

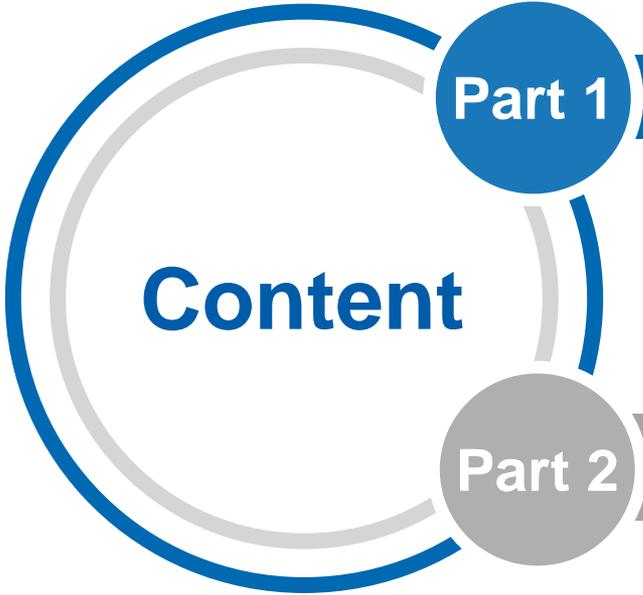
# CPIC Investor Day

December, 2017



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1. Business performance review
2. Development strategy
3. Outlook for the 2018 Kaimenhong

## Part 2 Interpretation of Embedded Value of CPIC

1. Drivers of embedded value growth
2. Calculation of appraisal value

# Part 1

## 1 Business performance review

1. Business review between 2011 and 2017
2. Analysis of drivers of value growth

## 2 Development strategy

## 3 Outlook for the 2018 Kaimenhong

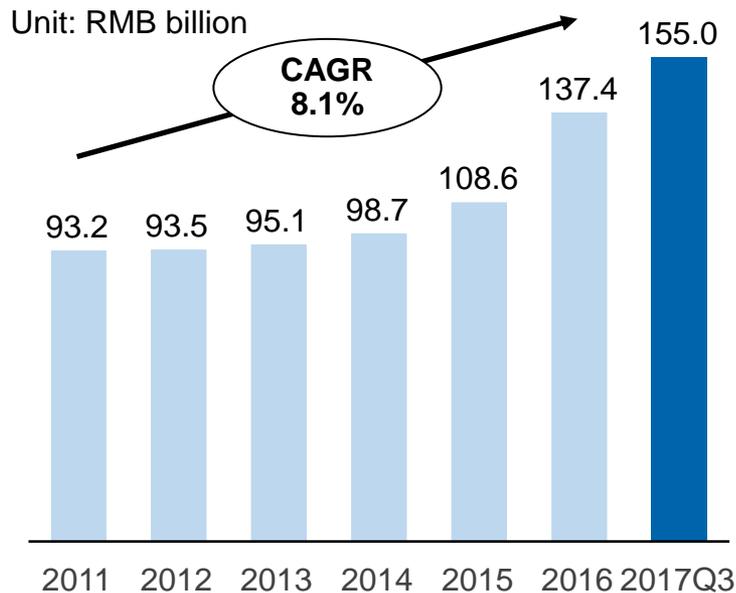
# Overall Statement

**Since the launch of the strategy of “focusing on the agency channel and regular premium business” in 2011 and the strategy of “customer-oriented transformation” in 2012, CPIC Life has achieved satisfactory results with regard to the growth and improvement of premium income, new business premium, VBN, VBN margin, product mix and agency force.**

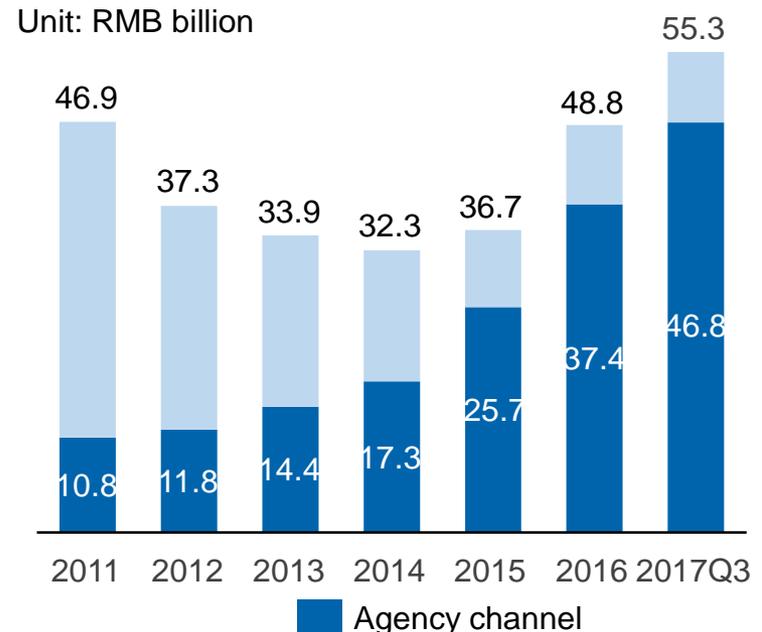
# Steady growth of life insurance premiums, with agency channel becoming the bedrock of the business

- Life premium grows steadily with CAGR of 8.1% between 2011 and 2016
- Benefiting from the development strategy of “focusing on the agency channel and regular premium business”, agency channel achieved rapid growth in terms of new business premium with the CAGR of 28.2% and increased proportion from 23.0% to 76.6% between 2011 and 2016

## Life insurance premium



## First-year premium

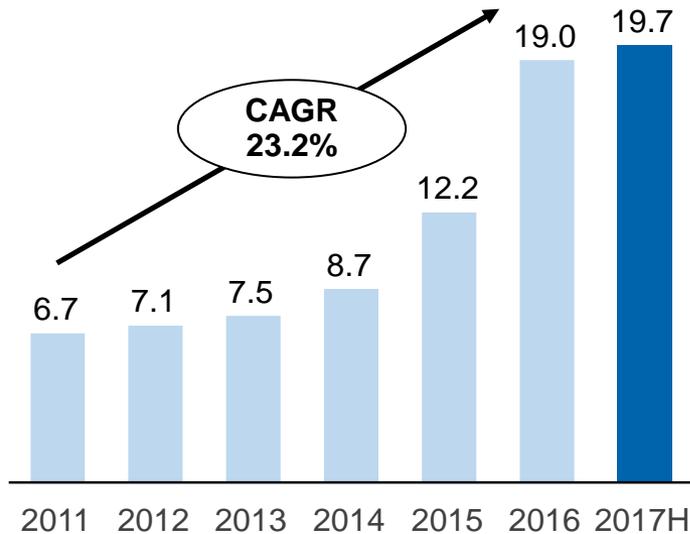


# Rapid growth of new business value, with considerable VBN margin improvement

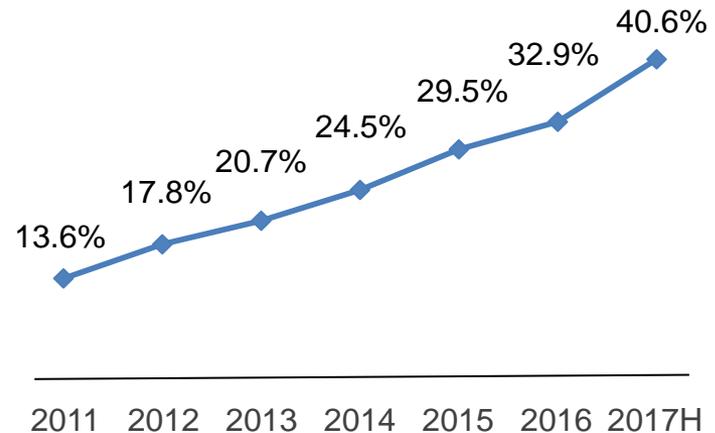
- CAGR for the VBN growth was 23.2% between 2011 and 2016
- VBN margin was improved to 32.9% in 2016 from 13.6% in 2011. VBN margin for the first half of 2017 was further increased to 40.6%.

## New business value

Unit: RMB billion



## VBN Margin

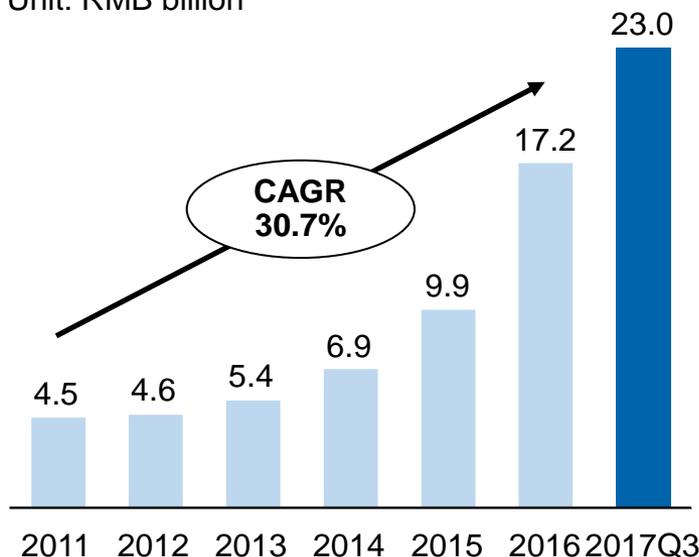


# Products increased focus on protection, with fast growth of long-term protection business

- Long-term protection business grew faster than long-term savings business with further improvement of product mix.

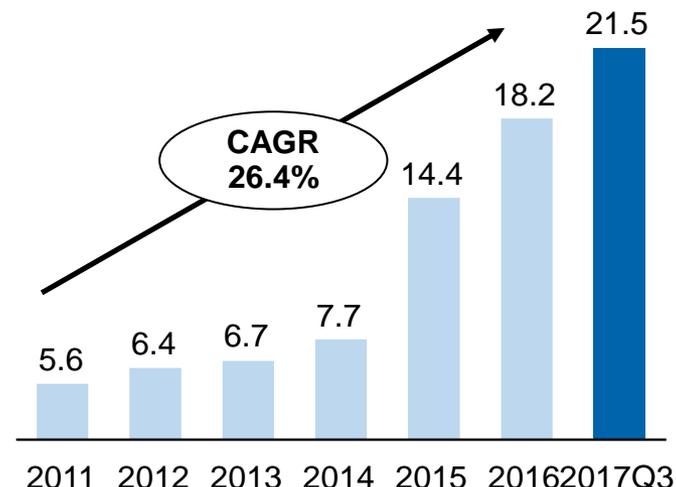
## Long-term protection business

Unit: RMB billion



## Long-term savings business

Unit: RMB billion

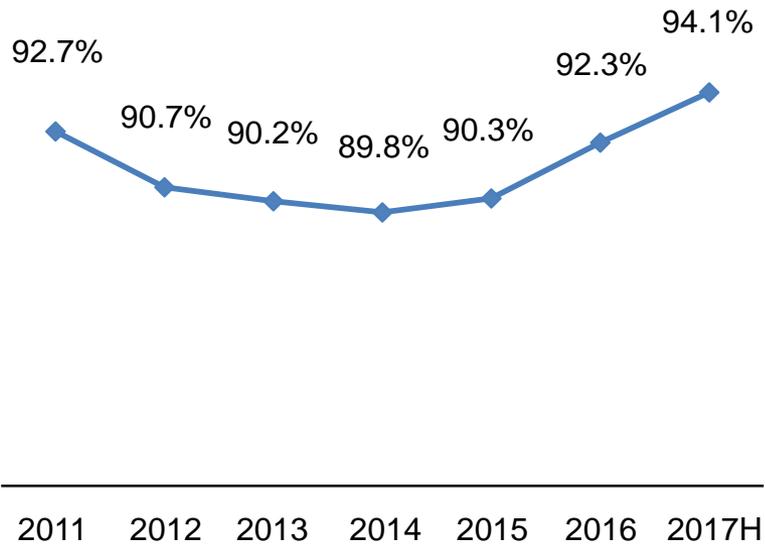


Note: Exhibited data originate from agency channel. Risk protection products include whole life insurance, term life insurance, long-term health insurance and long-term PA. Long-term savings consist of the Hong product series, other annuity and endowment products

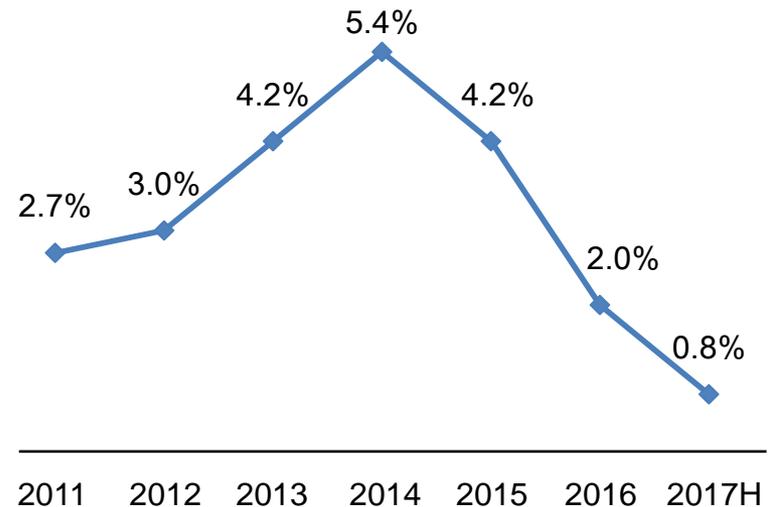
# Continued business quality improvement since the launch of transformation

- The 13-month policy persistency ratio for the first half of 2017 rose to 94.1%, with surrender ratio decreasing to 0.8%.

## 13-month policy persistency ratio



## Surrender ratio



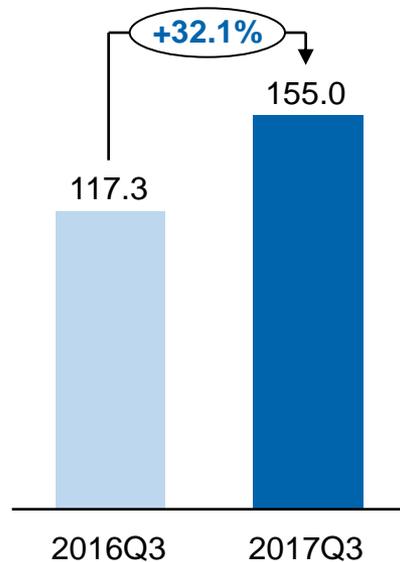
Note: Surrender ratio = surrendered amounts for the reporting period / (life insurance liability reserve as at the beginning of the reporting period + long-term health insurance liability reserve as at the beginning of the reporting period + long-term insurance premium for the reporting period)

# Healthy momentum for business development maintained for the first 3 quarters of 2017

- Life insurance premium amounted to RMB155 billion, up by 32.1%
- Agency channel first-year premium increased by 38.8% y-o-y

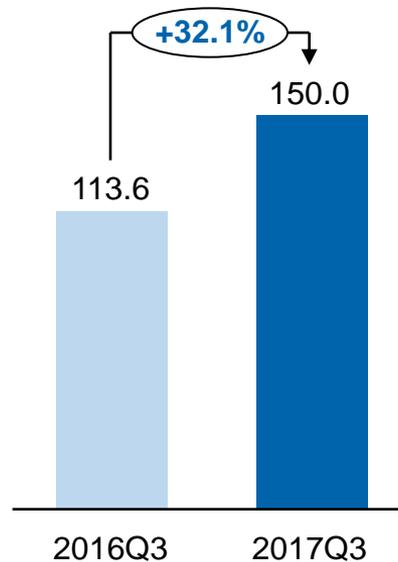
## Life insurance premium

Unit: RMB billion



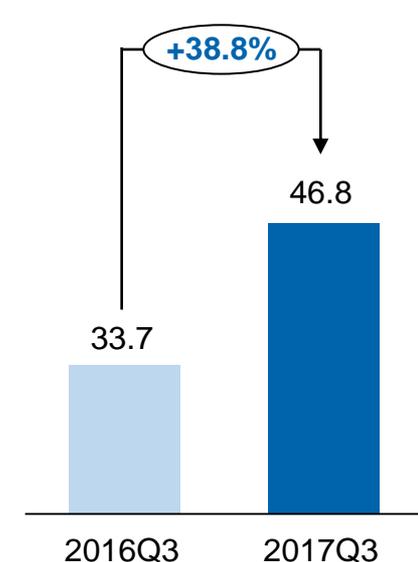
## Agency channel premium

Unit: RMB billion



## Agency channel FYP

Unit: RMB billion



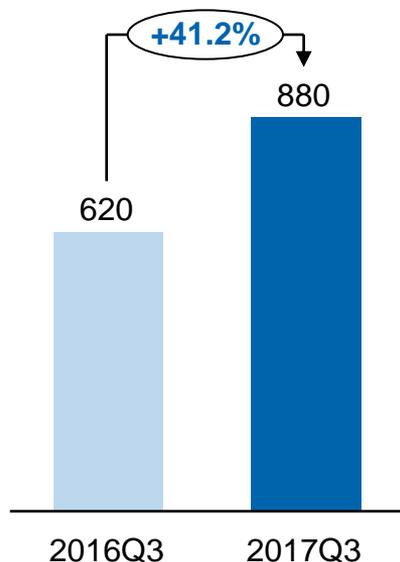
- Continued growth of agency headcount and retention
  - Monthly average number of agents reached 880,000, up 41.2%
  - 13-month retention ratio on a monthly basis reached 42.1%, up 6.9 percentage points

### Total agency headcount

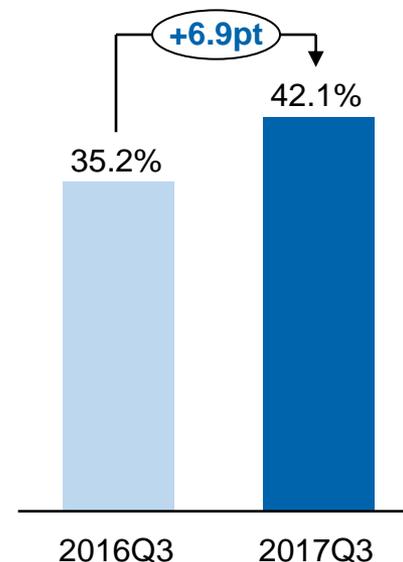
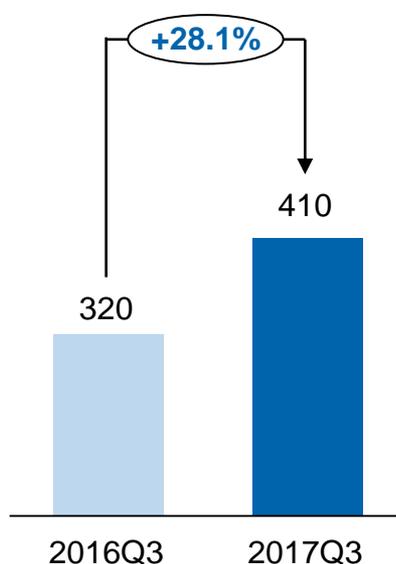
### LT policy active agents

### 13-month retention ratio

Unit: thousand



Unit: thousand



# Part 1

## 1 Business performance review

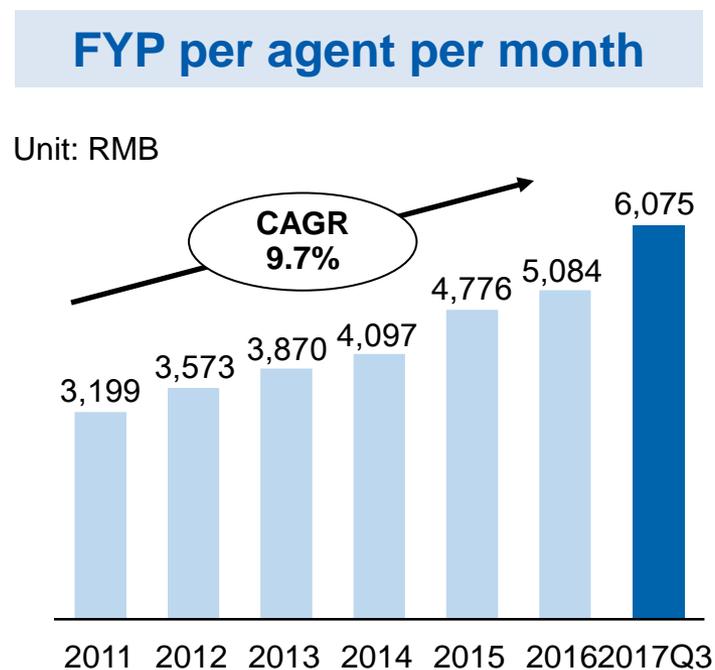
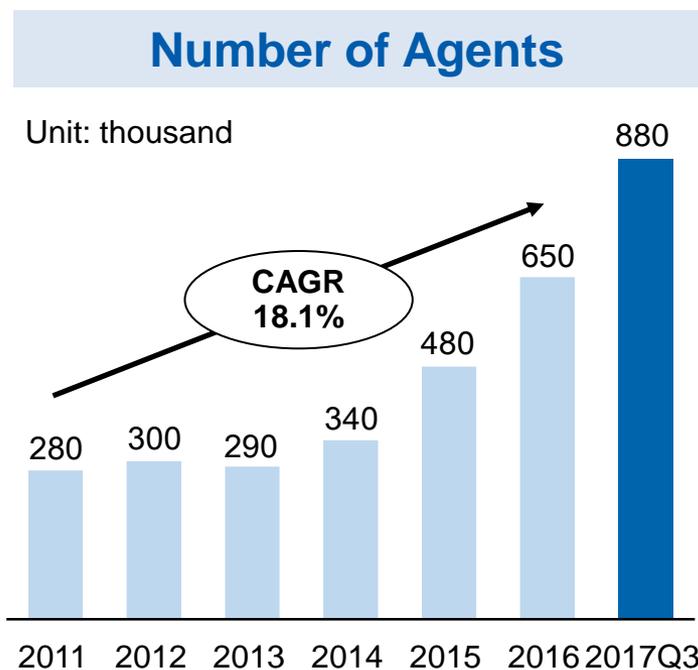
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## 2 Development strategy

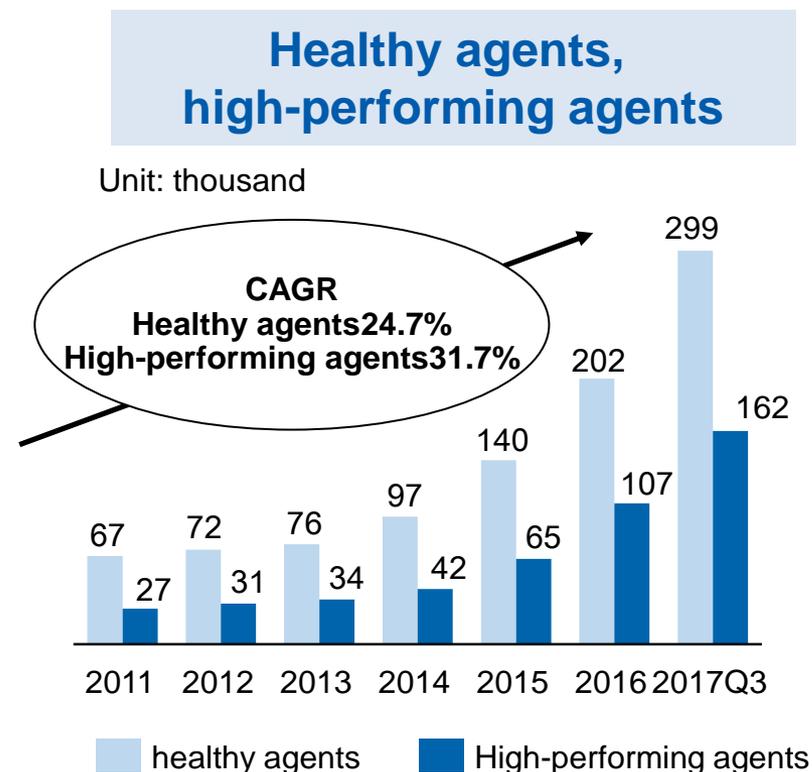
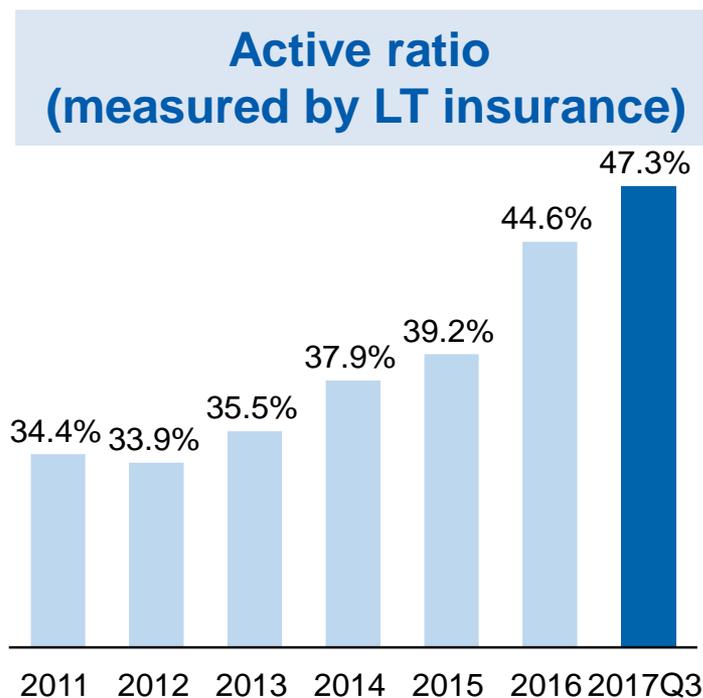
## 3 Outlook for the 2018 Kaimenhong

# Persisting in “dual-driver” model underpinned by sales force expansion and productivity improvement

- Continued productivity improvement on the basis of rapid sales force expansion
  - CAGR for monthly average number of agents was 18.1% between 2011 and 2016
  - CAGR for FYP per agent per month was 9.7% between 2011 and 2016, with the number exceeding RMB 6,000 by the end of September, 2017



- Continued improvement of KPIs and sales force mix
  - Active ratio (measured only by long-term insurance) was increased to 44.6% in 2016 from 34.4% in 2011
  - CAGR for monthly average number of healthy and high-performing agents was 24.7% and 31.7% between 2011 and 2016.

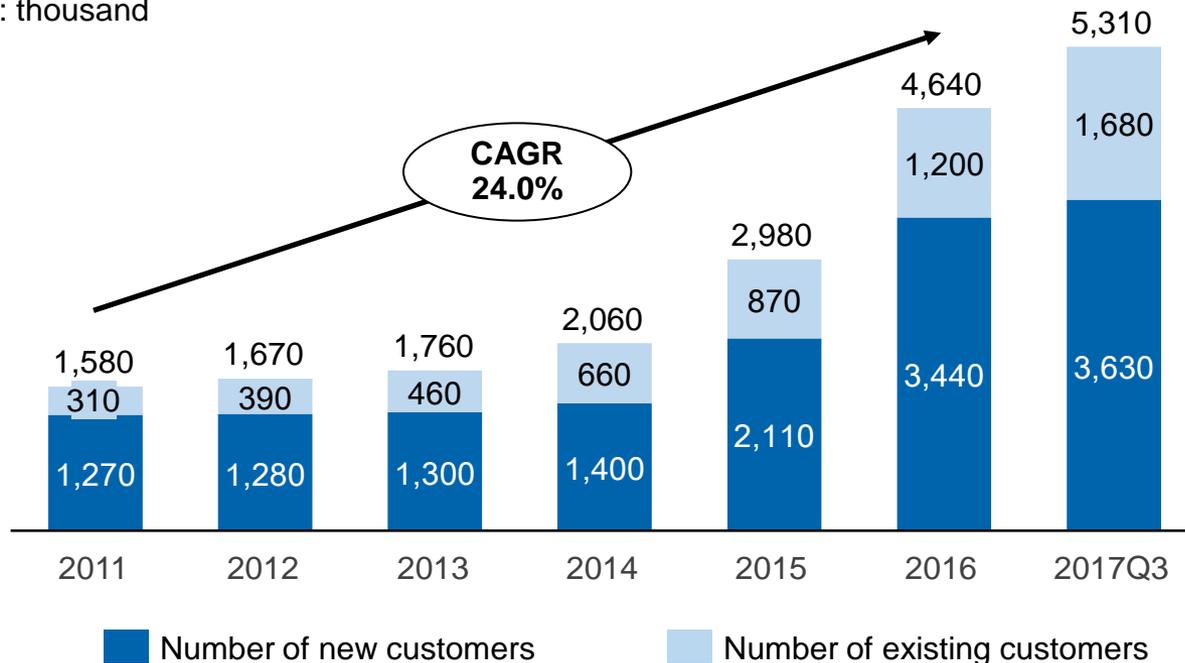


# The customer-centered operational model began to bear fruits

- CAGR for number of customers for long-term life/ health policies between 2011 and 2016 was 24.0%

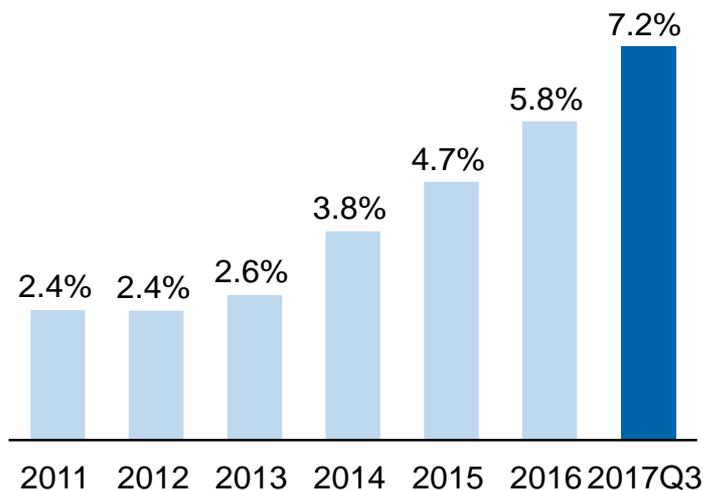
## Number of customers of LT insurance from agency channel

Unit: thousand

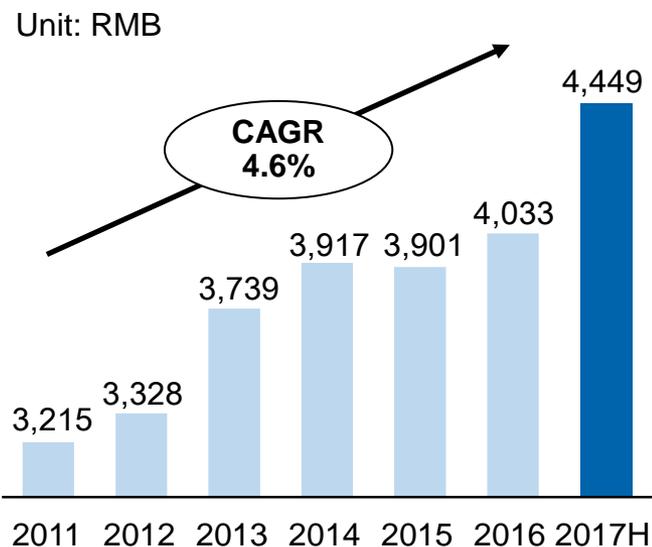


- The up-sell ratio among existing customers (measured by long-term insurance) was increased to 5.8% in 2016 from 2.4% in 2011
- The VBN per customer exceeded RMB 4,000 in 2016

### Up-sell ratio of LT ins customers



### VBN per customer



# Part 1

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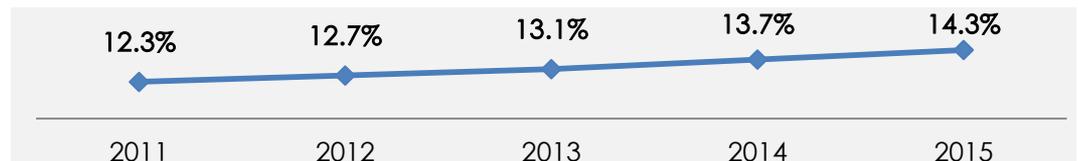
## 2 Development strategy

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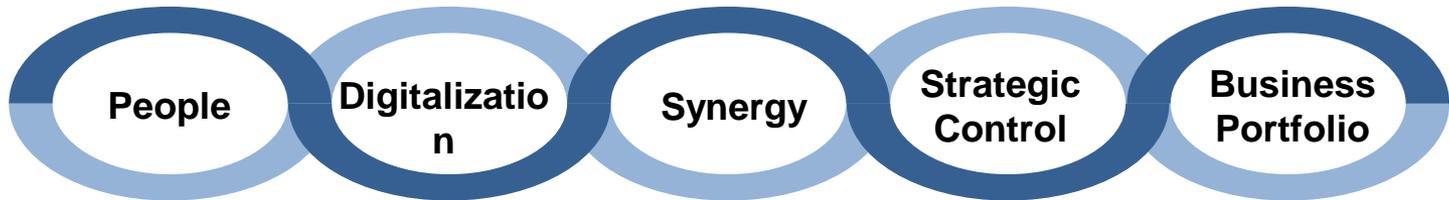
# China's "new age" presents major development opportunities for China's life insurance business

- **The Party's 19<sup>th</sup> Congress redefined China's principal contradiction, with development opportunities for China's insurance market**
  - China's principal contradiction is now between Chinese people's ever-growing needs for a better life and uneven and inadequate development
  - Insurance industry has an important role to play to meet people's needs for a better life
- **A host of favorable government policies have been issued to boost healthy and rapid growth of life insurance**
  - China's 13th 5-year program unveils the targets of 4.5 trillion yuan, 5%, and 3,500 yuan by 2020 for total insurance premiums, insurance penetration and density respectively
  - The State Council is committed to accelerating the development of private pension, roll-out of tax-advantaged health insurance, launch of tax-advantaged pension scheme, which will go a long way to raise public awareness of insurance
- **There will be increasing demand for pension and health insurance amid rising income level and demographic shift**
  - Ever-growing income level and purchase power of Chinese people, against the backdrop of "consumption upgrading", will translate into effective demand for insurance
  - The dependency ratio of elderly population in China continued to increase, reaching 14.3% by the end of 2015, meaning huge demand for pension

The dependency ratio of the elderly population in China



## Five central tasks of Group Transformation 2.0



## Direction of CPIC Life Transformation 2.0

**“Increased focus on protection for products, creation of value by customer service and the building of a digital eco-system”**



## Vision for Transformation 2.0 of CPIC Life

**“Committed to become a leader in healthy and steady development of China’s life insurance sector”**

Strategy for 2018: balance between value and volume, more even development across the year and striving for a leading VBN growth among listed peers

## 2018 Development Strategy

### Volume growth

- Respond to market competitions, striving for a leading regular pay FYP growth among listed peers

### Value growth

- Promote value growth, striving for a leading VBN growth among listed peers

### More even development

- Lower business volatility to achieve more even growth across the year

# Key initiatives for 2018

- 1 Continue to optimise sales force mix
- 2 Overcome the training bottleneck
- 3 Promote differentiated development of the agency channel
- 4 Push for progress in central urban area penetration
- 5 Persist in protection as the key insurance value proposition
- 6 Enhance new technology application
- 7 Deepen the customer-centered operational model

## Initiative 1: Combining empowerment of existing agents and strict selection of new recruits to drive sales force mix improvement

- Resources allocation will be skewed towards existing agents, focusing on lifting their income and retention
- Enhance selection of new recruits to improve quality

### Existing agents

- Focus on promoting growth of healthy and high-performing agents on a consecutive basis
- More support for manager-level agents to help them boost team productivity and income

### New agents

- More differentiation in spending on new recruit subsidies, focusing on high-productivity ones
- More selective in recruitment, focusing on urban areas

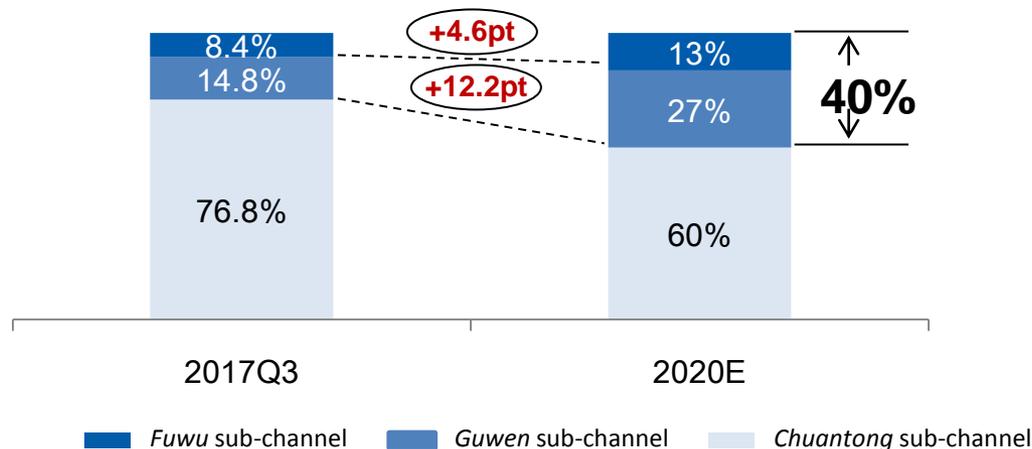
## Initiative 2: Foster top-notch agents, step up manager training and overcome the training bottleneck

- **Intensify efforts to foster top-notch agents, aiming to reach 2,000 for MDRT by 2018**
- **Enhance manager training to improve their management skills**
  - Launch the second phase of continuation education program, focusing on 60,000-odd manager-level agents to improve their capabilities in team management, sales and recruitment and coaching
- **Explore on-line training to increase efficiency**
  - Establish an e-training platform to extend coverage and effectiveness of training using mobile and internet technologies

## Initiative 3: Strengthen the Guwen and Fuwu Sub-channels to promote differentiation

- Chuantong sub-channel**    selling to more customers    Ensures overall performance and focuses on mix improvement
- Guwen sub-channel**    Selling to higher end customers    Further enhances penetration in central urban areas to acquire mid and high-end customers
- Fuwu sub-channel**    Selling more to customers    Cater for existing customers, improve customer service efficiency and promote up-sell

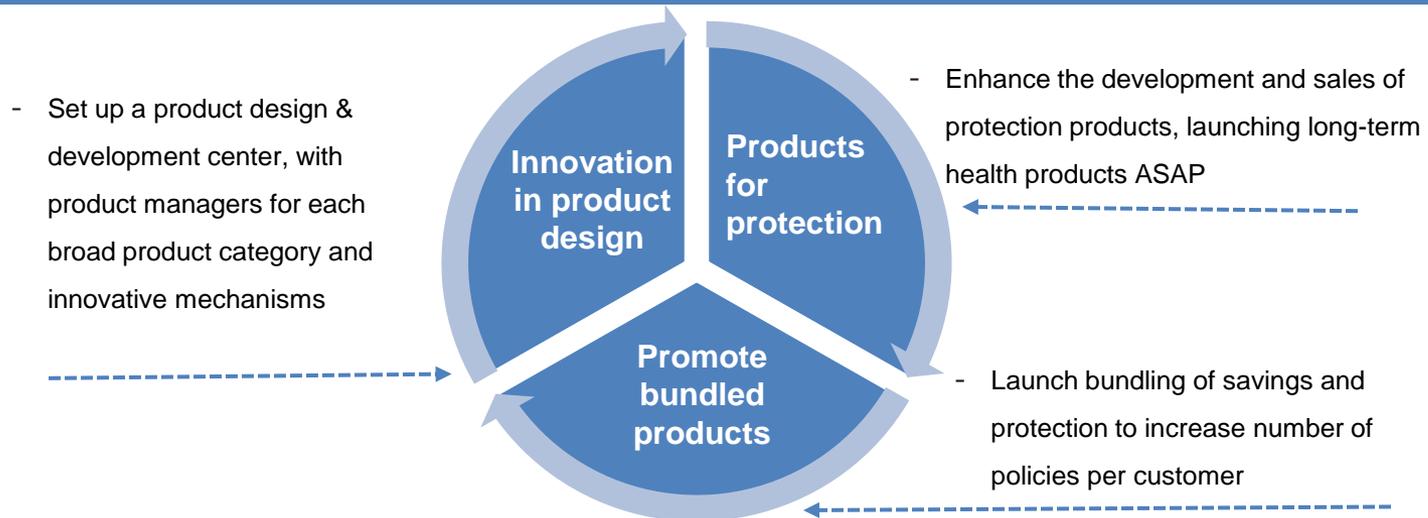
### Target for share of sub-channels by 2020



## Initiative 4: Push for progress in central urban area penetration, with increase in market shares

- Increase allocation of resources for Beijing, Shanghai, Guangzhou and Shenzhen, while innovating management models of branch offices and sales force development
- Continue to push for breakthroughs in key provincial capitals while enhancing industry benchmarking

## Initiative 5: Persist in protection while meeting diverse needs of both customers and agents



# Initiative 6: Upgrade app platform to improve technological support for agency channel

- The Agency Channel App integrates all applications for agents, ranging from on-line inquiries and sales support to on-line training, with monthly active users exceeding 700,000 covering 70% of agents

## Available now...

### Self-service management

- Enquiry into commission and income at any time
- Enquiry into validation results
- Information on performance ranking

### Customer information

- Enquiry into status of customers' policy
- Automatic updates of claims and post-sales services of customers

### Sales support

- Insurance planning adapted for cell phones
- Sharing of customer acquisition tools on WeChat

### On-line training

- Integration of training modules and electronic training materials



## Agency Channel APP



## Upcoming...

### Team management

- A view of income and performance evaluation results of team members
- Information on attendance and activities of the team

### Customer operation

- Review of customer's existing cover and recommendation of personalized plans
- Integration of third-party data to generate more useful leads to facilitate customer visits

### Marketing assistant

- Support one-click insurance application
- On-line claims management and post-sales services

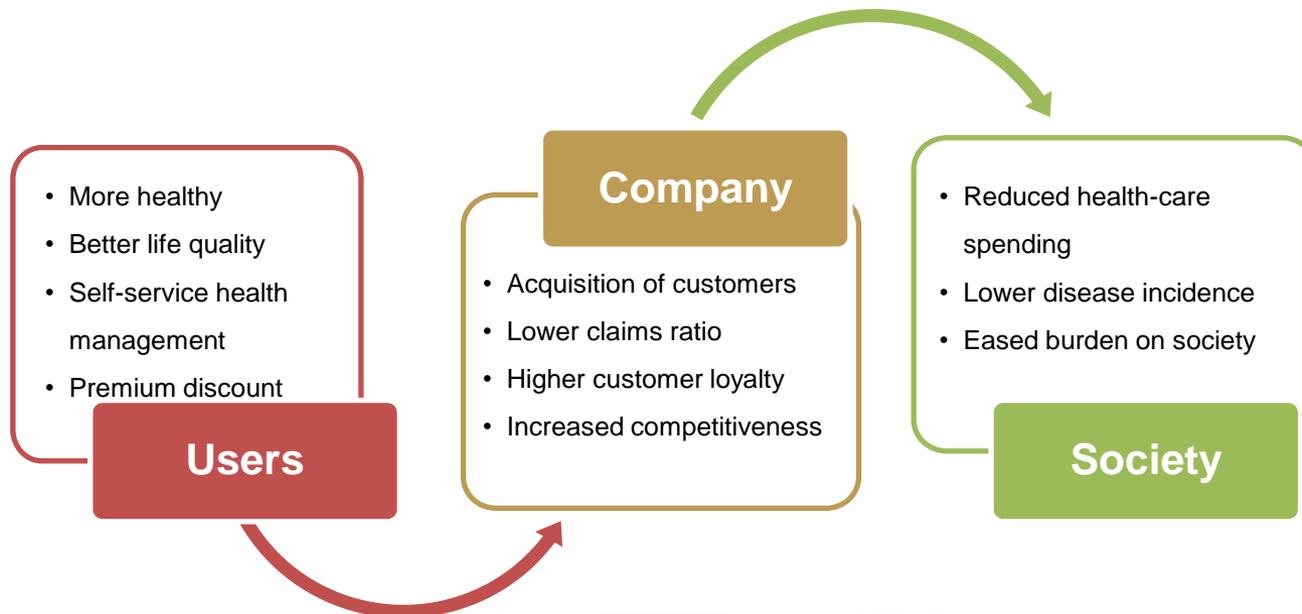
### On-line classroom

- On-line streaming of training programs with replays to enhance efficiency

## Initiative 7: Launch the “Better Life” Program to deepen customer relations

### ■ The “Better Life” Program seeks to improve participants’ health to create value for both customers and the society

- No thresholds. Enrolled on the health management program upon registration. Users can buy insurance at a discount after achieving targets in health conditions improvement
- A win-win for all stakeholders. Users have a more healthy life, as well as an insurance cover for a lower premium; the company acquires new customers; the society reduces medical expenses



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# Strive to deliver positive growth in VBN and regular pay FYP during the Kaimenhong

Targets for the Kaimenhong were set based on industry conditions and company realities:

1. Strive to deliver positive growth in VBN and regular pay FYP
2. Strive to deliver a VBN growth higher than the average of listed insurance companies

## Industry

- With the implementation of Document 134, pillar products of the industry had to be adjusted, and could be more difficult to sell, meaning more uncertainty in FYP growth

## Company

- During the 2017 Kaimenhong, CPIC Life ranked No.1 in total premium and FYP among all the 4 A-share listed insurers, with a high base

# The Kaimenhong will focus on long-term protection and long-term savings

- In compliance with regulator's priority, we will adhere to the central value proposition of insurance, focusing on long-term protection and long-term savings products
- The product strategy balances between value and volume, ensuring a mostly stable V BN margin

Category	Product	Type	GR	Remarks
Long-term savings	Jubaopeng	Par Annuity	2.5%	main par product
	Laolaifu	Par Annuity	2.5%	focus on old-age provision
Long-term protection	Jinyou Rensheng/ Rider of critical illness	UK type of par life insurance/ traditional CI product	2.5%	main protection product
	Anxingbao/ Chaonengbao for children/ Aiwuyou	Traditional Endowment/ Traditional	3.5%/ 3.25%/ 3.5%	Lifting active ratio and customer acquisition

# Preparations in full swing to fulfill Kaimenhong targets

## ■ Sales force: implementation of year-end PCAAS recruitment

- As of the end of November, agency headcount was 900,000, up 15% versus the end of November 2016

## ■ Customer: both new customer acquisition and accumulation of existing ones

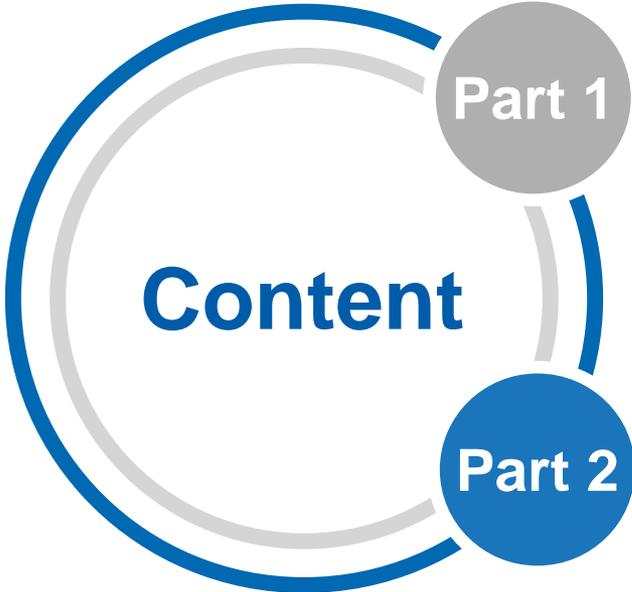
- Various customer accumulation programs, while stepping up cross-sell with auto insurance to acquire new customers
- A review of existing customers, which generated 10 million customer leads, to help with agents visit

## ■ Training: kicked off earlier to improve skills of new recruits

- First round of training for the entire sales force on the pillar products finished in November
- Currently focusing on new recruits skill training

## ■ Pre-sale status: preliminary statistics show that we are doing well on “active agents”, and may set new records here; but more work needs to be done on “regular pay FYP”

**With support of shareholders, and in line with the overall strategy of the Group, CPIC Life will upgrade its transformation, moving towards “ increased protection for products, more value via service and building of a digital eco-system”push forward Transformation 2.0 and work even harder to fulfill its vision of “becoming the leader of healthy and steady development of life insurance in China”.**



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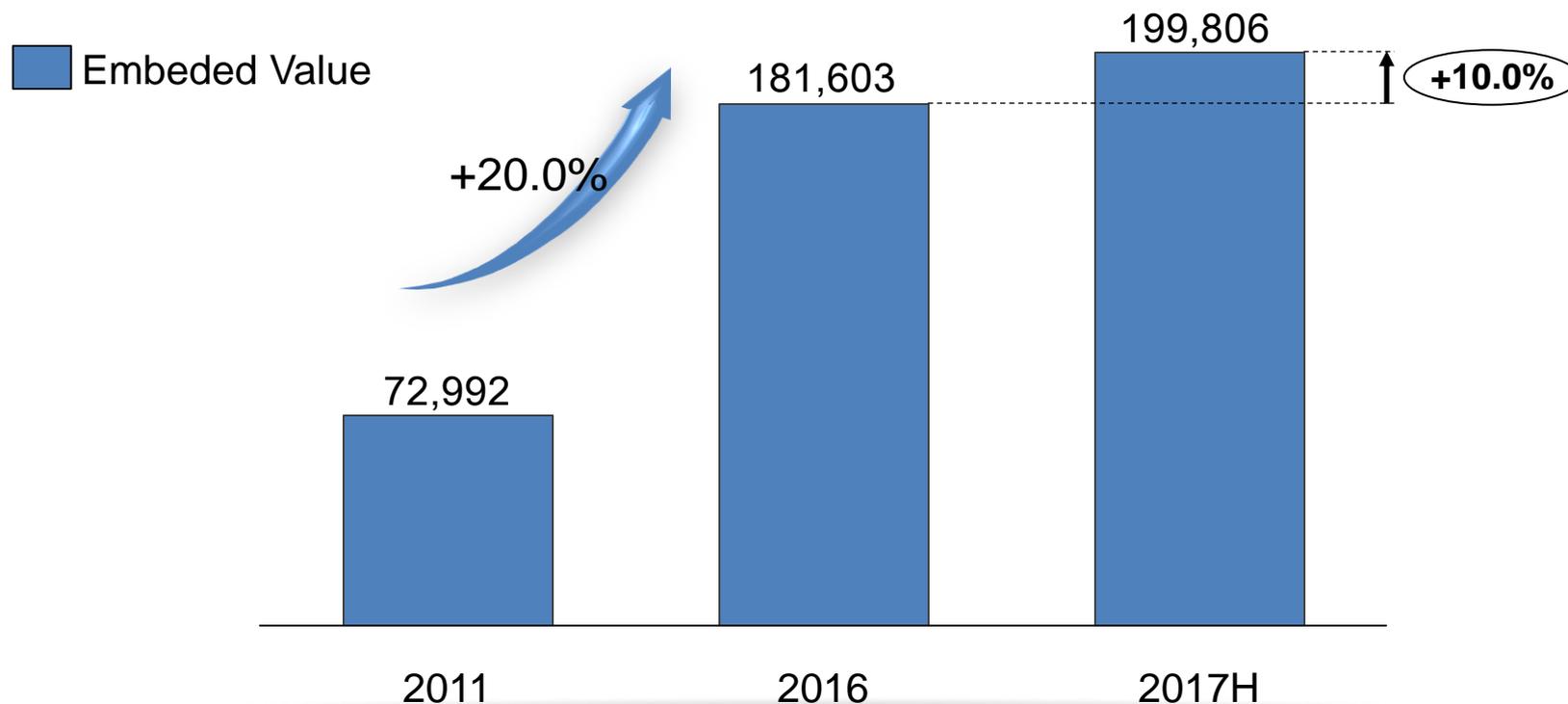
**1 Drivers of embedded value growth**

**2 Calculation of appraisal value**

# CPIC Life insurance embedded value maintained rapid growth during its transformation

The compound average growth of CPIC Life EV between 2011 and 2016 was 20%

Unit : RMB million

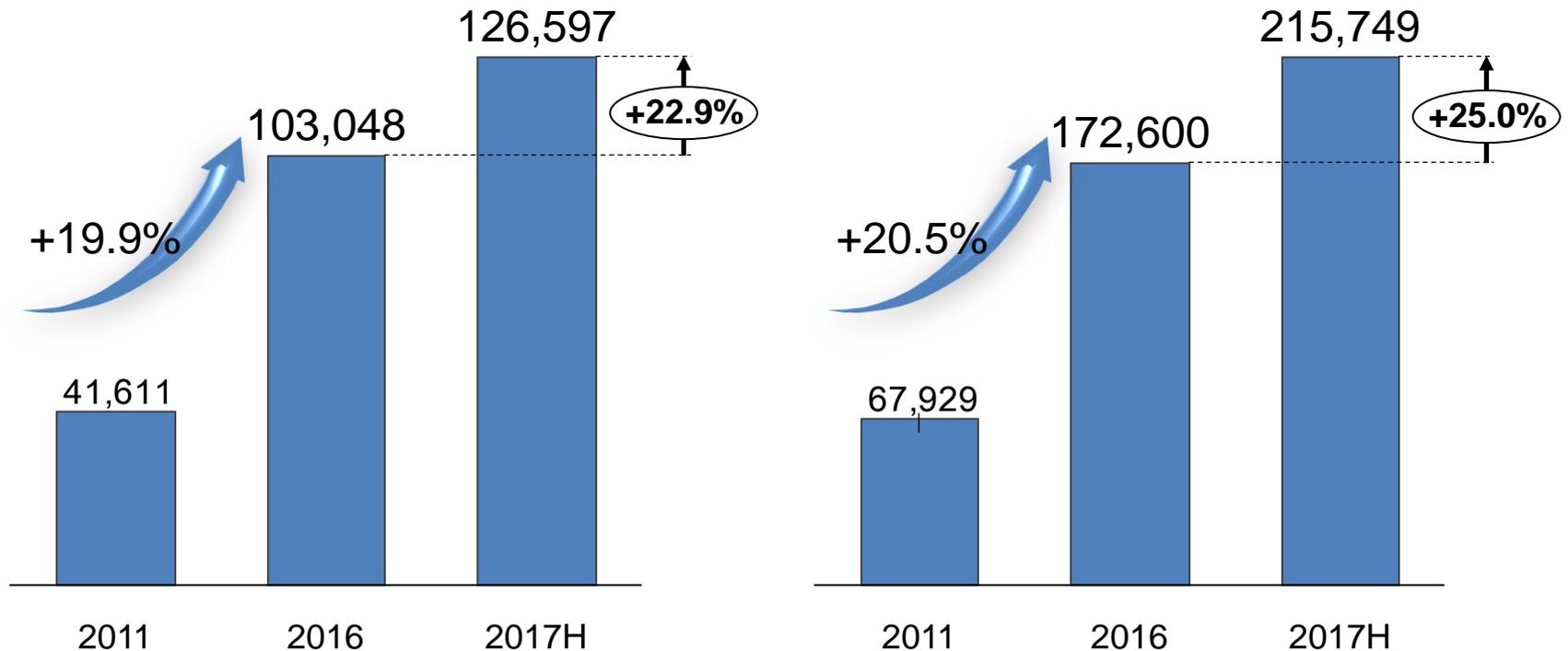


# VIF and residential margin grows simultaneously

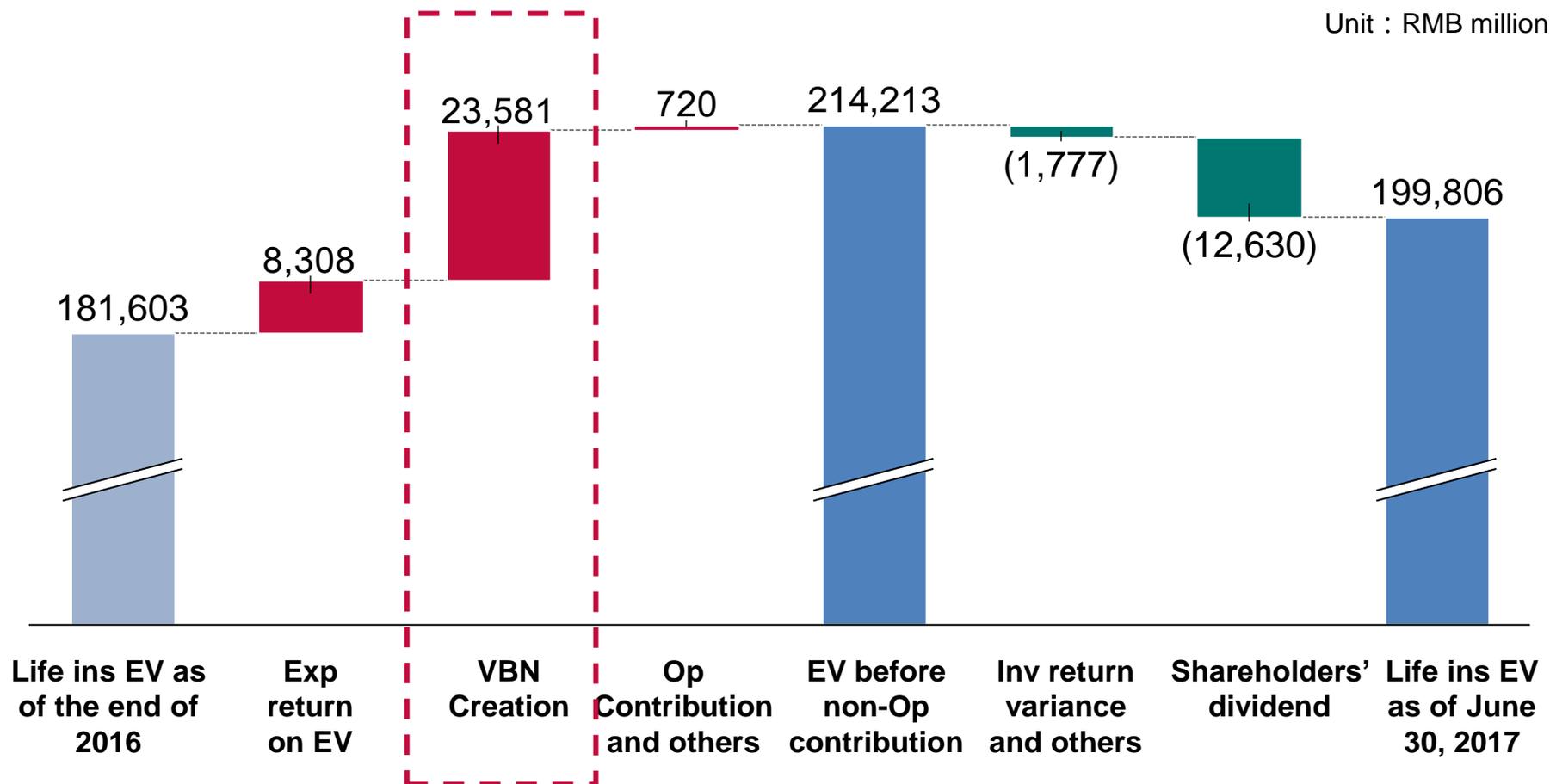
## VIF

## Residual Margin

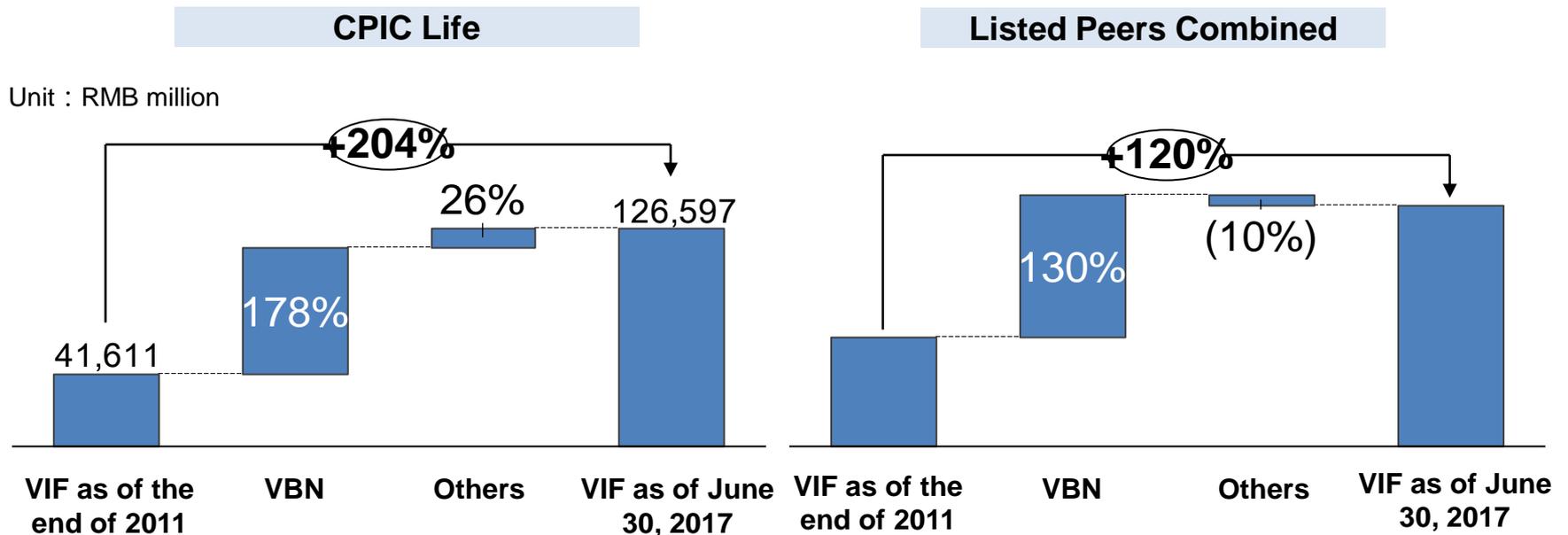
Unit : RMB million



# Rapid VBN growth underpinned EV growth of life business



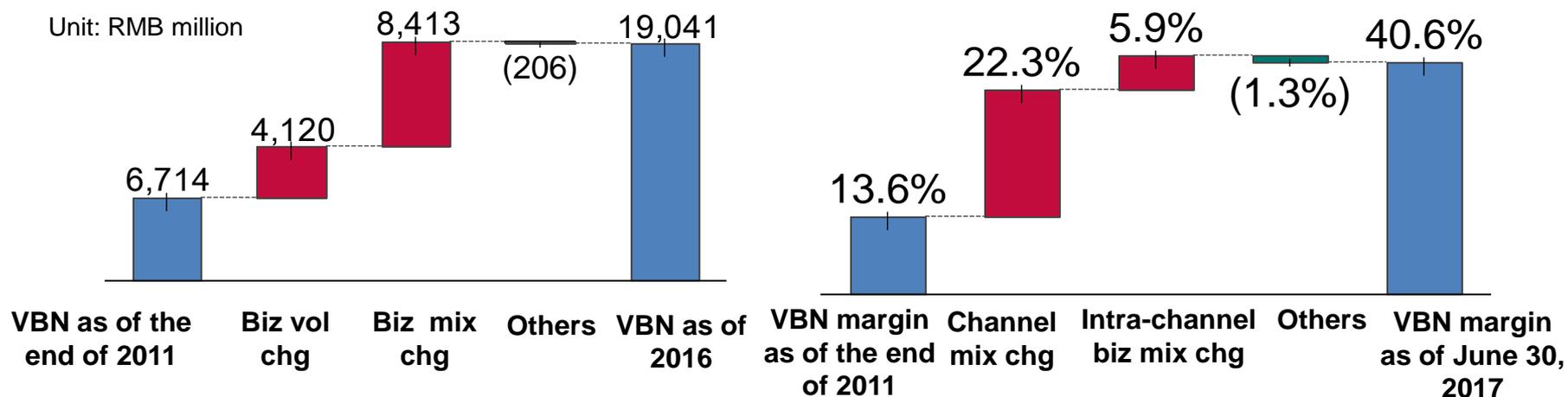
# Strong new business contribution the key driver of steady value of in-force business growth



# Transformation is the key driver of VBN growth

VBN Movement of CPIC Life

VBN Margin Movement of CPIC Life



# Industry tailwinds facilitate transformation and upgrade, laying solid foundation for sustainable development

**VCN**

**New Business Premium**

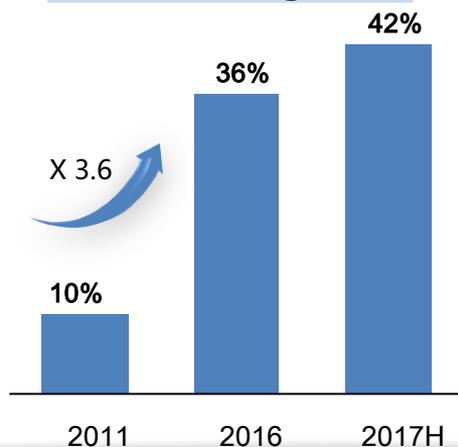
**X**

**VCN Margin**

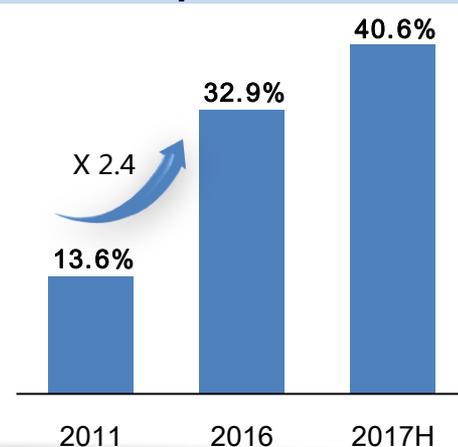
- Industry faces major opportunities in “consumption upgrading”, amid a confluence of favorable circumstances: protection gap, raised public awareness and rising income level
- Regulatory support: expansion of insurance cover and diversification of product offerings

- Potential for further improvement of product profitability via sharpened focus on risk protection
- Effective operational management helps with realization of expected profits

**VCN Margin**



**Share of LT protection business**



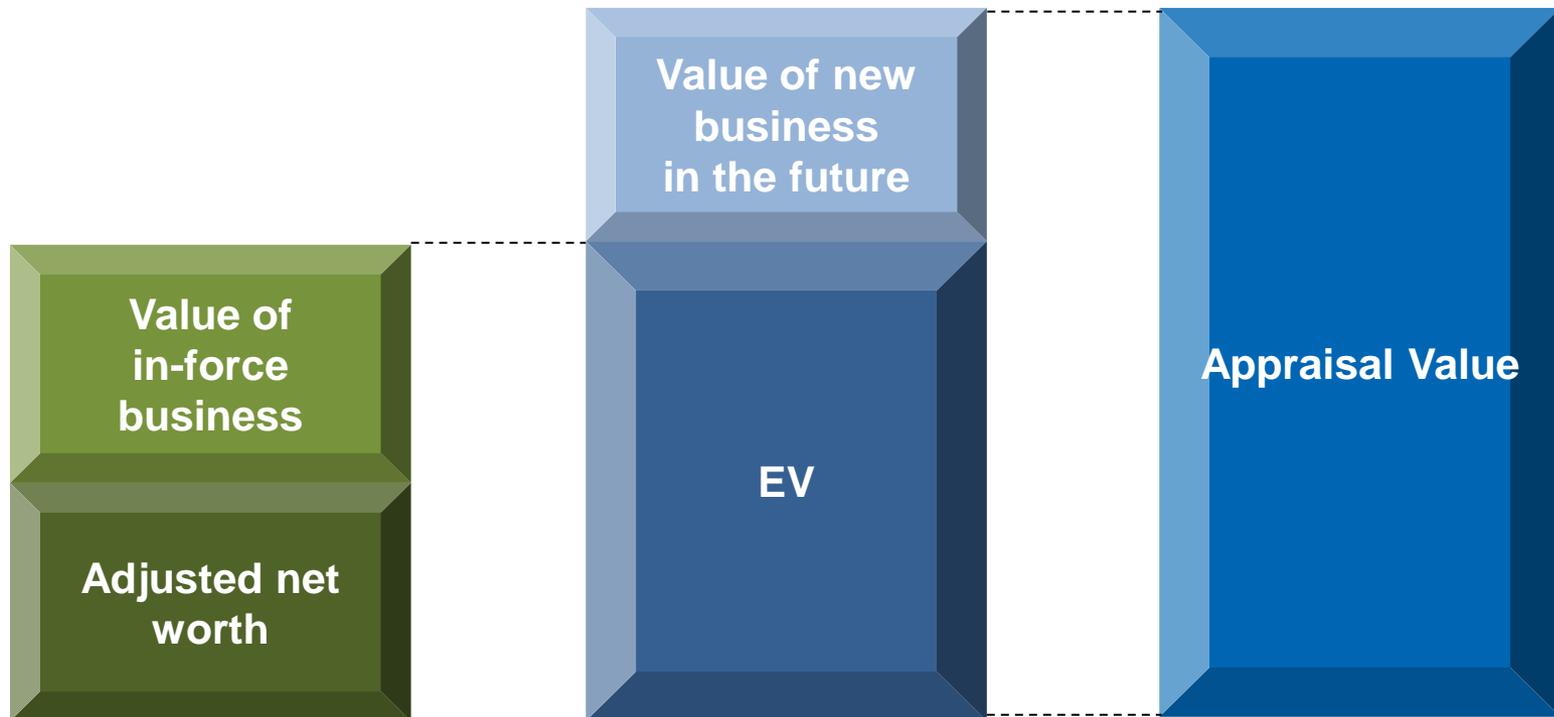
## Part 2

**1 Drivers of embedded value growth**

**2 Calculation of appraisal value**

# Appraisal value reflects both embedded value and value of new business in the future

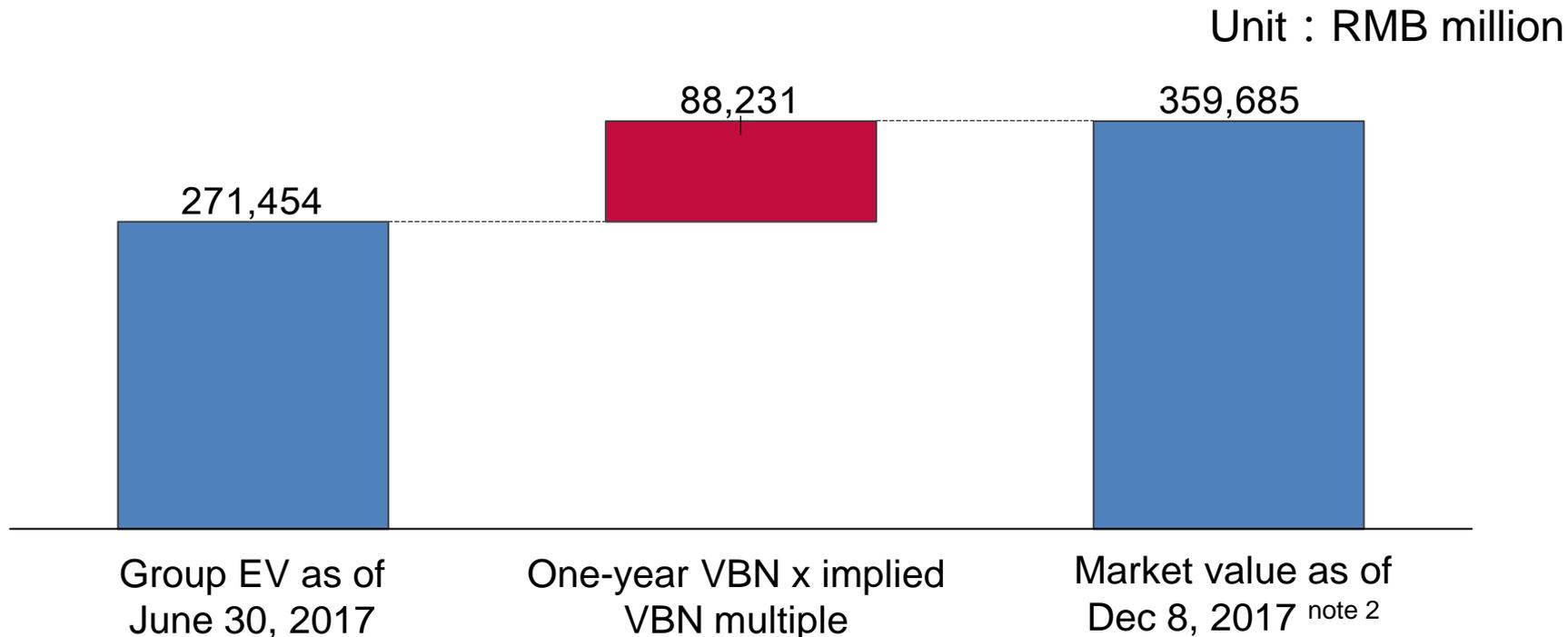
- Appraisal value = embedded value + value of new business in the future
- Value of new business in the future = one-year new business value x new business value multiple



# Current Implied VBN multiple of CPIC Group

Implied VBN multiple = ( market value – embeded value ) / VBN

Based on rolling 12-month VBN as of June 30, 2017, the implied VBN multiple is 3.4 <sup>note 1</sup>



# Formula of New Business Value Calculation

The letter “r” being the risk discount rate,  $VNB_0$  being the new business value of the past 12 months, and “g” being the growth of future VBN, then the present value of new business in the future as of the date of valuation is as follows:

Year	1	2	...	n	...
Present Value	$VNB_0 * \frac{1+g}{1+r}$	$VNB_0 * \left(\frac{1+g}{1+r}\right)^2$	...	$VNB_0 * \left(\frac{1+g}{1+r}\right)^n$	...

# Calculation of New Business Value Multiple

Assuming a RDR of 11%, and we will arrive at the following new business value multiples depending on VNB growth rate and duration of new business written

<b>Growth \ Year</b>	<b>10</b>	<b>20</b>
<b>5%</b>	7.5	11.7
<b>10%</b>	9.5	18.2
<b>15%</b>	12.2	29.6

# THANK YOU

