Q&A for CPIC 2015 Annual Results Announcement

1. **What’s the impact of commercial automobile insurance deregulation on your business model and combined ratio?**

The reform effectively improved the matching between risks and premiums. Of course, the introduction of discretionary modifiers and innovative products can be a challenge to the risk selection, pricing, resources allocation and customer operation of insurance companies. On the other hand, there will be more opportunities of differentiation. In view of the pilot program, so far CPIC showed similar patterns as the rest of the industry. Premium per vehicle fell while the combined ratio improved. In the pilot regions, we introduced discretionary modifiers, optimized resource allocation and improved the business mix via the elimination of high loss ratio business, leading to lower combined ratio. In the meantime, due to lower premiums per vehicle, top-line growth in the pilot areas slowed down. Going forward, we will continue to focus on target customer segments, diversify means of marketing and enhance our capabilities in the acquisition and retention of high quality customers. We will also optimize back-end resources allocation and step up claims management to secure the improvement in the underwriting profitability of automobile insurance. First, in quality control, we will leverage our expertise in risk pricing to further improve pricing accuracy and maintain the momentum of improvement in business quality. Second, in resources allocation, we will continue to focus on core channels and priority customer segments and geographies. Third, in claims management, efforts will be intensified to counter frauds to reduce claims losses. Fourth, in business development, we' ll step up new growth drivers, coupled with more use of new technologies. In particular, we' ll strive to build an internet-based ecosystem for automobiles to enhance our capabilities in acquiring new customers and drive sustainable and healthy growth of the motor business.

2. **What is the cost of your liabilities? What' s your view on the risk of negative spread?**

We are committed to providing long-term savings and risk protection products. Participating and traditional products account for over 70% of our premiums. Overall, the cost of liabilities has been kept at a reasonable level. We are also aware of the risk of low interest rate environment. Therefore, as early as 2014, we began the reform of our asset entrustment model, whereby allocation of asset classes was handed back to CPIC Life, marking the establishment of a product-oriented ALM system. As for product strategies, we have been cautious about products with higher guaranteed rates. We only sold such products for a limited period and by a limited volume and stay focused on long-term savings and protection business. On the operations side, we strive to improve the input-and-output ratio, through the use of new technologies. In asset allocation, we took proactive approaches in advance to combat the low-interest environment including enhanced studies of non-standard, fixed income and quasi-fixed income assets, and increased research on investment in credit products. As for equities, we will continue to diversify the portfolio strategies. We are also exploring overseas investment opportunities, such as real estate. To sum up, we are keenly aware of the challenges brought about by the low interest rate, and have taken vigorous steps to tackle the challenges.

3. **The Board recommended a dividend of 1 yuan per share for 2015, which represents 50% of your distributable profits. Is such a dividend level sustainable?**

In view of the EPS for 2015, which was 1.96 yuan, we think the proposed dividend level is appropriate. As for our dividend policy, since our IPO, we have been striving to deliver satisfactory dividends for our shareholders. In the future, we will continue to adhere to this policy. Compared with the industry, our dividend level is competitive.

4. **What kind of products did you sell in H2 of 2015? Did they have lower margin?**

In the context of rate liberalization, we launched some new products in the second half of 2015, which led to lower margin for the individual business. Our goal remains to maintain an NBV growth higher than the average of our listed peers, and we are committed to risk protection and long-term savings products which have relatively high margin. That being said, on the short term basis, we might use some flexibility in our product strategy to, say, drive volume in order to fulfill the goal of NBV growth. Overall, the products we sell have decent margin, and we are committed to delivering the 6th consecutive year of higher-than-peers NBV growth.

5. **What is your plan for auto and non-auto business respectively? What about agricultural insurance?**

Our guiding principle can be summarized as “improve business quality, consolidate development foundation and enhance vitality”, with an aim to driving sustainable value growth of our property and casualty business. As for 2016, our priority is to stabilize and further improve the business quality and, maintain the 2015 momentum. For auto insurance, in the context of the pricing reform, we’ll focus on risk selection, resource allocation and customer relations management to ensure the delivery of stable business results. As for non-auto business, we'll beef up the development of emerging business lines and in particular, internet-related business while continuing to improve business quality. In agricultural business, "e-agriculture insurance", a digital technology for agriculture insurance, has been widely applied and earned recognitions from relevant government agencies and industry. We'll also promote synergy between CPIC and Anxin Agricultural Insurance to enhance our capabilities in this area.

6. What plans do you have to capitalize on the favorable government policies in health and pension insurance?

CPIC Allianz Health Insurance, since its inception in January 2015, has fulfilled its business targets, delivering operating revenue (FYPs and management fee) of 149 million yuan for 2015. The health subsidiary, as early as the beginning of 2015, entered into cooperation agreements with CPIC Life and CPIC P/C, setting forth mechanisms of collaboration in product development, distribution, customer service, pricing and risk-sharing. In the past year, it made steady progress towards implementing the business model as specified in the business plan. For example, we joined hands with CPIC Life and developed a medical insurance product for hospitalization reimbursement. It covers both out-of-the-pocket expenses under social insurance and those outside of social insurance, with a high level of complementarity with the long-term traditional products of CPIC Life, and recorded a premium income of 100 million yuan in the first 3 quarters of 2015. At the same time, with the support of our shareholders, i.e., CPIC Group and Allianz, we enhanced our operational capabilities and continued to improve business processes. For example, we inaugurated a customer service app which provides a wide range of services from inquiries, customer service to claims management and health care access assistance. We also advanced innovations in the customer service model. Our equity participation in Shanghai Proton and Heavy Ion Hospital marked the beginning of our involvement in health services. We also contributed to public administration innovations. For example, we developed a product specifically for the social-security-funded commercial health insurance program orchestrated by CIRC Shanghai Office. The product was approved unanimously by the office and has been submitted to the Shanghai Municipal Government for final approval. Besides, we also launched health counseling service in collaboration with Allianz. Next, CPIC Allianz will vigorously assist CPIC Life in the tax-deductible commercial health insurance program on a risk-sharing basis. We’ll also track the developments in new medical technologies such as new detection technology, mobile medical services and big data so as to provide comprehensive protection and integrated whole process health management services to our customers. The model, underpinned by health management and risk protection, offers all-around services to our customers and helps to improve their health while reducing medical-related expenses.

7. **Some of your peers are diversifying, aiming to become a financial conglomerate. Do you have similar ambitions?**

When we prepared for IPO, the Board reviewed and passed CPIC’s development strategy, namely, focusing on insurance and pursuing sustainable value growth. We’ll adhere to it in the future to generate even better returns for our shareholders. With the guidance of the strategy, we’ve seen encouraging progress in the following areas. First, as a result of our transformation initiatives, we lead the market in incorporating internet mobile technologies into our businesses such as distribution of life insurance products and claims management for property and casualty business. We have rolled out a number of follow-up projects to further increase the use of new technologies including big data. There will be continued efforts in mobile internet, smart phone apps and application of big data. At the Group level, we’ve rolled out a number of initiatives, all of which center on the use of new technologies to boost the development of insurance. Second, we have stepped up the diversification of insurance-based business portfolio such as health, pension and agricultural insurance, which are also high on government’ s agenda. During the NPC and CPPCC sessions earlier this year, the prime minister’ s work report mentions insurance on several occasions. In particular, he highlights health insurance for terminal illnesses, catastrophe insurance and agricultural insurance. In recent years, we’ ve set up CPIC Allianz Health Insurance, and more closely integrated Anxin Agricultural Insurance and Changjiang Pension. Third, we’ ve been seeking to build a business model underpinned by both insurance and investment, and in particular, third-party asset management business. Last year, our third-party business grew by over 50%, which will help us drive sustainable value growth of the company.

8. What’ s the impact of Tianjin blast? You mentioned your ambitions about agricultural insurance. But how do you plan to manage catastrophe risk?

The blast’ s impact was limited. As for agricultural insurance, China is a big agrarian country, and agricultural insurance boasts big potential. Last year, the business saw double digit growth, with expanded coverage and diversified products. As a leading P/C player, we are committed to the development of agricultural insurance. Next, given intensified competitions as a result of more players on the market, our priorities include further expansion of our geographical coverage to accelerate the development, improvement of risk diversification, all-around development of innovative products, and increased collaboration with Anxin Agricultural Insurance to identify new growth drivers.

9. **Your annual report discloses actuarial assumption changes, which increased your reserves by 4.844 billion yuan. The main impact came from discount rate for reserves. As the rate pegs the 750-day moving average of government bond yield curve, do you expect a larger impact from this in 2016 and 2017? Will we see more information along this line in the upcoming Q1 report?**

In 2015, except for the discount rate, expense rate and surrender rate, other assumptions were largely the same as those at the end of 2014. The impact of 4.844 billion reflects our actual experience, our judgment and the overall market conditions. In 2016, given fast decrease in interest rates in 2015, there will be larger impact on reserves, and the trend may continue into 2017, reducing net profits of the year.

10. **In the context of lower interest rate, will you adjust the assumption of invest return in the calculation of NBV and EV? If yes, will the impact be large?**

The assumption of long-term investment return is based on our SAA and our judgment on China’s mid and long-term economic trends. We also consider current capital market situation, expected returns on asset classes based on current and future asset allocation. Another important assumption is discount rate, which is based on risk-free interest rate, while considering investors’ expected rate of return, taxation and the risk surrounding future profit realization. The setting of these assumptions is predicated on economic trends, our own situation as well as market conditions. We review these assumptions regularly and adjust them prudently.

11. Your P & C premium growth seemed to have picked up at the beginning of this year. Does it mean you are now more comfortable with your combined ratio and are ready to boost top-line growth?

Though we delivered a combined ratio below 100% in 2015, underwriting profitability is far from being secured. In 2016, we’ll remain focused on consolidating the foundation for profitability and delivering steady growth. First, in the context of deregulation for commercial automobile insurance, we strive for sustained growth in automobile business leveraging our strengths in pricing, resource-allocation and customer operation. Second, in automobile business, we target double digit growth for the 3 core channels, namely, telemarketing & internet, cross-sell and car dealerships. In non-automobile insurance, apart from business mix improvement for traditional lines, we will accelerate development of emerging lines on the back of preparations in 2015, such as government-sponsored liability insurance, health and internet insurance. Third, we will continue to step up the development of agricultural insurance, which we believe has big potential. We made a lot of preparations last year in product innovations, new technologies and collaboration with Anxin Agricultural Insurance, which pave the way for faster growth of the business in 2016.

12. Defaults are rising, and you allocated a lot towards non-standard assets last year. How do you control risks?

Insurers are facing formidable challenges in asset management given the slow-down of China’s economy. Besides, we have little exposure to overseas investment, and there is the pressure of low interest rates and rising credit risk. Our equity investments last year were successful both in term of level of allocation and portfolio strategies. In fixed income, we focused on non-standard and financial products, which also delivered satisfactory results. In 2016, we’ll continue to enhance our investment capabilities in these 2 areas so as to deliver a good return while controlling risks. In asset duration, given concerns over the rate curve getting steep, we’ll shorten the duration moderately. In risk management, in response to CIRC requirement, we have established an independent department of credit-rating, with a dedicated team for internal credit-rating and credit analysis respectively. The internal credit-rating is carried out once every half year. On the back of credit analysis, we increased bond trading, with a return 2 percentage points higher than that on bonds for allocation.

13. Could you talk about the progress of your transformation initiatives and the objectives for 2016?

It’s been 4 years since the transformation started. Over the past 4 years we’ve been focusing on customers’ needs, and have put forward more differentiated market strategies using big data analytics. Moreover, we used mobile internet technologies to improve customer interface in distribution and claims management, which helped to enhance customers’ experience. There are 19 transformation initiatives, 12 of which have been duplicated nationwide. Our business performance indicates that the transformation has been the right way forward, and we have achieved substantial progress in enhancing capabilities and the development foundation. In 2016, as part of our digital strategy, we’ll roll out new initiatives in the use of mobile internet technologies and the improvement of customer interface. We’ll also try hard to make sure that the previously rolled-out initiatives will serve their intended purposes.

14. Life insurance companies are heavyweight institutional investors. What is your equity investment strategy for 2016? Recently, some of your listed peers increased their stake in banks. Will you follow suit?

We adhere to the strategy of serving in-house insurance clients while accelerating the development of third-party asset management business. By serving in-house insurance clients, we refer to an asset allocation aligned with the liability profiles of insurance products and underpinned by the principle of value investment, prudent investment and long-term investment. Some Chinese insurers have been seeking a stake of over 5% of listed companies. We do not exclude such a possibility, but we will not do it blindly either. Our equity strategy will continue to be based on profiles of insurance liabilities. As for investing in banks, we will stay focused on insurance and pursue sustainable value growth. Controlling a bank is not part of our business philosophy. Our investment in banks, be they listed or unlisted, will adhere to the principles of value investment, prudent investment and long-term investment. The level of shareholding may vary. But by nature they are financial, not strategic investment.

15. Could you give us the share of each of the 3 core channels of auto insurance? How are they different from non-core channels in combined ratios? What are the non-core channels?

In 2015, we focused on the 3 core channels and achieved improvement in the quality of automobile insurance, with its combined ratio falling by 4 percentage points. The 3 core channels are telemarketing & internet, dealerships and cross-sell, all of which have a combined ratio below 100%, with the lowest being 95.5%. On the other hand, the combined ratios of the other channels, i.e individual agents, employees and agency all exceeded 100%. Hence, we will focus on the 3 core channels. In 2015, all of them delivered double digit growth in 2015, ranging from 11.9% to 28.8% and helping us deliver underwriting profitability. In 2016, we' ll continue to deepen our channel strategy to further increase the share of the core channels, and in turn, the share of high-quality business so as to drive sustainable value growth.