Investor's Newsletter（April 19, 2022）

vol. No.5 in 2022

CPIC（SH601601, HK02601, LSE CPIC）

Stock Data (ending Mar. 31, 2022)

Total equity base (in million)	9, 620
A-share	6, 845
H-share	2, 775
Total Cap (in RMB million)	199, 924
A-share	156, 888
H-share (in HKD million)	53, 063
6-month highest/lowest	
A-share (in RMB)	29. 84/21. 65
H-share (in HKD)	25. 80/18. 14
GDR (in USD)	21. 40/18. 60

IR Calendar

Contents

Investor Relations Department
Tel: 021-58767282
Fax: 021-68870791
E-MAIL: ir@cpic.com.cn
Add: 15F, 1 Zhongshan Rd. S.
Shanghai, P.R. China, 200010
Contact: GONG Zheng
Tel:021-33968661
E-MAIL: gongzheng-001@cpic.com.cn

Premium Income (Unit: in RMB million)

	Jan.- Mar.	Changes	Mar.	Changes
P&C	49, 282	13. 84%	18, 328	10. 88%
Life	99, 450	4. 23%	25, 562	10. 09%

Regulatory Updates

● Regulator seeks public opinion for new rules on sales of life/health insurance for 2nd time

The new Exposure Draft no longer specified the methods of the classification of insurance sales personnel, and instead, required insurance companies to establish the system for such classification based on the qualifications criteria released by China Insurance Association. Newly recruited sales agents shall meet the requirement by the end of 2023, while existing personnel by the end of 2024.

The new document kept the requirement for segmentation of insurance products, depending on their types, complexity and riskiness, and this will be matched with the classification of sales personnel.

In terms of management of insurance policies taken out by insurance agents themselves, the new draft maintained the ban on such polices as a precondition for recruitment, probational evaluation and promotion, or as a metric for performance assessment and sales campaigns.

In sales eligibility management, insurers still need to assess the insurance needs, risk tolerance and financial means of applicants to ensure they match the profiles of products. On the other hand, the original stipulation that total premiums shall not exceed 30% of customers' annual household income was changed to 50% and 5 times of annual household income for regular-pay and single-pay, respectively. Meanwhile, insurers shall not accept application for unit-linked or universal life by those aged over 60 years. Insurers should stick to the rules unless they obtain disclaimer declarations from such customers.

The new draft also relaxed restrictions on commissions. The first draft stipulated that first-year fees shall not exceed 80% of first-year premiums for intermediaries, first-year commission shall not exceed 40% of direct commission of the insurance policy, and the duration of renewed commission shall not be lower than either 10 years or the payment period, whichever is shorter. But under the new draft, commission as a share of total premiums was capped at the pricing expense loading.

As for cooperation between insurance companies and commercial banks, the original wording which allowed "exclusive banking outlets" was deleted. The latest draft encourages qualified banks to establish a dedicated team of insurance sales personnel and improve their professionalism.

● China contemplates setting up Financial Stabilisation Fund

On April 6, PBoC released the Draft Exposure of Financial Stabilisation Law, which, among others, proposed to establish the Financial Stabilisation Fund. Under the management of State Council Financial Stabilisation Committee, it serves as a standby bail-out fund in cases of material financial risks. The Fund will depend on capital of financial firms, financial infrastructure and other channels as prescribed by the State Council.

The draft requires entities in trouble to first mitigate the risk on their own, including capital injection by majority shareholders or de facto controllers as per Resumption and Bail-out Contingency Programmes or Regulatory Commitments. At the same time, market-based M & A or restructuring, deposit security fund and industry security fund may also play a part. For risks that jeopardise regional financial stability, and cannot be resolved through market-based mechanisms or recourse of losses, local public resources will kick in. For material financial risks which may disrupt financial stability, the Financial Stabilisation Fund will step in.

Industry Information

● Huhuibao cumulatively paid out 524mn yuan on 90,000 claims

As of Feb. 28, Huhuibao, a government-sponsored medical insurance programme in Shanghai, paid out a total of 524mn yuan on nearly 90,000 claims during the 8 months of its operation, with daily average payment of 2,157,000 yuan, and as much as 587,000 yuan paid for the largest single claim and 696,800 yuan for individual claimants.

The split between male and female is almost half half, with the share of women at 49.81%. The share of those of 66 years and above was 45.36%. The top 3 illnesses for claims are malignant tumour, muscle & bones & connective tissues and cardio-vascular, and the incidence is rising among younger people, especially for malignant tumour. Those aged between 19 and 45 accounted for 13% of total cases of the disease, and many were born in the 1990s or even 2000s.

● Auto insurance reform saves over 250bn yuan for consumers

As of the end of 2021, the interim targets of auto insurance reform, i.e., lowering prices, expanding coverage and improving quality, have been mostly met.

First, auto insurance premiums were reduced by 250bn yuan in total. Average vehicle premium was 2,761 yuan, down by 21% from before the reform, with 87% of consumers benefiting from this. Non-claims discount on commercial auto insurance fell from 0.789 prior to the reform to 0.750.

Second, protection increased. Sum assured on compulsory auto insurance rose from 122,000 to 200,000, and the average SA on third party liability amounted to 1.57mn yuan, an increase of 650,000 from before the reform. Of this, the share of insurance policies with SA of 1mn yuan or above reached 91%. Up to 88% of customers take out commercial auto insurance, versus 80% before the reform.

Third was higher claims amounts. Loss ratio rose to 72.4%, up by almost 13pt.

Fourth is lower expense ratio, which decreased by nearly 11pt. Of this, the commission ratio fell by 5pt, and the business and management expense ratio by 6pt.

Fifth is the debut of specialised new energy vehicle products.

Company News

● P/C, life and health insurance subsidiaries of CPIC Group rank 1st in customer service ratings

On March 29, CBIT released the Insurance Customer Service Quality Index of 2021, the first full-year rating after the publication of its 2021 Interim Index. CPIC P/C and CPIC Life scored 94.46 points and 94.74 points respectively, both ranking No.1 in the 60 P/C insurers and 79 life/health insurers (including 7 specialised health insurance companies) covered in the evaluation. CPIC Health, with 87.23 points, also ranked the 1st place among specialised health insurance companies.

Special Report

● Summary of Q & A of 2021 Annual Results Announcement

On March 28, CPIC hosted its 2021 Annual Results Announcement, and below is a summary of the Q & A session.

1.Q: Chairman Kong, what do you think about CPIC's performance in 2021, and what areas will you focus on in 2022 and beyond?

A: The past year can be summarised as "progress amid stability" , which is a hard-won result. In life insurance, we launched transformation underpinned by "3 Directions and 5 Mosts", with a vision of "becoming a life insurer with the best customer experience". The P/C operation is committed to enhancing capabilities in direct reach to customers and differentiated business management, so as to set an example of high-quality development for China's P/C insurance market. Asset management, given the long-term nature of liabilities, balanced between seizing market opportunities and effectively controlling risks, and maintained solid investment results. 800 Service Officers from headquarters to grass-root branch offices reached out to customers, lending more intimacy and accessibility to CPIC Service. Our deployment in retirement and health care boosted the system of "products + services". The board, with diversified composition, professional expertise and an international vision, demonstrated capabilities in making forward-looking and strategic decisions.

The outlook can be described as "challenging but promising". Our aspiration for "industry leadership in healthy and steady development" remains unchanged, and currently, it's essential that we adhere to the original targets, and return to the basics. We initiated Transformation 2.0 a few years ago, which instilled more vibrancy, more innovativeness and tenacity into our culture.

Specifically, our priorities include: first is the transformation of life insurance, and we will press ahead with it via the 8 projects until the targets are met; second is investments in health care and retirement, which will go operational in due course, with nationwide deployment of retirement communities roughly in shape. CPIC Family Doctor, a tele-medicine programme, has over 1mn users served by 400 dedicated medical professionals. There will also be substantial progress in rehab care; third is the establishment of CPIC Sequoia Joint Office, which facilitated exploratory investment in the health care sector, diversified the ecosystem and promoted synergy between assets and liabilities; fourth, to implement ESG philosophies in an all-around way, we signed into UN PSI and UN PRI last year, and released the Sustainable Development Report; fifth, we will continue to roll out the system of professional managers, committed to recruiting high-end talent and developing young talent, so as to further improve our organisational health.

Of course, it takes time for us to "win the final victory". In 2022 and beyond, maintaining stability remains our first priority, and on top of that, we will pursue change and progress, and strive to achieve high-quality development.

2.Q: Your shareholder dividend fell in spite of steady growth of accounting profits and OPAT in 2021. Why? Was it because of C-ROSS II? Any guidance for dividend policy in the medium to long term?

A: C-ROSS II tightens capital recognition, leading to decline of solvency margin ratios of our insurance subsidiaries across the board. To ensure sufficient and reasonable solvency under the new capital regime, and to support business development and deployment in new areas, we have initially put in place a capital planning system covering all subsidiaries, with formulation of concrete measures, which are being implemented. At the same time, we are looking at all possible options on the table as allowed by regulatory policies, such as application for a transitional period, or the issuance of perpetual bonds for capital replenishment. There is still uncertainty around these options, and so as a precautionary measure, we adjusted the dividend level for 2021 to ensure the implementation of our high-quality development strategies.

In terms of strategic investment, last year, the 14th 5-year Development Programme of CPIC Group was approved, and we are vigourously pushing forward strategic deployment on the front of health care, technological innovation and key regional initiatives, such as the Yangtze River Delta Region, the Greater Bay Area and the Integrated Area of Beijing, Tianjin and Hebei. These investments,would support current business development, and more importantly, seek to foster engines of future growth and in turn would generate long-term returns for investors.

We are working on a full-fledged 3-year capital plan based on C-ROSS II. Capital plans, including shareholder dividend, have significant bearing on the long-term business development of a company, and thus require a long-term view. We remain committed to generating reasonable returns for shareholders. Since our listing, we have maintained a high pay-out ratio and dividend yield, and going forward our dividend policy will stay consistent. The future cash dividend level will be set based on realities of our business operation and the environment, while considering sustainable development and regulatory requirements.

3.Q: You mentioned the Golden Triangle of insurance products, i.e., health protection, pension & retirement, and wealth inheritance. How do you differentiate yourself from your peers or other financial firms?

A: In 2020, the board approved the health business strategy of CPIC, and we established an ad hoc committee headed by chairman Kong to coordinate efforts in the area. In 2021, the work proceeded in an effective way and on all fronts.

In health insurance, the underwriting quality of CPIC P/C improved enormously; NBV margin of CPIC Life remained stable, and the business line represented a much higher share of incremental premiums and customers.

Our key differentiator is the building of the ecosystem. We made fast progress in tele-medicine in hope of improving access to premium health care service by our customers. We inaugurated the CPIC Guangci On-line Hospital in collaboration with Ruijin Hospital, established Shantai Technology Co. Ltd., which is now open for business. We launched the brand of CPIC Family Doctor, connecting hospitals, health check entities and pharmacies, in a bid to build an integrated off-line and on-line ecosystem covering both insurance products and health management services via cooperation between multiple parties. The programme was launched in September last year, and so far users have exceeded 1mn. With a proprietary team of over 400 medical professionals, we are able to provide free on-line consulting 24 hours a day to people in the pandemic-affected areas. Moreover, we participated in equity of high-end care providers such as Shanghai Guangci Memorial Hospital and United Family Healthcare. We also deployed along the health care value chain: joining hands with Sequoia China and establishing a health care investment fund, which focused on medical appliances, bio-pharmaceuticals, testing, medical service and digital care; setting up CPIC Capital as per approval of CBIRC in March last year, the first investment management firm in the industry specialising in alternative assets, which mainly serves as GP of the health care investment fund, with a mandate in care and medical service in line with the Group's overarching objectives.

4.Q: What is the reason for EV slow-down?

A: EV grew by 8.5% in 2021 from the end of 2020, and the slow-down was mainly due to: first, one-off factor of GDR issuance in 2020 (which raised USD1.965bn); second, decline of NBV; third, negative operating variance, as a result of policy persistency deterioration, the Company has re-calibrated policy-quality-related assumptions in value calculation; fourth, negative investment variance; fifth, reduced profit contribution from other business segments than life insurance.

5.Q: It's been more than a year since you put forward the Changhang Action Programme. What difference has it made? What steps will be taken going forward?

A: The Changhang Action Programme made its debut on Jan. 1, 2021. After 6 months of preparations, it was introduced to our agents and staff in October of the same year, and in the ensuing 3 months, we conducted in-depth communications across the organisation, and launched the plan officially on Jan. 1, 2022.

As for the difference it made, first of all, the communications over the Changhang Action Programme helped to build a strong consensus over the urgency and necessity of a business model reform, and the sooner the better. Second, since the launch of the programme at the year beginning, we've gradually put in place 5 closed-loop platforms for the agency channel, covering high-quality recruitment, selling, team management, CRM and training. The results are mostly in line with our expectations, laying a solid foundation for improvement in business quality and agent productivity.

As for whether there are further steps to be introduced, what matters is not so much about taking more new measures as returning to the basics of life insurance business, i.e., the original aspiration and the basic skills. We've floated the strategy of "3 Directions and 5 Mosts" for the agency channel restructuring, centering on building a professional and career-based sales force. To this end, it's vital that we roll out standardised conduct so as to enhance efficiency and make the most of the 5 platforms.

6.Q: How is your life insurance business faring in Q1? When can we expect recovery of key business metrics?

A: First, the agency force restructuring is a paradigm shift, moving away from focusing on the once-a-year Jump-start to reshaping agent daily conduct so that our agents can be really professional and career-based. Second, we strictly complied with regulatory rules and refrained from boosting sales by product withdrawals or suspensions and short-term incentives. Therefore, in Q1 this year our business arrangement was different, and the business results are not entirely comparable to those from previous years, and we expect them to stabilise gradually. Our priority is to foster standardised conduct in transformation, i.e., shifting from total headcount growth to core manpower, from the pursuit of premium growth to productivity gains. By such standards, our Q1 performance has been mostly in line with our expectations. What matters even more is to return to the basics of life insurance, which needs us to focus on capacity-building, and to build the 5 platforms such as CRM and activities management. It takes time for the new business model to deliver benefits. And I'm sure there will be good results if we do the right thing consistently.

7.Q: When will there be stabilisation and recovery of total agent headcount?

A: After the agent qualification exam was abolished in 2014, agent headcount growth was the key driver of industry business growth. Recruitment leads to new premiums. But as the headcount dividend diminishes, and as customers become increasingly sophisticated, this model is no longer sustainable, hence the compelling case for the paradigm shift and supply-side reform.

Our survey in a number of Chinese cities indicates that demand remains robust, and the real problem is the mismatch of demand and supply. As China becomes an olive-shaped society, customers need more diverse, professional and personalised products and services, and such needs can only be met by professional agents who are unfortunately very much in short supply in the entire industry. That is both a challenge and an opportunity. Therefore, our current transformation no longer looks at or tracks total agent headcount, and instead, focuses on the core manpower. Going forward, in our annual and quarterly reports and communications, we will disclose metrics like headcount growth and productivity gains of core manpower, or the improvement of agent activities. We expect further decline of total headcount. But we hope we could stabilise the core manpower in the next few quarters, and on this basis, we will recruit and then increase the number of high-quality agents. Higher productivity and income would in turn lead to better business quality and customer service.

8.Q: When do you expect to see an inflection point in policy persistency? How do you improve the persistency?

A: Policy persistency ratio has been declining in recent years, mainly for the following reasons: first, the life insurance sector has been experiencing a profound adjustment, with falling agent headcount; second, the pandemic has taken its toll on the economy and in turn the financial means of certain customers; third, the illegal business racket in policy surrenders, and adverse publicity.

We set great store by business quality control, and have rolled out a series of steps: first is agency force restructuring, and starting from the second half of 2021, the proportion of self-insured policies by agents has been one of the lowest in industry; second is crack down on deliberate policy surrenders; third is the building of the Golden Triangle of products in health protection, pension and wealth management, so as to diversify product offering; fourth is enhancing values and culture of the sales team, so that customers can obtain an in-depth understanding of the value proposition of insurance. At the same time, we set targets of policy persistency and evaluate the performance of branch offices against them, with incentive system tied to this metric.

There are signs of business quality improvement, and we expect to see stabilisation and improvement of the metric going forward.

9.Q: The auto insurance reform no longer adversely impacts the top-line

growth of the business. What is your guidance for premium growth and combined ratio in 2022? How are things doing in NEV, in terms of both top-line and bottom line? What is your view on deployment in insurance by NEV makers?

A: Auto insurance reform was officially launched on Sept. 19, 2020, and one year on, the market has started to stabilise. Industry-wise, premium growth recovered considerably from the early stage of the reform, but the combined ratio is still under pressure. We deepened customer retention & up-sell, enhanced technology empowerment and improved pricing, and these efforts have paid substantial dividends, evidenced by a combined ratio of 98.7%, way better than industry average. As for the outlook for this year, there has been a marked pick-up in top-line growth year-to-date. But there are two variables, among others, that we have to consider. One is the development of overall auto insurance market, and the other new energy vehicles. To be honest, the automobile market is weak. NEV stood out with fast growth. On Dec. 27 last year, the specialised terms and clauses for NEV insurance were released, and its impact varied from company to company. In the case of CPIC, overall, standard premiums went up slightly. Business from new energy vehicles grew by around 30% in 2020 and 2021. As of March 21, 2022, the growth further picked up, with marked increase in NEV's share of new vehicle premiums, which was in double digits, pointing to great potential of this market segment. In response to trends of the NEV market, we have made some innovation in the business model, which has been highly recognised by NEV manufacturers, and the model is being rolled out. Although currently the combined ratio remains high, yet there has been improvement in its business quality, with continued drop of policy-year combined ratio. Therefore, as long as we take a multi-pronged approach and control the business quality in a scientific way, the combined ratio will stabilise, which would add impetus to the business.

As for deployment in insurance by NEV manufacturers, there is no denying that it is a kind of pressure on us. However, the insurance value chain is long and far-reaching, which requires a high level of professionalism and specialisation, like in pricing and claims management which require accumulation of data, support from professionals, and a nationwide service network, all of which cannot be acquired overnight. In this sense, insurance firms still boast unique expertise and management experience. We expect the deployment by manufacturers in insurance to further empower insurance firms, forming a win-win situation of inclusive growth and mutual benefit, which is good news for China's auto insurance market.

10.Q: In 2021, your non-auto business grew by 16.9%, with the combined ratio improving by 2.4pt. How did you do it? In the wake of auto insurance reform, competitions of non-auto business became even more intense. Going forward, how do you balance between its volume and profitability? What is your thinking on the product mix?

A: In the context of auto insurance reform, many insurance companies moved towards non-auto business, which led to even more intense competitions in the segment. In 2021, due to resurgence of COVID-19, economic slow-down and worsening risk exposure, the non-auto market overall has been slowing down. We still maintained double digit growth, much higher than industry average, with a 3-year CAGR of 26.8%. The growth was broad-based, and was particularly driven by health insurance, liability insurance and agricultural insurance, which benefited from key national strategies, such as Rural Invigoration and Healthy China. At the same time, these 3 business lines are underdeveloped areas of China's insurance market, hence boasting big potential. We began to deploy along the emerging business lines a few years ago and reaped a lot of benefits. While boosting business development we also paid attention to business quality. As a result, we achieved high-quality development in non-auto business in 2021, with coordinated growth of volume and profitability.

What we did to improve business quality: first, strengthened coordination of multiple parties, linking commission and claims ratios, which optimised resource-allocation; second, promoted technological empowerment, which enabled good coordination of U/W and claims management; third, deepened customer resources management, which boosted high-quality development of auto insurance, and promoted cross-sell of personal lines non-auto business, while launching campaigns to improve business quality, with breakdown of tasks for chronically loss-making product lines, focusing effort and resources across the entire organisation. In brief, we made some progress in both volume growth and profitability enhancement. That being said, we still face an arduous task ahead. On the one hand, the market boasts huge potential, and on the other hand, price competitions in non-auto market have become increasingly intense. At the same time, as rates of direct insurance are lower than those of reinsurance, risk exposures deteriorated. So we are facing a demanding task in business quality management and risk transfer, which is a test of our insurance expertise and professional know-how. Due to consistent capacity-building in the past few years, our capabilities in non-auto insurance have improved in an all-around way. We will continue to deepen our presence in non-auto market, expand our market share, and at the same time strive for high-quality development of the business through enhanced capabilities.

11.Q: What is your asset allocation strategy in 2022? What is the share of the property sector in total investment assets? And your risk exposure to the sector?

A: Market consensus is 2022 will be very challenging. There will be mounting pressure on economy, and the central government has made it clear that the first priority of macro-economic policy is to maintain stability, and China will continue to adopt an expansive fiscal policy and prudent monetary policy, with a package of measures to tackle economic slowdown.

For us, China's equity market has experienced a big rally for 3 years on end since 2019, and given the triple pressure on China's economy and flare-up of geo-political tensions, it's essential that we depart from the profiles of liabilities, fully comply with risk control requirements such as C-ROSS II, and steadfastly execute our asset allocation strategies in a bid to maximise long-term returns and optimise diversified investment portfolios aligned with our risk appetite. Currently the share of our equity investments is relatively low compared with the SAA benchmark and industry average. Of course, in Q1 the capital market fell a lot, reflecting divergent views on market trends among participants. With the correction, we think the market actually became less risky, and more attractive for long-term investment. So in a long-time horizon, we see more opportunities, and will try and seize them. That being said, we remain cautious about the equity market in 2022. We will enhance disciplined investment mechanisms under the guidance of SAA, and vigourously seize structural opportunities of the equity market.

As for real estate investment, as of the end of 2021, investment properties and REITs combined accounted for less than 1% of our total investment assets. There are also financial instruments, both equity-based and fixed income, with underlying assets in property. In total, our exposure to the real estate sector represents a very small share of aggregate investment assets. Given recent defaults of property developers, we also conducted a full review of our investments, which shows that we have no exposure to the troubled firms in fixed income assets, and a very small exposure in equity. We attach great importance to credit risk management and control of exposure to the real estate sector, and carefully select investment targets to the extent that risks are manageable. Currently our counter-party property developers all boast strong overall strength, with sound credit risk management capabilities. Next, we'll focus even more on serving national strategies, supporting infrastructural projects in key regions, and persist in multi-strategy and diversified portfolios, enhance the role of core assets, seize market opportunities based on trends and dynamics of different assets to obtain the investment premium.