Q & A for CPIC 2016 Suzhou Investor Day

July 7, 2016

Q: 1. Could you talk about the mix and management system of your sales force?

A: As of the end of June, total headcount of our sales force reached 580000. Of this, 380000 were formal agents, 220000 active agents, and 127000 high-performing agents, representing 65.6%, 38.6% and 21.9%respectively of the total sales force, all setting records and pointing to continued mix improvement amid headcount growth. The “agency basic law” lies at the center of agency management. The regulation is reviewed and adjusted every year in response to market conditions, business management and changes of the sales force. Apart from that, we have mechanisms for extra incentives and training.

Q: 2. Could you talk about the segmentation of your sales force and their respective performance?

A: The sales force can be divided into three segments: traditional, with monthly FYP of 7000 to 8000, post-sale service team(for collection of renewal premiums and generation of new business from orphan policies), with monthly FYP of about 11000, and the urban sales force, with the highest productivity of all.

Q: 3. What drives the strong headcount growth and the continued improvement in agency quality in the past 2 years?

A: Our agency channel has been doing rather well these years. Apart from our advantage in company branding, training and product competitiveness, there were also two external factors. First, China’s economic slow-down means fewer jobs, and this in turn makes an insurance agent a more attractive job. Second, the insurance regulator relaxed agent qualifications requirement, which also boosted industry head-count growth. Of course, industry-wise, we saw lower proportion of agents with junior college education and an increase in average agent age. But CPIC Life’s agency productivity improved on the back of supportive product strategies and more strict management of the sales force such as training and recruitment.

Q: 4. What are your initiatives in agency training?

A: The reform of our agency training system dates back to 2015. First, for new recruits, the focus of training shifted away from sales procedures to the acquisition of customers, through, say, products, WeChat and referrals. The reform seeks to help agents accumulate new customers and up-sell to existing customers to promote agent retention. Second, we stepped up training for teams leaders such as sales directors and managers to enhance their capabilities in “autonomous management”. In particular, they are required to attend training on recruits retention every week and on products and customer service every month. We hope these efforts will lay the foundation for sustainable sales force development.

Q: 5. What’s your view on bancassurance? Any plan to sell regular pay products via this channel?

A: Our limited resources will continue to be allocated in the individual business, focusing, in particular, on the development of the agency channel. We will not waver in pursuing this strategic direction. Of course, we do not exclude the possibility of doing regular pay business via bancassurance. But we have no KPIs for this. Our previous bancassurance team now focuses on government-sponsored business, tax-deductible commercial health insurance and tax-deferred pension business, with KPIs. By the way, our surrender ratio began to drop last year, driven largely by lower shares of bancassurance and continued improvement in channel mix.

Q: 6. What’s your product strategy for the second half of this year?

A: Our overall product strategy is to “take matters into our own stride”, and move faster when we can, while enhancing foundation to drive sustainable growth. Basically we strive to maintain a stable NBV margin and increase the share of protection business. That being said, in response to market competitions, we may also sell, in a controlled way, some short-term products to satisfy customers’ needs and raise agents’ income. But we will not be as aggressive as some of our competitors.

Under the long-term product strategy, the company's product system will remain unchanged, namely, development of products for different stages of customers' life cycle, such as children, youth and the elderly population, known as "full protection and true happiness" for the "four seasons" of people's life. In product line-up, apart from traditional and participating, we are also working on universal products and may launch them as we see fit in the future.

Q: 7. What is your view on the growth prospects of pure protection products?

A: Our business model is driven by customer needs. Product design starts with the "pain spots" of our customers. For example, we found that our customers were more interested in buying insurance for their family and accordingly we launched "Chaonengbao" and "Huayang Nianhua", two customized health products for children and women respectively. We also developed a number of products offering return of premiums to cater to Chinese customers' preferences. Young people, and in particular, those with good education, have more demand for pure protection products, and we have also launched such products to meet their needs.

Q: 8. There have been lots of high cash value products and products with higher guaranteed interest rates on the market. What about CPIC? What's your take on such products?

A: During this year's jumpstart season, in response to market changes and customers' needs, we sold a short term product with 4.025%, with a premium income of 7.4 billion. It helped to increase agents' income and acquire mid and high end customers. Of course, our overall strategy is consistent, which is to improve business mix and stabilize the NBV margin. For the second half of the year, in principle we will not sell such products.

As for high cash value products, after 5 years of transformation, the share of bancassurance is almost negligible, and as high cash value products are typically sold via bancassurance, they are no longer an issue for us.

As for products with higher rates, given our focus on stable NBV margin and ALM, our overall cost of liabilities will be kept within a range of 2.5% to 3.5%. The 4.025%product we sold for the jumpstart did not significantly raise our total cost of liabilities.

Q: 9. Could you talk about the share of investment margin, mortality margin and expense margin in profits?

A: Though we do not directly disclose details on the composition of profit sources, you can find the NBV sensitivity analysis regarding investment return and mortality in our annual reports, which will shed some light on your question. Apart from the 3 sources you mentioned, there are also morbidity and surrenders. Some of our protection products, like the Jin product suite, Anxingbao, Chaonengbao, Yinfang Ankang and Aiwuyou, depend more on morbidity gains. As for investment spread, annuity products are highly sensitive to interest rates while participating not as sensitive, as at least70% of its surplus is distributed to customers. Given a high percentage of par business in our business mix, our profit source distribution should be better than industry average.

Q: 10. What are your key actuarial assumptions? Do you feel the need to adjust them?

A: For life insurance, there are basically 3types of assumptions. First, economic assumptions, such as T-bond 750 moving average, investment return and risk discount rate. Falling 750 moving average would impact accounting profits. Our investment return assumption is 5.2%,lower than that of industry peers by 30 bps. Our risk discount rate is 11%,much more conservative than the international benchmark of 7% to 8%. Economic assumptions are determined mainly by market conditions.

Second is operating assumptions, which include mortality, morbidity, surrender ratio, expense ratio and policy dividend pay-out ratio. We review them every year and make adjustments when necessary. The impact of actual experience in the past years has been more prudent for our reserves. Third, regulatory changes. With the introduction of C-ROSS, EV calculation will shift away from rule-based to principle-based. Currently, the Chinese Actuarial Association is working on methodologies to ensure the results are comparable between companies and that they reflect the distribution of future distributable surplus. As of the end of2015, all our actuarial assumptions have been realized. We believe there is a need to maintain flexibility in the setting of these assumptions, as the future is full of uncertainties. We will review our actuarial assumptions regularly and adjust them prudently.

Q: 11. How will C-ROSS impact your business mix?

A: CPIC Life's solvency improved significantly under C-ROSS, reaching 250% to 250%. That means, first, there is a balance of long-term and short-term products, achieving risk diversification and absorption. Second, we also struck a balance between protection business, which derive profits mainly from mortality and annuities, which depend more on investment margin. Third, the cash value for our in-force business is set at a reasonable level, mitigating surrender risks. Generally speaking, under C-ROSS,CPIC Life's business mix has more advantage and supports an even higher solvency ratio.

Q: 12. How do you calculate your cost of liabilities? Any color on your current level of liability cost?

A: Traditionally CPIC focused on participating business, with pricing rates ranging from 2% to 2.5%. With the liberalization of interest rates, cost of liabilities for traditional products has risen to about 3.5%.Overall, the company's total cost hovers between 2.5% to 3.5%, which we believe is in the comfort zone.

Q: 13. What is the strategy of your transformation in the future?

A: Our strategic planning for the next 3 years is based on the following 3 principles. First, the individual business will remain the core driver of both value and volume growth. Second, we strive for a stable NBV margin. Three, we will focus more on urban areas.