risk management and investment

--Long-termism, prudent operation, pursue high-quality growth for the new CPIC Life

Continue improving risk management and compliance systems to safeguard prudent and healthy development

- The Company continues optimising its risk management systems, in terms of organisation, preferences, tools and culture in the face of the complex and changing internal and external environment



Organisation

Build solid first line of defence and professional second line of defence; develop ERM structure in coordination with Audit centre

Preferences

Set up top-down risk appetite system, with breakdown of risk preferences and tolerance and tolerance limits linked to frontline business

Tools

Leverage risk management systems, stress testing models and mid-office systems to optimise risk management technical tools

Culture

Regularly revise rules, carry out risk training, strengthen accountability and strengthen the Company's risk management culture

Stick to long-term investment philosophy for high return and low volatility

Last 10 years (2013-2022)

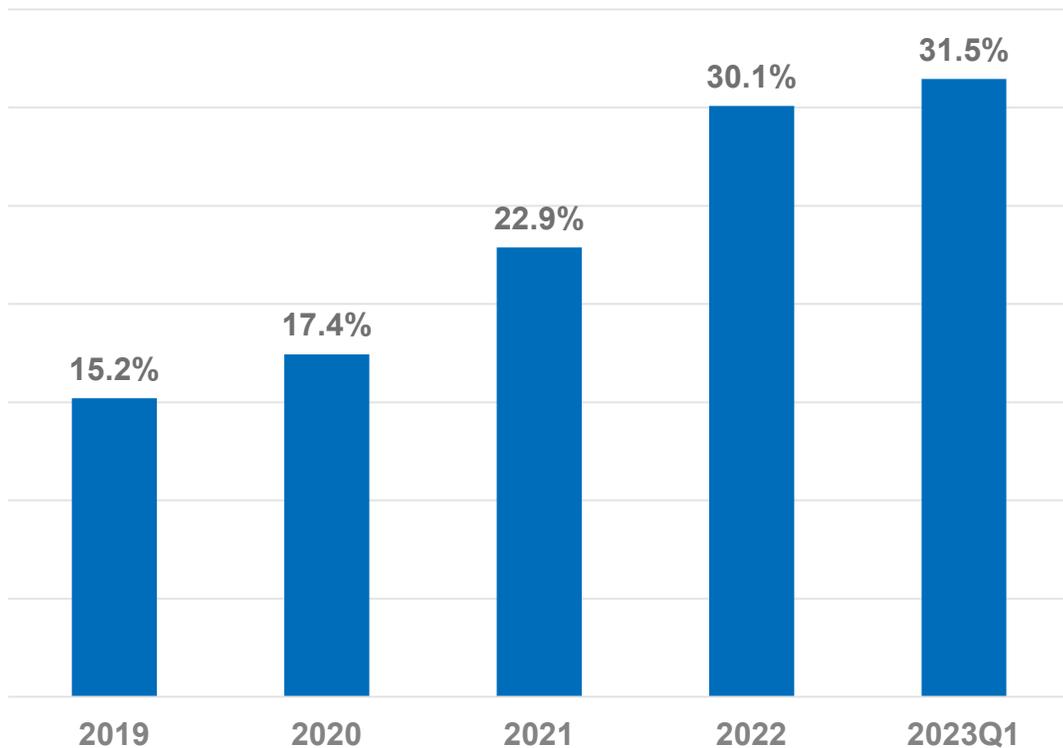
- ARR **5.38%**, industry leading
- Volatility (total investment yield) **0.68%**, high stability
- Sharpe Ratio (total investment yield) **2.94**, excellent performance

Last 3 years (2020-2022)

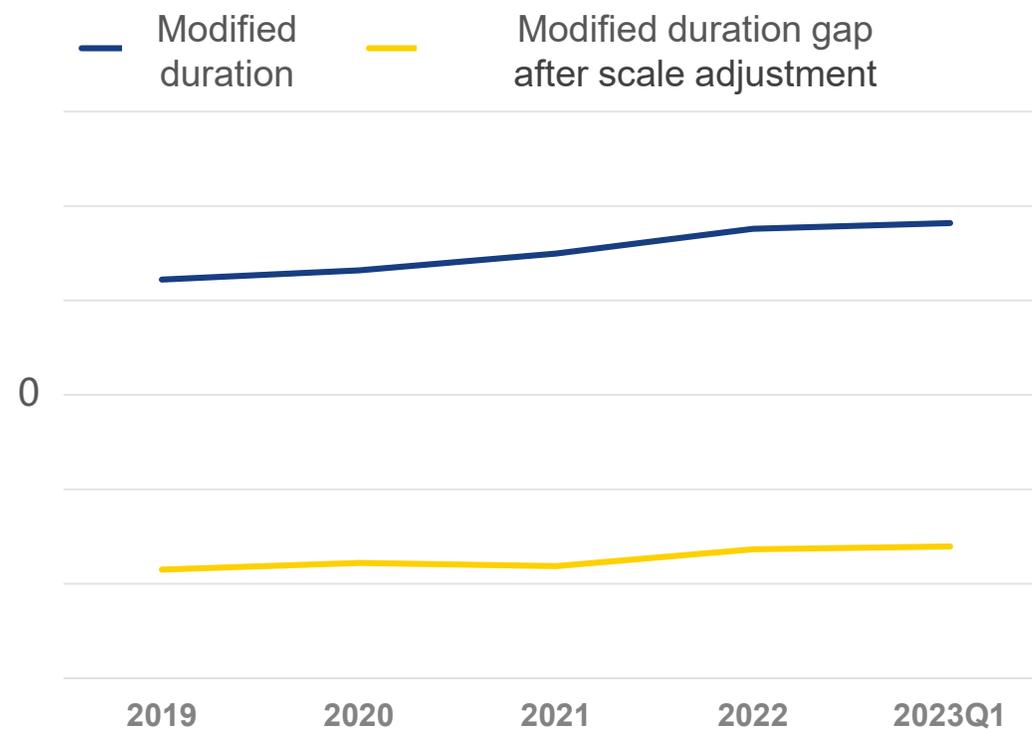
- ARR **5.10%**, industry leading
- Volatility (total investment yield) **0.68%**, high stability
- Sharpe Ratio (total investment yield) **2.52**, excellent performance

Investment allocation centres on ALM, return on long-term investment covers liability cost, with duration gap improving

Continue increasing share of allocation in long-term assets



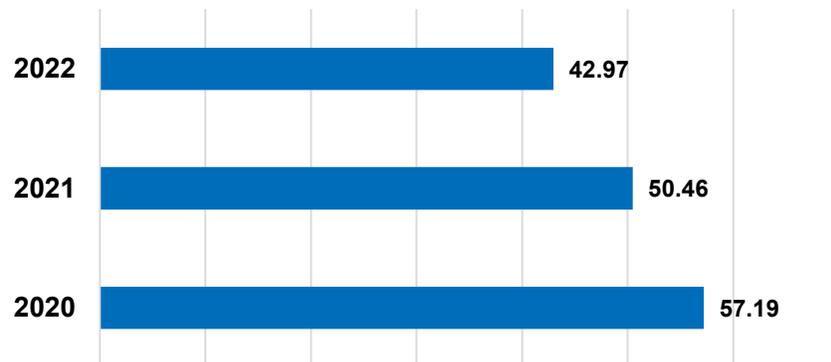
Modified duration for assets increasing, with narrowing duration gap



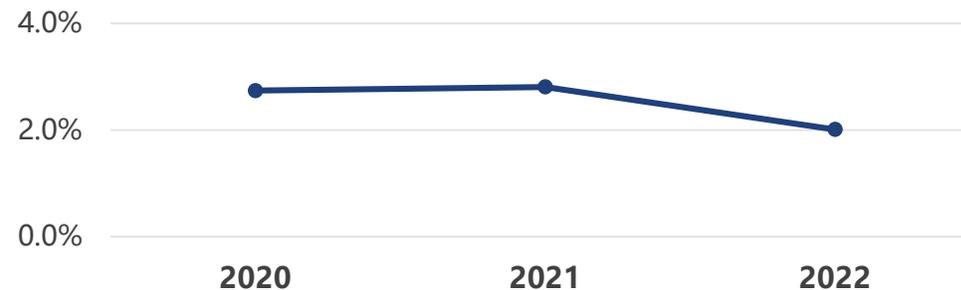
Note: Figures of modified duration and modified duration gap after scale adjustment are calculated according to regulator's standards

Strict control on exposure to risky sectors and regions, asset quality remains good

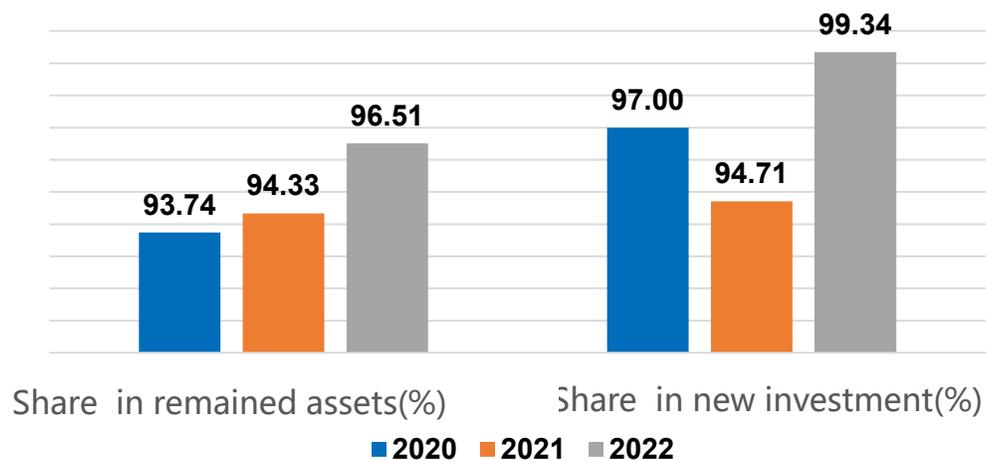
Dropping share of credit-type assets



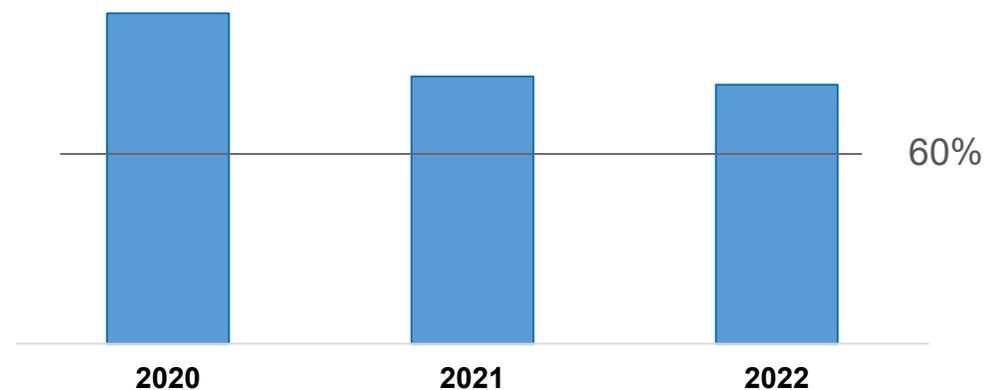
Share of fixed income assets in real estate remains low



AAA rated assets above 93% and increasing



Share of credit-type fixed income assets in developed regions remains above 60%



Note: developed regions refer to Beijing, Shanghai, Guangdong, Jiangsu, Zhejiang and Fujian

Accelerating high-quality growth with outstanding regulatory ratings

CBIT Insurance Service Quality Index

NO. 1 in Life Companies

SARMRA score: 84.5 points for 2022

NO. 2 among participating life insurers

Integrated Risk Rating (IRR)

Kept **A** for 6 consecutive years

Solvency margin ratio for 1Q23

199%

Culture and Leadership

--Leverage culture and talent to better support transformation

Leverage culture and talent to boost organisational vitality and capabilities

Changhang

A life insurer aiming for best customer experience and long-term development

Leverage culture and talent to boost organisational vitality and capabilities

Culture Reform

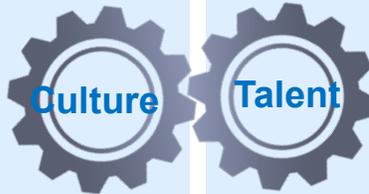
Talent Support

Key aspects

Short term → Long term

Leader-oriented → Customer-oriented

Solo → Synergy



Set up standard → Refine teams

Develop

Select

Cultivate

Appoint

Eliminate

HR support

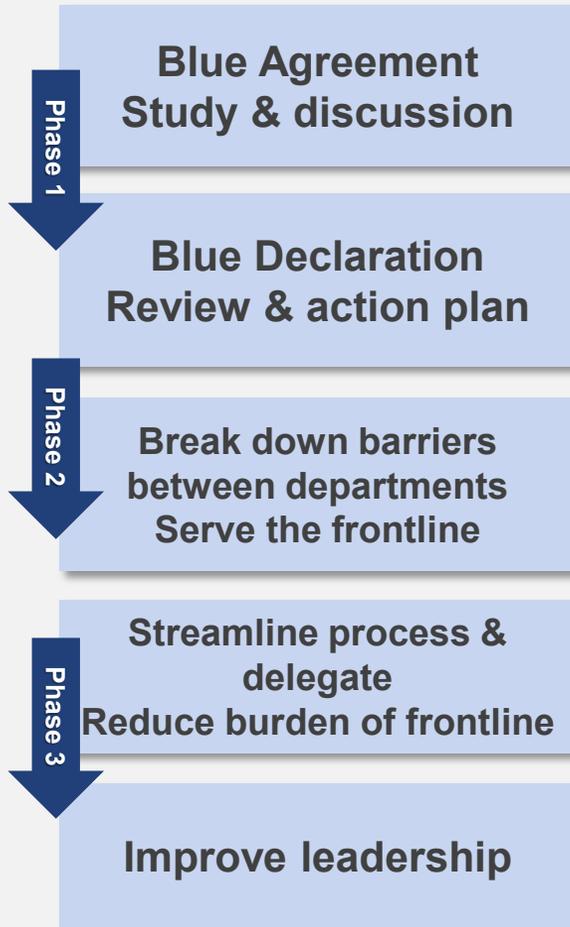
 Systems

 Professionalism

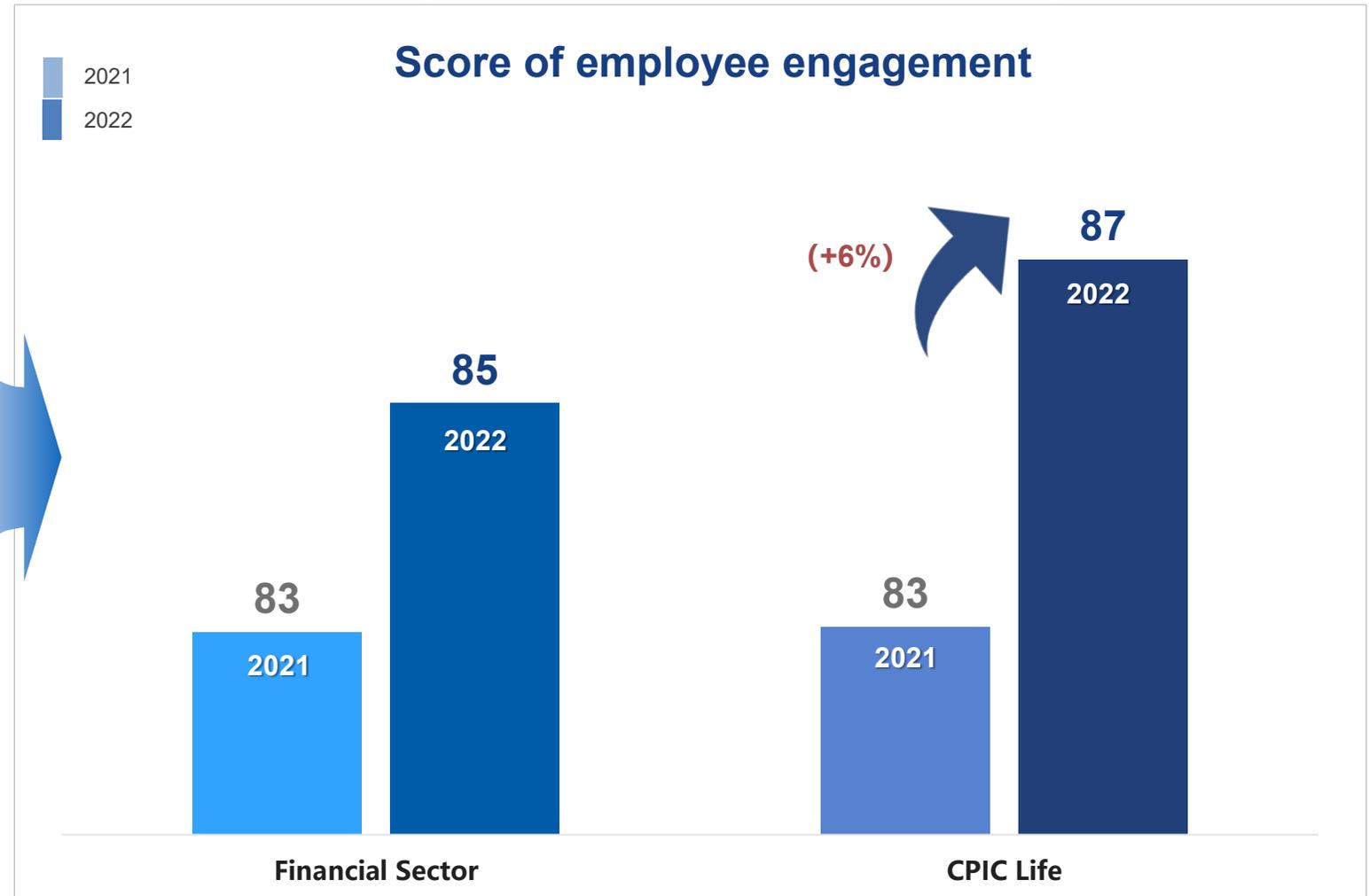
 Digitalisation

Culture transformation: improve employee engagement, with improved score higher than industry

Deepening culture transformation



Employee engagement scored 87, up by 6% compared with 2021, 2pt higher than financial sector average



Talent support: create comprehensive career path, improved talent mix at key positions

- Select and train talent at different positions, with more young talent at different levels
- Several highly-educated, high-potential, comprehensive talent work at key positions such as GM of branches

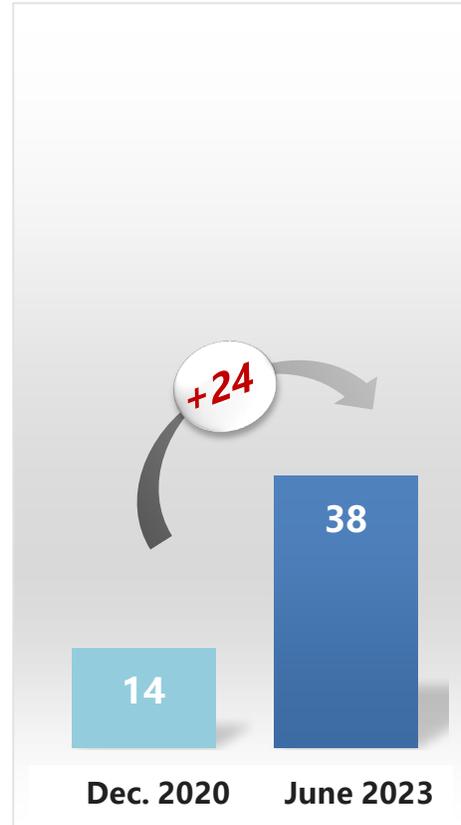
Improve coverage and quality

Work at different levels and positions

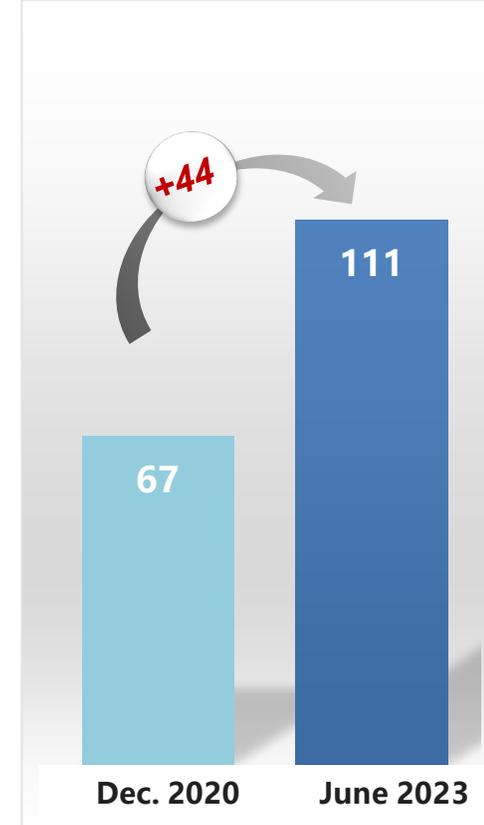
Combine coaching and practices

Flexible promotion and demotion

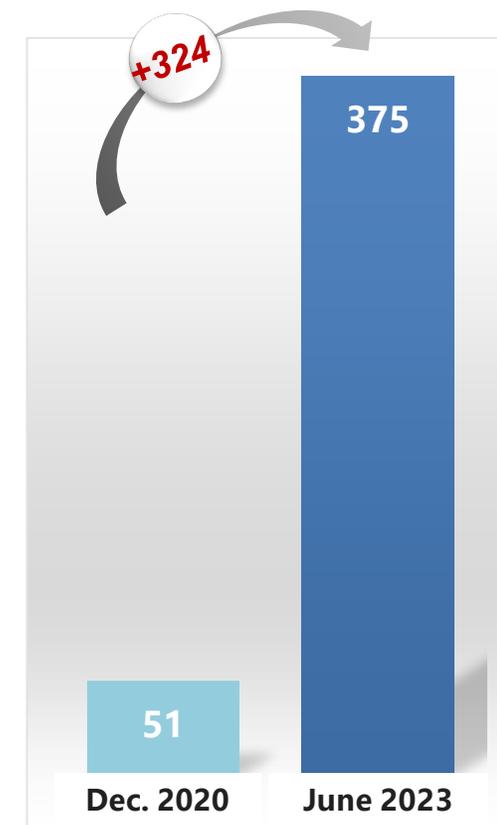
No. of **post-80s** generation as branch management



No. of **post-85s** generation as central subbranch management



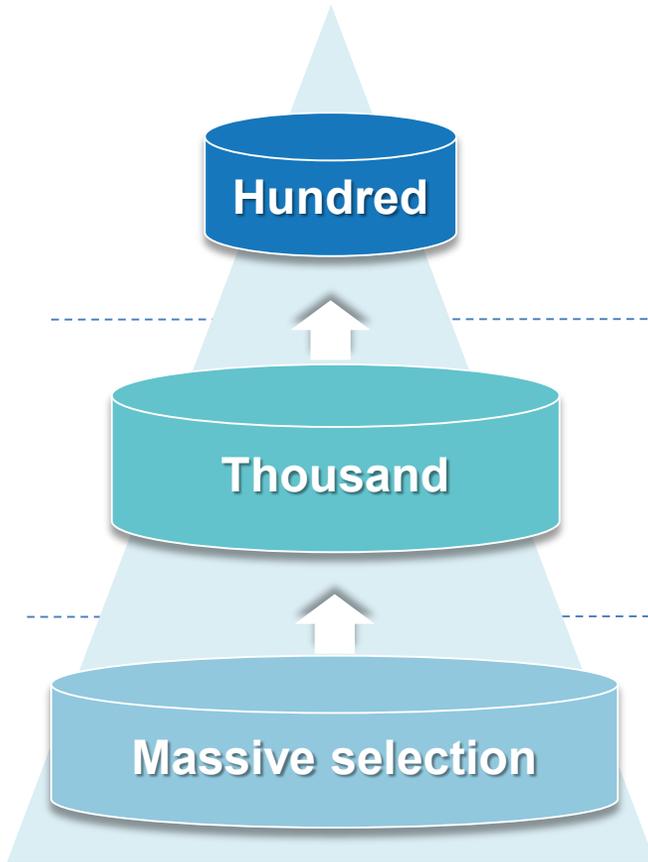
No. of **post-90s** generation as subbranch management



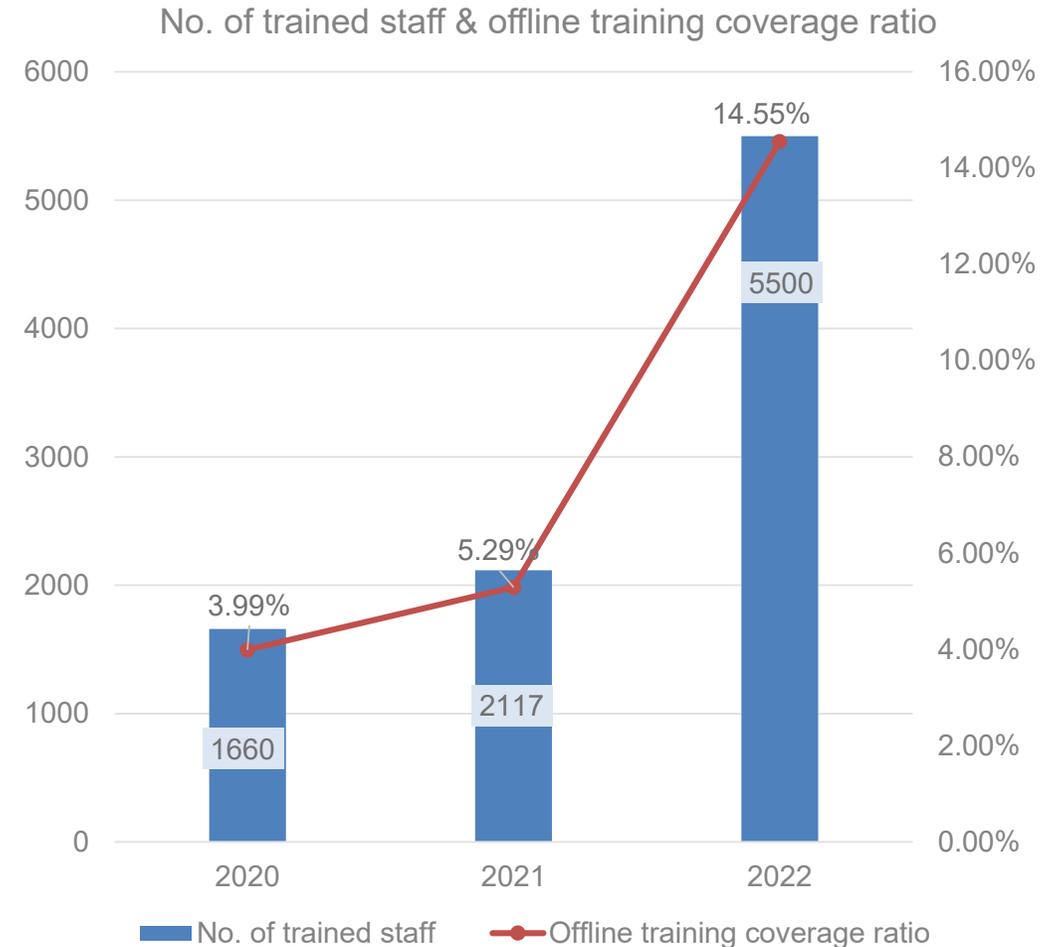
Talent Support: Enhance high-potential talent pool, improved coverage of talent coaching

Enhance high-potential talent pool, select more than 1,000 in total

Improve training system, offline training coverage ratio tripled



- Talent pool for high-level management
- Cultivate **47** in total
- Talent pool for mid-level management
- Cultivate **357** in total
- Talent pool for grass-roots unit management
- Cultivate **680** in total



2023



**From Shaping to
Taking Shape**

**From Agents to
Internal Staff**

Changhang Phase II: From exterior to interior, create organisational empowerment support compatible with productivity

Agents sales mode upgraded

Internal staff work mode more efficient



Headcount driven

Product push driven, lack of individualisation

Professional Sales

“3 directions & 5 mosts”, focus on professional selling skills and value creation, conduct customer management activities by self driven, continuously improve professionalism.

**Customers
as core**

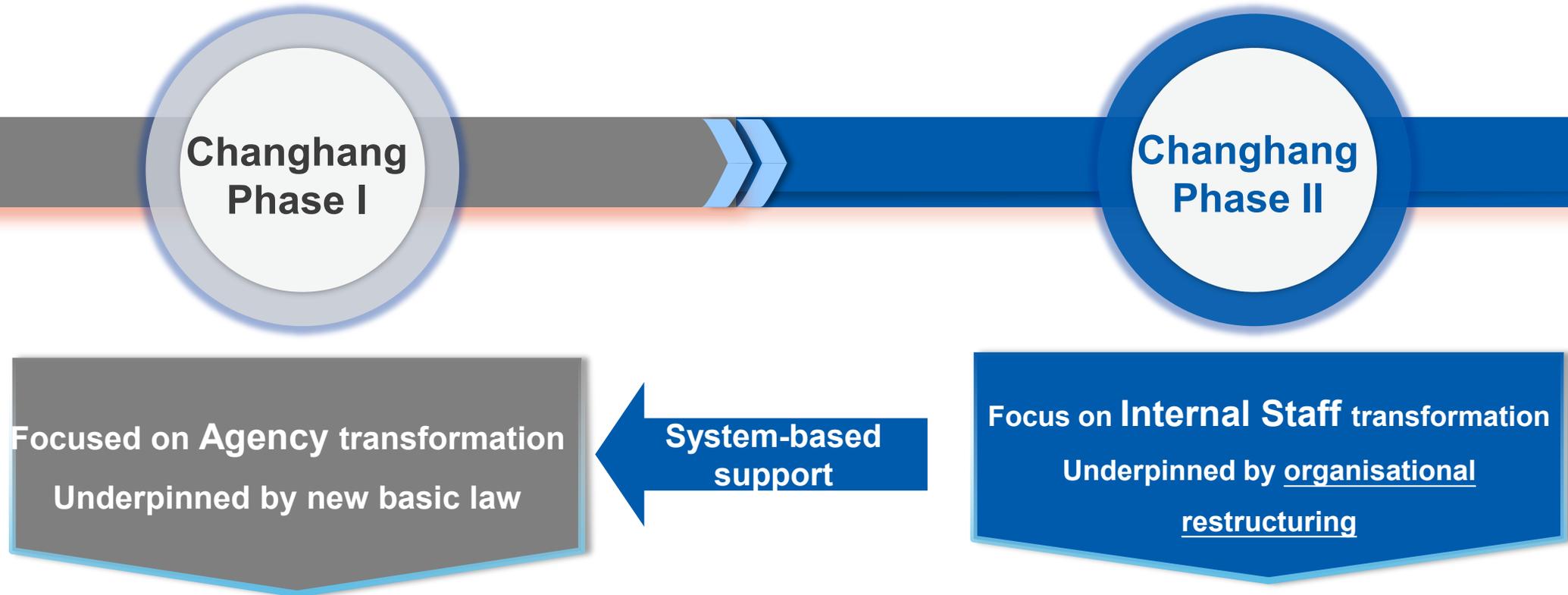
Administration driven

Internal staff drive agents, provide support to agents' selling activities

Empower self management

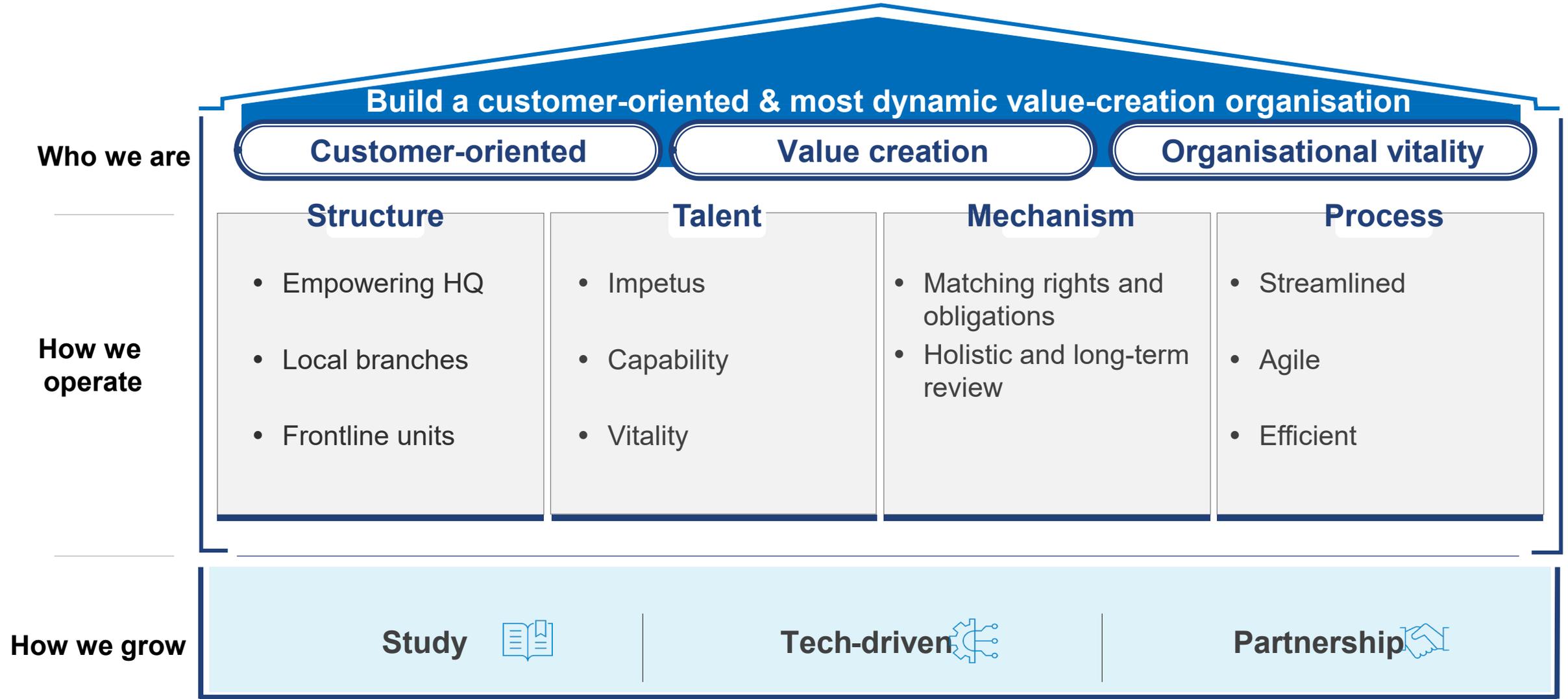
Provide professional platforms and resource allocation, empower self management of agents, activate organisational vitality

Changhang Phase II: Leverage internal staff transformation to further empower agency reform

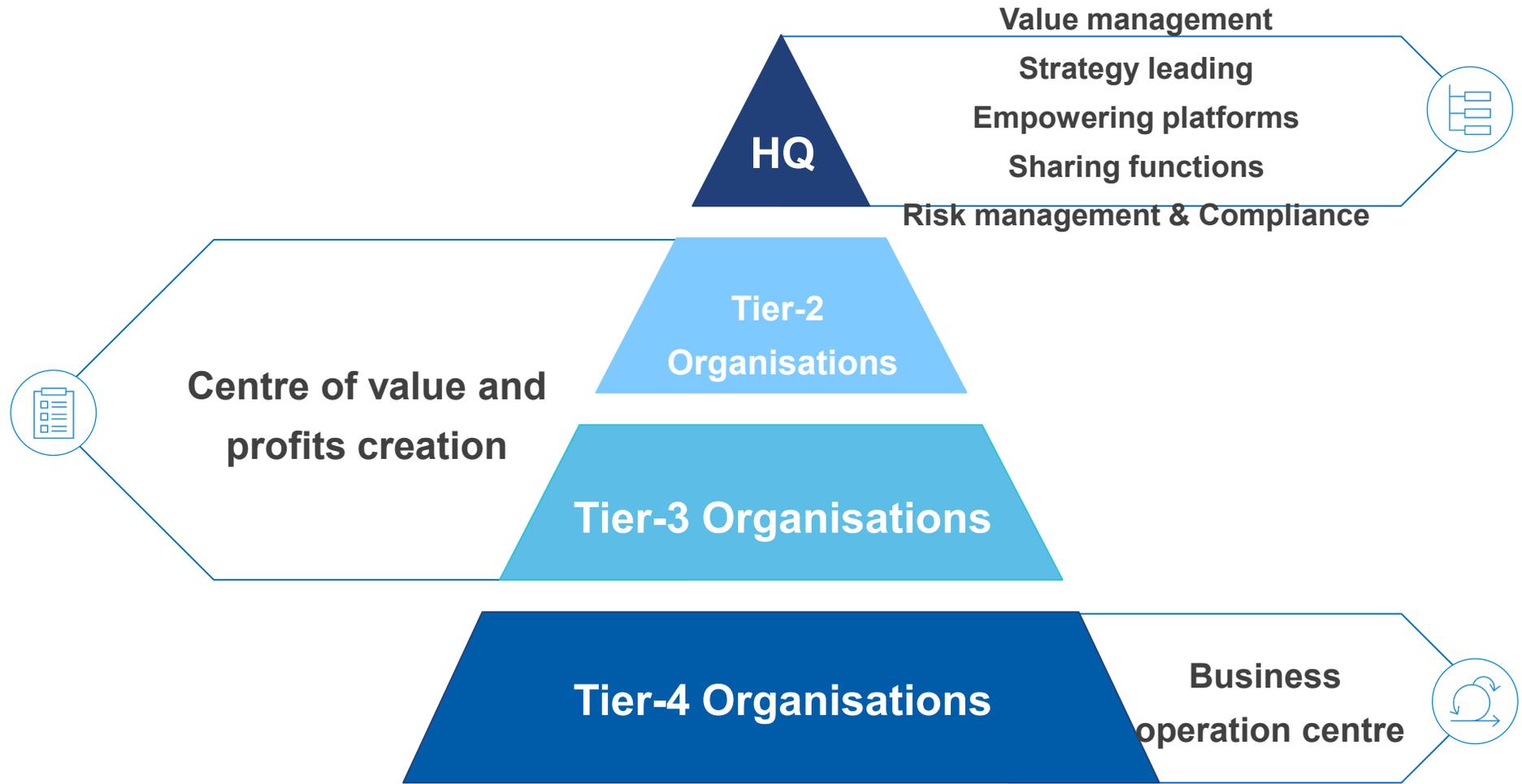


- Build enabling HQ to empower & business-focused branches
- Change work mode and thinking of internal staff
- Improve productivity and efficiency

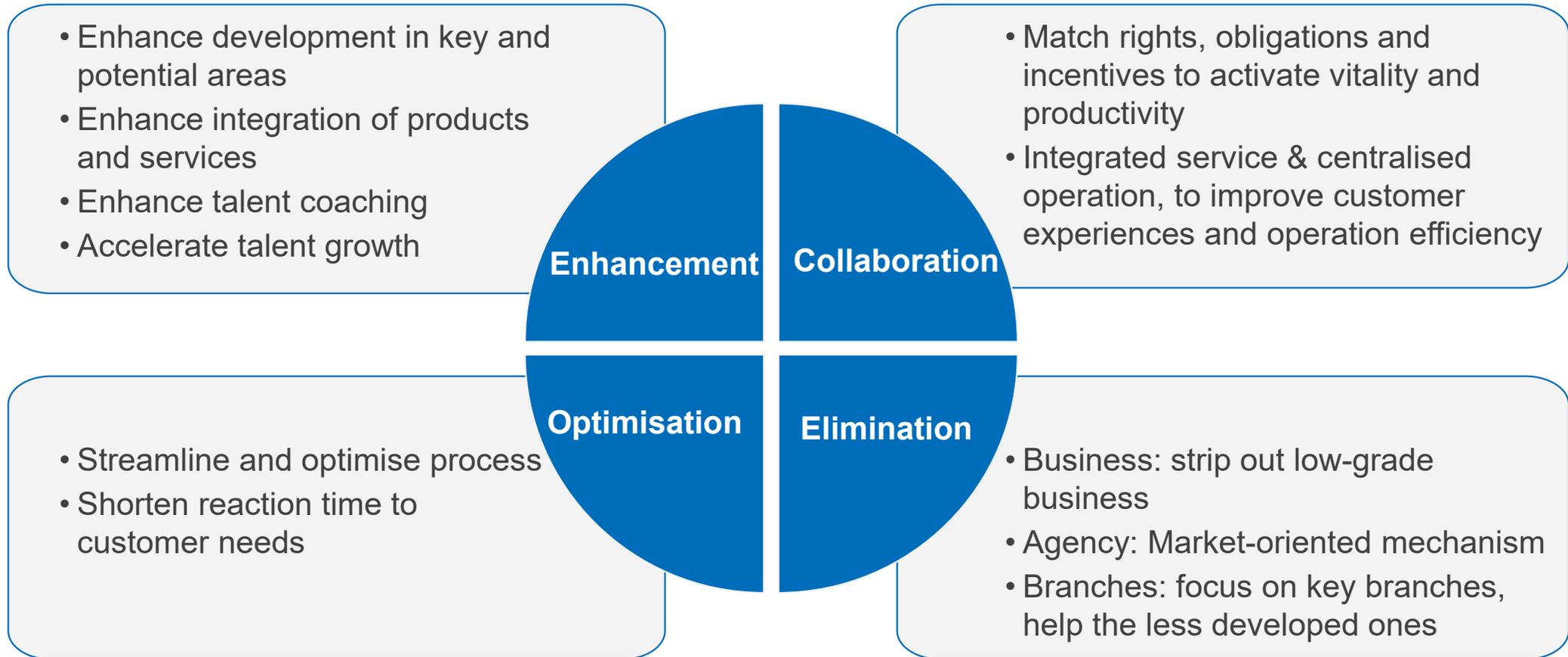
Blueprint of organisational reform: Create new organisational vitality & new transformational drivers



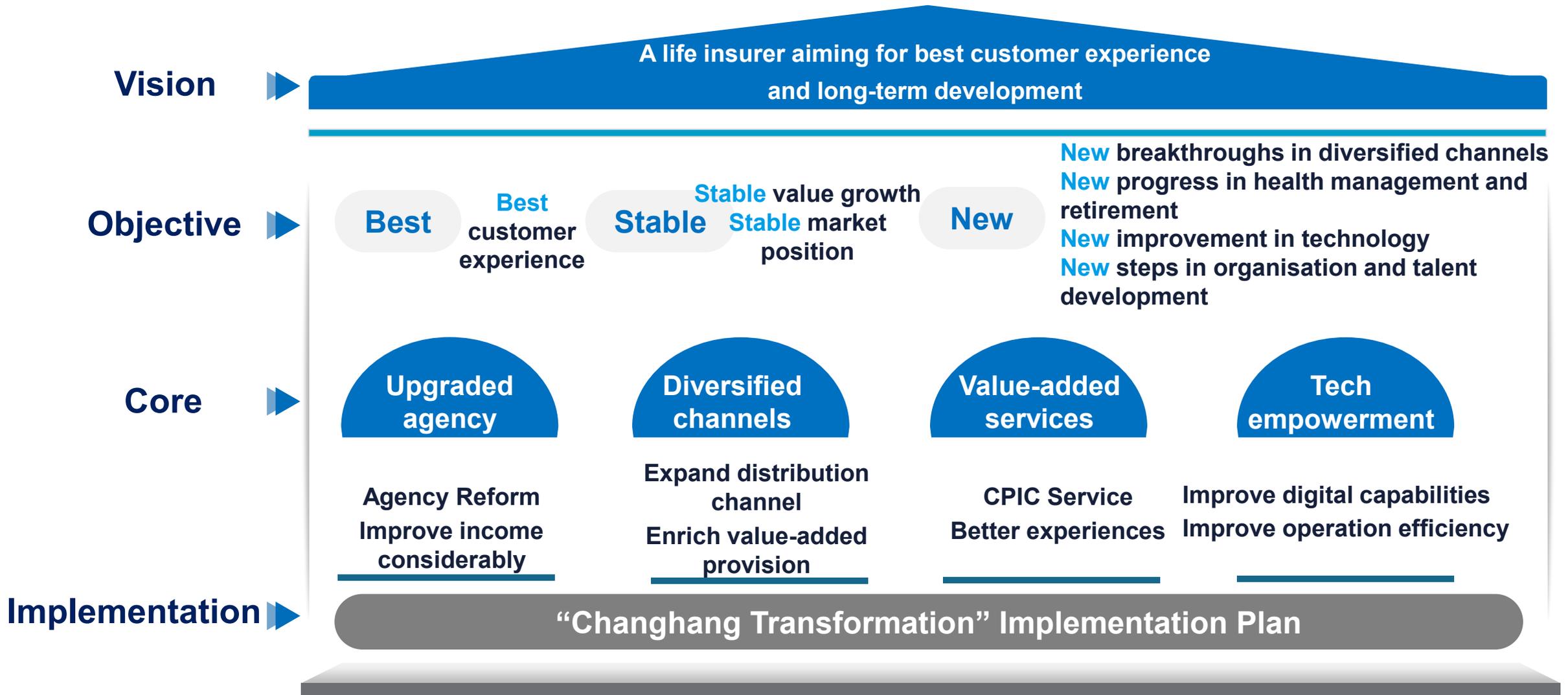
3-tier structure: Maximise customer and business value



Principles of organisational reform: utilise multiple means



Changhang Transformation: Stay committed to the blueprint



Thanks!