中国太平洋保险(集团)股份有限公司
China Pacific Insurance (Group) Co.,Ltd.

Investor's Newsletter（Nov. 18, 2022） vol. No.12 in 2022

CPIC（SH601601, HK02601, LSE CPIC）

Stock Data (ending Oct. 31, 2022)

Total equity base (in million)	9,620
A-share	6,845
H-share	2,775
Total Cap (in RMB million)	162,960
A-share (in RMB million)	130,261
H-share (in HKD million)	35,135
6-month highest/lowest	
A-share (in RMB)	22.72/18.01
H-share (in HKD)	19.34/12.20
GDR (in USD)	16.40/12.50

IR Calendar

Nov. 24, 2022

2022 Investor Day

Hangzhou

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Premium Income (Unit: in RMB million)

	Jan.- Oct.	Changes	Oct.	Changes
P&C	144,104	12.11%	11,371	7.41%
Life	202,826	5.73%	13,088	29.44%

Regulatory Updates

● Five government agencies jointly issued rules on personal pension fund

On November 4, the Ministry of Human Resources and Social Security, the Ministry of Finance, the State General Administration of Taxation, CBIRC and CSRC jointly issued Implementation Regulations on Personal Pension Fund. Participants of the scheme need to open a dedicated account on an information platform via a national unified on-line system or through commercial banks, followed by the opening or designation of their one and only pension fund account with a qualified commercial bank.

On the same day, the Ministry of Finance and the State General Administration of Taxation published The Announcement on Policies concerning Personal Income Tax of Personal Pension Fund, which provides for tax incentives for the scheme starting from Jan. 1, 2022. Fund contribution can be tax deductible up to 12,000 yuan per year; investment income accrued into the account is tax-free, and fund withdrawals are taxable at a separate rate of 3% instead of being calculated as “comprehensive income”.

● Regulator contemplates improvement of life insurance agent system

On November 3, CBIRC released the Consultation Draft of Opinions on Further Improving the Agent System for Life/Health Insurance. The document seeks to: (1) optimise system design, skewing incentives towards front-line sales personnel, establish an organisational structure and career advancement path facilitating long-term service of agents; (2) optimise bonus allocation and explore long-term oriented mechanisms for commissions so as to encourage retention; (3) encourage innovation of agent management systems by insurance companies, such as sales of in-house insurance products by staff on the pay-roll provided relevant qualifications are obtained, or entry into labour contractual relations with eligible agents; (4) encourage independent agents, and the development of tailor-made insurance products; (5) improve the social security system for life insurance agents.

● CBIRC mulls over pilot programme of conversion from life insurance to long-term care

According to media reports, CBIRC circulated on Oct. 25 the Consultation Draft of Notice on Launch of Pilot Programme of Conversion from Life Insurance to Long-term Care. The document specifies 2 methods of liabilities conversion, i.e., insurance policy discount for the insured already in a state of care, and actuarial parity for those yet to enter the state of care. Second, it defines certain designated illnesses and injuries or disabilities from accidents as the precondition for “the state of care”. Third, personal traditional life insurance will be selected for the pilot programme. Fourth, the regulator encourages insurance companies to add terms on conversion of liabilities based on insurance policy discount when developing traditional life insurance products. Fifth, the pilot programme will last for 2 years, and life insurance companies conducting traditional life insurance business can participate.

- **Scope of products eligible for tax-deferred commercial health insurance expanded**

On November 11, CBIRC issued the Consultation Draft of Notice on Expansion of Scope of Products Eligible for Tax-deferred Commercial Health Insurance, which seeks to expand the scope of eligible insurance products, ease restrictions on the insured and on the scope of eligible insurance companies, relax underwriting conditions for sub-standard risks, abolish standard terms and clauses, and requirements for return of premiums in the event of insufficient claims payment, and specify qualifications for the business in terms of net assets and solvency of insurance companies. According to the document, the scope of eligible insurance products now covers all major business lines of health insurance, including medical insurance, long-term care and disease insurance, and insurance companies are allowed to tailor-make plans for sub-standard risk.

Industry Information

- **Insurance industry aims to establish differentiated sales management system in 3 years**

According to news reports in early November, the Insurance Association of China recently issued the Programme for Establishment of Ratings System of Qualifications for Insurance Sales Personnel. The programme strives to establish an industry-wise, unified set of standards for sales qualifications ratings, occupational training, performance evaluation, with protocols for sales authorisation 3 years from now. The industry will put in place, through self-discipline, a differentiated sales management system underpinned by sales authorisation and compatible with capabilities of sales personnel. The programme does not involve additional requirements for recruitment. It only applies to sales personnel who are already in the system. Specifically, sales qualifications will be classified into 4 levels depending on complexity of the products. Level I, Level II and Level III are only for insurance products, while Level IV for both insurance and other financial products.

Company News

● CPIC launches brand for rehab care

After the debut of CPIC Home, a brand of retirement communities, on November 6, the company unveiled CPIC Recover, its brand for rehab care, marking another important step in the model of "insurance + services". CPIC will continue to deploy in rehab care in a systematic manner, and plans to build a premium service net-work consisting of rehab hospitals, rehab clinics and rehab centres through independent development and M & A . It aims to build a capacity of 10 rehab hospitals, 20 rehab clinic with a total of 3,000 beds 5 years from now.

On the same day, CPIC and the Medical School of Shanghai Jiaotong University jointly hosted a ceremony for the donation of CPIC Fund of Education Development Foundation of the Medical School of Shanghai Jiaotong University, and the unveiling of a joint Rehabilitation Care Institute. The Rehab Industrial Fund under CPIC Group also signed an investment agreement with Shanghai Dayuetang Hospital Management Co., Ltd., the health care arm of Jiadao Capital. According to the agreement, the two sides will work together to build and operate a premium rehab hospital in Putuo District of Shanghai in 2024.

Special Report

● Summary of Q & A Session of Q3 Results Announcement

On October 28, CPIC held the Third Quarter Results Announcement, and below is the summary of the Q & A session.

1. Q: Phase I of the Changhang Action Programme has been half-way through. What results have you achieved? Your Q3 NBV turned positive. Was it because of the transformation? Do you think the improvement can be sustained?

A: We started to implement the 18-month road-map of Phase I Transformation on January 1 this year, marked by amendments to the Basic Law. The road-map encapsulates 8 projects, aiming for a comprehensive, structural reform of the life insurance business.

In terms of business results, new business sales maintained strong growth in the past 9 months, with increasing momentum quarter by quarter, mainly as a result of steady agent productivity gains, high growth of regular-pay premium of bancassurance, and strong sales driven by long-term savings; our NBV in Q3 was the first among listed insurance companies to turn positive, largely because of changes of agent behaviours driven by the new Basic Law, productivity improvement as a result of NBS (needs-based selling) processes, and the cultivation of normalised selling based on activity management.

As for sales force quality, we accelerated agency force restructuring towards career-based development, professionalism and digitalisation, with stabilisation of agent headcount, enhancement of productivity and improvement of income. Specifically, core manpower started to stabilise, and its proportion of total agents increased considerably. We enhanced basic management, with steady improvement in sales force quality, evidenced by quarter-by-quarter improvement of performance ratio for long-term insurance, increasing growth of monthly average FYC per agent quarter by quarter, and increasing growth of agent income quarter by quarter. We adopted a holistic approach towards recruitment and retention, with initial success in high-quality recruitment and coaching: quarterly new recruits recovered a lot; productivity of new recruits within one year improved quarter by quarter, and in Q3 the growth was nearly 100%; sampling shows that 92.7% of new recruits have work experience, and the top 3 occupations were self-employed households/private business owners, employees of private/foreign-funded firms and civil servants/not-for-profit organisations; 7-month retention ratio improved quarter by quarter.

When its comes to business quality and mix, policy persistency, claims ratio and expense ratio all improved, with 13-month policy persistency improving by 7.5pt. We continued to diversify product and service offerings centering on the “Golden Triangle” of health/protection, wealth inheritance and wealth management so as to better satisfy customer needs, with improvement in business mix: the share of long-term insurance with a pay period of 10 years and above improved month by month in Q3; regular-pay FYPs from bancassurance grew rapidly, with the share of regular-pay business increasing steadily quarter by quarter, pointing to improvement in channel mix.

In brief, the key to improved business results in Q3 was the continuation of transformation. After implementation of 9 months, the behaviours of agents have gradually shifted away from sales push in Jump-start towards more normalised sales and recruitment work mode underpinned by “monthly planning, weekly operation and daily visits”, winning the support of the entire organisation.

In Q4, as the agency channel continues to drive business development, coupled with further business mix improvement in bancassurance, we expect continued momentum in FYP and NBV. At the same time, in spite of its initial success, the transformation is a long-term endeavour, which means a U-shaped recovery, instead of a V-shaped rebound, and thus requires more patience and time.

2. Q: What is your guidance for the Jump-start and the whole year of 2023?

A: We consider Q4 of 2022 and Q1 of 2023 as a whole, with the former being the precondition of the latter. Currently our preparation for the Jump-start centres on customers, including customer revisits, insurance policy alerts, and accumulation of new customers via new products. In October, we launched a long-term medical insurance product against cancer with return of premiums, the first of its kind on the market. It was well received by customers and agents, and sold 100,000 policies in the first week, helping with year-end business development and preparing us for the Jump-start.

We expect continued marginal improvement in 2023 as the transformation yields more fruit. Key drivers include: first, productivity gains as we have seen in Q2 and Q3, and we believe the momentum will build up as transformation proceeds; second, improvement of NBV margin, as we plan to enable agents to sell more higher-margin products by enhancing their selling skills; third, agent recruitment, which is shifting towards high-quality recruitment, and this will drive continued improvement in new agent productivity and retention, which in turn, will help with business development of 2023.

3. Q: CI sales are still weak, and customers seem to prefer medium and short-term savings-type insurance. How would this impact your product strategy? What is your view on the sustainability of whole-life insurance with increasing sum assured?

A: Given COVID-19 and economic slow-down, people now focus more on safety and stability when it comes to investment. Whole-life insurance with increasing sum assured can satisfy the changing needs of customers and has become the main stream life insurance product for all distribution channels. Given its small share of total liabilities, it has limited impact on asset liability management. At the same time, we conduct stress testing of all new products under low interest rate scenarios, and monitor on a regularly basis our total exposure to interest rate risk in view of C-ROSS II to ensure effective control of the risk.

Currently, the CI market remains weak, and traditional CI products will stay under pressure in the short term. Under such circumstances, we will persist in customer orientation, tap market potential and focus on “full protection for the whole family”, and continuously improve our product line-up to meet increasingly diverse customer needs. For example, we launched a long-term medical insurance product against cancer with return of premiums in October, the first of its kind on the market, which was well received by the market and agents and would play an important part in enhancing product value contribution and adapting to market competitions. In the medium and long term, China's insurance market boasts huge potential, which provides ample opportunities for product design to meet customers' needs in long-term health protection, retirement and education savings, etc. Going forward, we will stay customer-oriented, strive to provide comprehensive product and service solutions centering on the Golden Triangle of customer needs, i.e., health, pension and wealth management. At the same time, we will focus on value and particularly the development and sales of high-margin products to drive steady value growth.

4. Q: How are things going with new agents recruitment and retention? Any changes to profiles of new recruits since the launch of transformation. Are they engaged full-time or part-time?

A: We adopted a holistic approach towards recruitment, coaching and retention, which has delivered some initial benefits. Recruitment is proceeding according to plan. Thanks to a standardised recruitment process, the work experience of new recruits is aligned with the direction of transformation, and their quality has improved considerably, evidenced by marked improvement in morning session attendance and performance ratio, as well as steady improvement in 7-month retention. We launched the Changhang Entrepreneurial Fund for new recruits, which provides a 12-month training period, during which new recruits are supposed to check in for attendance, make weekly briefing and make customer visits. It's difficult to take part in such activities on a part-time basis. Actually, we've seen the emergence of a large number of high-performing agents under the Changhang Entrepreneurial Programme, many of whom used to be self-employed or private business owners. They became insurance agents due to the impact of the pandemic. They have extensive connections and experience in running a business, which is particularly amenable to the idea of independent operation of a sales team. What we need to do is to offer training and help them stay.

5. Q: Your bancassurance channel maintained fast growth in the first 3 quarters. What is your positioning of the channel?

A: Bancassurance is an integral part of the channel diversification initiative under Changhang Action Programme. In recent years, banks have been increasingly focused on customer needs, and have been increasingly aware of the role of regular-pay business in enhancing customer loyalty. This requires long-term partnership with insurance companies. At the same time, income from intermediary service has become more and more important for banks, and bancassurance is a key source of such income. For CPIC, bancassurance is a major transformation initiative, not an expediency at a time when the agency channel hits a soft patch. We restarted the channel in Q1 according to plan, and in the beginning focused on single-pay business to gain access to more banking outlets. As our strategic cooperation with banks deepened, the growth of regular-pay business picked up, and its share of total FYPs continued to increase. Currently, bancassurance is only single digits as a share of NBV, but it promises to be a significant avenue of value-creation in the medium and long term.

6. Q: What is the current status of and outlook for the combined ratio of automobile insurance and non-auto insurance?

A: For the first 3 quarters of 2022, the combined ratio of CPIC P/C was 97.8%, down by 1.9pt, delivering improvement and underwriting profitability across the board. This mainly stemmed from, first, enhanced business quality control and better capabilities of specialised business operation; second, lower claims frequency due to less travelling against the backdrop of the pandemic. Going forward, as we continue to strengthen cost control, underwriting profitability can be sustained. In terms of auto insurance, we will step up business management of NEV. In the first 3 quarters, though its policy-year combined ratio still exceeded 100%, there are signs of long-term profitability; as for non-auto business, we will intensify business quality control of health insurance, credit & guarantee insurance and liability insurance.

7. Q: In the first three quarters of the year, your net assets were under pressure due to equity market volatility. Under C-ROSS II, the minimum capital requirement for equity investments increased. Would this impact your Strategic Asset Allocation, and in particular your equity investment strategy?

A: We persist in value, long-term and prudent investing, conduct flexible Tactical Asset Allocation under the guidance of SAA, with enhanced analysis and research of capital market to seize its structural opportunities.

In 2022, we continued with pro-active TAA based on market research. In particular, we stepped up pro-active management of equity assets and effectively mitigated the impact of the fall of the market.

Given the secular decline of China’s interest rates, insurance companies are facing a major risk in reinvestment. Equity investments can effectively enhance the medium and long-term returns of insurance funds, and therefore remain an important and valuable asset class. When we formulated the SAA, we already considered the impact of relevant regulatory rules such as C-ROSS II. We will adhere to asset liability management and prudently manage various risks. Going forward, our business and asset allocation strategies will remain consistent.

8. Q: Recently, policies and rules on private pension schemes have been released. How would this impact your business development, and what competitive advantage do you have?

A: The private pension scheme is a major move by the government to improve the multi-tiered retirement provision system underpinned by multiple pillars, so as to improve the lot of the Chinese people. Supportive policies combined with huge demand will translate into expansion of private pension fund contribution, which means potential for additional growth for the insurance industry. Our competitive advantage mainly includes:

First, private pension insurance products, whether universal, participating or traditional, offer a long insurance period, with guaranteed interest rates, and cover against longevity risk. With the implementation of new rules on asset management, the implicit guarantee of yields on WMPs of commercial banks was removed, and by contrast, pension insurance can offer safety and stability in investment returns.

Second, insurance companies can combine insurance with retirement service. We are leading in the industry in deployment along health care and elderly care, which enables the payment of retirement service by pension fund withdrawals, closer integration of the value chain, and the provision of one-stop service for customers. The self-sustained ecosystem can be instrumental in customer acquisition and retention.

Third, CPIC has been selected, along with some other insurers, for the pilot programmes of tax-deferred pension and specialised pension insurance and has accumulated operational experience. We have acquired the largest market share in both products, which laid a solid foundation for engagement in private pension schemes.

Going forward, we will continue to respond to government policies in terms of product R & D and business promotion.

9. Q: Your Q3 net profits grew by nearly 30% year-on-year. What are the key drivers? What is your guidance for FY2023?

A: The decline of net profits of first 3 quarters narrowed further from 1H, mainly due to: (1) Deferred claims payment for both life and P/C insurance because of the pandemic, coupled with a high base in combined ratio from Q3 last year as a result of higher frequency of natural disasters like typhoons, all of which led to year-on-year improvement in OPAT of life insurance and underwriting profitability of P/C insurance; (2) enhanced cost control and differentiated cost management; (3) positive contribution from foreign exchange movements; (4) increased share of long-term T-bonds which resulted in lower effective tax rates.

Given increased volatility of the capital market and greater uncertainty surrounding the T-bond yields, the outlook for net profits for the whole year remains unclear. We will continue to pursue high-quality development, resolve challenges in business operation, pro-actively tackle risks, and ensure resilience and stable business fundamentals in the face of a challenging environment.

10. Q: Management attributed the DPS adjustment for FY2021 to C-ROSS II. Now that the regulatory uncertainty has mostly dissipated, will you consider any adjustment to your dividend policy?

A: We adopted multiple steps to mitigate the impact of C-ROSS II. Our life subsidiary has been granted the transitional period, and is now making preparations for the issuance of perpetual bonds, and our P/C operation is in communication with the regulator over the issuance of sub-debt.

We are committed to generating reasonable returns for investors, and our average pay-out ratio since IPO has been leading among listed peers. Our projection indicates that the new capital regime will not have prolonged impact on our solvency, and we can maintain the consistency and stability of shareholder dividend policy. Going forward, we will set reasonable DPS levels based on net profits, OPAT and solvency ratios, while considering changes to our operational environment.