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CPIC（SH601601, HK02601, LSE CPIC）

Stock Data (ending Mar. 31, 2021)

Total equity base (in million)	9, 620
A-share	6, 845
H-share	2, 775
Total Cap (in RMB million)	330, 714
A-share	259, 016
H-share (in HKD million)	85, 063
6-month highest/lowest	
A-share (in RMB)	46. 0/31. 3
H-share (in HKD)	41. 5/22. 1
GDR(in USD)	35. 7/22. 0

IR Calendar

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Premium Income (Unit: in RMB million)

	Jan.-Mar.	Changes	Mar.	Changes
P&C	43, 292	11. 93%	16, 529	14. 08%
Life	95, 417	3. 89%	23, 219	-7. 52%

Regulatory Updates

● Regulator stresses regulation of on-line mutual aid programmes

On April 16, at a press conference hosted by CBIRC, XIAO Yuanqi, member of the Party Committee and vice chairman of CBIRC remarked on the wave of closures of on-line mutual aid programmes. Mr. Xiao said that there should be a balanced view of such programmes, covering both their positive impact and potential risks. He emphasized that if these programmes are meant to be charitable, then they shall not deviate from this positioning and shall not engage in financial services including insurance in the name of “mutual aid”.

“On-line mutual aid programmes must be regulated”. According to Mr. Xiao, obtaining business license is a prerequisite for all financial services, and all financial activity shall be regulated.

● CBIRC mounts a full review of the agency commission system

On March 22, the Life/Health Division of CBIRC issued a notice requiring insurance companies to provide detailed information on their commission systems and practices, marking the beginning of an all-around review of the commission system of the life insurance industry. The review mainly covers organizational structures of the agency force, agent commission remuneration systems, problems with the agency channel and solutions, suggestions on reform of the commission system and risks that the regulator should be alerted to, with requests for data and indicators concerning the agency channel.

In recent years, chronic industry irregularities have alarmed the public, such as the business racket of insurance surrenders, commission arbitrage of self-purchase insurance, and fraudulent business. Undoubtedly, such market shenanigans can ultimately be attributed to the misguided business philosophies of insurance companies, but the commission system has been exploited and has become a “conduit” of misconduct, which calls for a dual-pronged approach, i.e., change of business philosophies on the one hand and the reform of the commission systems on the other.

● Price cuts or withdrawals will be applied in cases of unreasonably low loss ratios of PA insurance

On April 13, CBIRC released the Exposure Draft of Administrative Regulations on Personal Accident Insurance to increase the supervision of PA insurance business activity by insurance companies. Under the document, the product expense loading is set independently by insurers, subject to a cap on the average expense loading, such as 35% for short-term PA insurance.

Insurance companies shall adjust the pricing according to loss ratios of products. For short-term PA with an annual premium of over 1mn yuan, pricing shall be adjusted in a timely manner if the average loss ratio after reinsurance in the past 3 years is below 50%, with requirements for continued monitoring; short-term PA products shall be withdrawn from the market if the annual premium exceeds 3mn yuan for 3 years on end and loss ratio on the average is below 30%.

Industry Updates

- **49 automobile insurance providers incur underwriting losses**

According to media reports, as of the end of February 2021, post the launch of comprehensive reform, sum assured (SA) on automobile insurance increased while average premium per vehicle fell by 21% compared with pre-reform levels. With this, industry auto insurance claims ratio rose steadily to 70.27%, pointing to much enhanced capability in serving economic and social development. However, industry underwriting profitability was under big pressure. By the end of February, an additional 4 regions exceeded 100% in auto insurance combined ratio post the reform, making the total 6, with 49 out of 65 auto insurance providers incurring underwriting losses.

At the same time, consumer demand increased, with a marked improvement in the ratio and SA of commercial third-party liability. Irrational competition over commissions was also curbed. As at the end of February, the ratio of commercial to total automobile insurance buyers rose to 82%, and that of third-party liability increased from 66.64% to 72.16%, with average SA rising from 0.89mn to 1.33mn yuan, and the share of policies with SA of over 1mn yuan reaching 74%.

Briefing

- **CPIC hosts 2020 Annual Results Announcement**

【On April 1, CPIC hosted the 2020 Annual Results Announcement. Below is the summary of the Q&A session.】

1. Q: The new board was elected in 2020. What impact did the new board members have on corporate governance and business development? Any new thinking on your strategic plans?

A: The year 2020 was special in the history of CPIC. We issued GDRs, raising capital and attracting experts. All the members of the 9th Board of Directors are now in place. With advanced philosophies and an international vision, the new members are bound to enhance the decision-making capability of the company. Let me elaborate on this.

First, there was big progress in innovation of mechanisms in 2020. In spite of the pandemic, we did not slacken in our effort. The agricultural insurance subsidiary was renamed China Pacific Anxin Agricultural Insurance Co. Ltd. to step up business integration and synergy to serve the entire Chinese market. The renaming of our health insurance operation would facilitate the implementation of the Health Strategy between 2020 and 2025. We used market-based mechanisms in recruitment, including a number of leading experts in big data, cloud computing, Internet operation and cyber-security. The board of CPIC Life has just passed the resolution on appointment of Mr. John Cai as General Manager (CEO). Through these long-term commitments and arrangements, we can create a favorable environment for expert attraction, long-term business performance and building of long-term capabilities.

Second, in the past year, with support from the new board, we vigorously deployed along the health and retirement industries in a bid to establish a professional and convenient health management system, and achieved nationwide presence of retirement communities. We have obtained the business license of Guangci CPIC On-line Hospital, and after years of hard work, the CPIC Home retirement community in Chengdu will open for visitors in Q4 this year. Besides, we have joined hands with Sequoia Capital and established an equity investment fund in health care and retirement. The building of the ecosystems will add impetus to sustainable value growth.

Third, a priority on the agenda of the new board is how to cultivate capabilities for sustainable development. Two weeks ago, we held an ESG summit with Swiss Re, a shareholder, who shared with us its profound insights and experience in ESG. The ESG philosophy aligns with the insurance value proposition, and is in line with our strategic direction centering on the long-term and value growth. At the recent board session, we initiated the top-level design on ESG, with the board as the top decision-making body, responsible for integration of ESG philosophies into day-to-day business operation across the entire organization. An ESG Office was established to ensure effectiveness of ESG management, as part of our endeavor to be a corporate citizen pursuing sustainable development.

This year marks our 30th anniversary. We are confident that what we are doing will instill new elements into our mentality, culture and DNA. Going forward, we will stay committed to serving China’s Rural Revitalization Initiative, low-carbon economy, the retirement business and the health management sector to inject new vitality into our long-term development.

2. Q: The Company recently released the Changhang Programme, which

reiterated your commitments to value and the long-term development, and floated the target of "steady value growth" and "stable market standings". How do you balance between them? How do you plan to translate these declarations into concrete actions of 2021?

A: We recently unveiled the Changhang Programme and put forward the strategic objectives, which are excellence in customer experience, stability in value growth and market standings, new progress in distribution channel diversification, ecosystems of health care and retirement, digitalization, and talent development.

Since our listing, we have persisted in the strategic direction of pursuing steady value growth. In a new stage of transformation, our commitment remains the same. As for secure market standing, it's not all about premiums, even though premium is an important measure of a company's stature on the market. More importantly, our overall strength, particularly in customer service, should also match our position as a leading insurance player in China. Sustained value growth would secure our market standings, and so the two are aligned.

The "Jump-start" of the industry started off very well, and then came under pressure post the switch of CI Definitions. For us, we will follow the path chartered in the Changhang Programme step by step, and roll out relevant measures and initiatives in a well-planned way. With this, we're confident that the momentum of our transformation and development will further build up, which, in turn, would translate into solid business results.

3. Q: Mr. Cai, may I ask why you chose to join CPIC? From your perspective, what is the biggest opportunity and challenge of CPIC Life?

A: The reason for my decision can be summarized as my confidence in 3 things. One is confidence in China. In my previous job, I bore witness to the big potential of China's economic development at grass-root levels, which was the source of my optimism about China's economic outlook and SOE reform.

Second is confidence in China's insurance industry. Admittedly, the industry is facing formidable challenges in recent years, but with the next wave of high growth of China's economy, there is still big potential to unlock.

Third and most importantly, I have confidence in CPIC. There are 3 things I find particularly attractive about the Company. First is a more international and modernized corporate governance with GDR issuance and the 3-venue listing, and hybrid ownership with state ownership supplemented by overseas and domestic private capital. CPIC is in a very competitive position to further enhance its governance. Second strength is its strategic deployment in "insurance + health" and "insurance + elderly care", which will be a key driver of China's economic development. At the same time, management commitments to the long-term and value growth fit in very well with my personal philosophies. Third is people. CPIC has been operating in the market for 30 years, and has fostered generations of hard-working, pragmatic and honest employees and agents, which deeply impressed me. In a nutshell, I am very excited to join CPIC and be part of the efforts to serve the company, the insurance industry and the society at large.

As for what changes I can deliver, I would like to compare myself to a blank piece of paper. First thing is to know the company well before coming to any conclusions. The reply to your question comes not from me, but from the market, the field force and the branch offices. I am sure if we could pool the collective wisdom of all our employees, we can build CPIC into a highly successful company.

4. Q: Your OPAT growth slowed down for both the Group and CPIC Life in the second half of 2020. Why? Do you expect further slow-down in 2021? What is your guidance for dividend in 2021? Will the 2nd Phase of C-ROSS impact your solvency and in turn your shareholder dividend?

A: First, given our commitment to generate reasonable return for our shareholders, our dividend policy centers on stability and sustainability. On top of this, we will also consider OPAT and net profits while ensuring compliance with regulatory requirements. Second, the divergent performance of OPAT in H1 versus H2 was mainly due to changes in claims. In the first half of 2020, due to the impact of COVID-19, claims were less for both our life and P/C insurance operations, which began to normalize in the second half of the year. The investment also showed similar patterns in 2020. Looking into 2021, the amortized amount of residual margin will continue to grow, but we still need to consider the volatility of 2020. As for the 2nd Phase of C-ROSS, we were commissioned by the regulator to lead or participate in the projects of actual capital, non-life insurance risk and credit risk. We also actively took part in the industry testing. The 2nd Phase will enhance the capital base of the industry, and is aligned with our strategic direction of high-quality development. Under current circumstances, our solvency is very strong and we expect to maintain a healthy solvency level when the 2nd Phase of C-ROSS is officially introduced.

5. Q: The life insurance sector slowed down in 2020 due to the pandemic. But health insurance business held up very well. What about CPIC? In the second half of 2020, you put forward the program for the development of the health business. What is your view on the relation between deployment in health sector and health insurance business?

What progress have you made in the past half year?

A: The question can be answered with 3 sentences. First is rapid development; second is great necessity; third is step-by-step delivery. First, at the Group level, our health insurance business as a whole has maintained a healthy momentum of growth, in line with the industry. Of this, long-term critical illness is the key business line. Last year, we launched long-term medical insurance, contributing a lot to renewal premium growth. Health insurance is essential to the growth of residual margin of life insurance business. In P/C insurance, fast-growing health insurance has become the largest contributor of incremental premiums. As a whole, the business segment, whether long-term or short-term products, helped us accumulate large numbers of customers.

Second, there is a compelling case for deployment in health-related business. It has great societal benefits, as good health is indispensable to people's happiness and social development, and is the common aspiration of people for a better life. At the same time, it is important for our own development. Customers definitely need insurance, especially health insurance. It's out of question, but it is our job to improve the supply. By "improve", we mean the provision of high-quality health management services. So there is a compelling case for doing this to meet customers' demand in an all-around way. What we are doing now is building capabilities for high-quality services, fostering ecosystems and sharpening the competitive edge for the future.

Third, firm and steady steps are required to achieve things that really matter. Innovation is also important. In the past half year, we rolled out some preliminary progress in certain areas. Digitalization plays a pivotal role in improving the supply of medical service. To this end, we joined hands with Ruijin Hospital and established Guangci CPIC On-line Hospital to improve people's access to high-quality health care via "Family Physicians" delivered digitally. Our target is one family physician, one health file and one health protection plan for each of our customers. We are also working on deployment in brick-and-mortar hospitals, starting with specialized rehab facilities, which are in short supply and can form synergy with our retirement communities and health management service. We firmly believe that only proprietary service can guarantee quality, and high-quality service should be standardized with our own characteristics. Our health insurance subsidiary has completed share transfer and renaming. Its DNA will be re-engineered, focusing on health insurance product innovation and exploring the conversion of on-line traffic, with its positioning redefined as a start-up and a pioneer in the health care sector. A short while ago, we jointly launched an equity investment fund for the health industry with Sequoia Capital, seeking to leverage the long-term nature of insurance funds to boost long-term investment in bio-pharmaceuticals, medical appliances, medical service and tele-medicine, with a number of projects under way.

To sum up, the Group Health Strategy sets the target of becoming a leading domestic provider of comprehensive health-related services. This can by no means be achieved overnight. It requires hard work and the process could be difficult and trying, but it is all the more reason for us to press ahead, as this is the only way to foster our core competitiveness. And we will go about it using market-based mechanisms to cultivate a new growth driver for CPIC.

6. Q: The share of equity investment increased in 2020. What is the rationale behind this? The regulator has issued a host of policies to encourage equity investment. How will this impact your Strategic Asset Allocation going forward?

A: Last July, CBIRC introduced differentiated caps on equity investment of insurance companies, based on their solvency margin ratios and other risk status. Recently, it removed restrictions on industries for financial equity investments. These policies are favorable to increase allocation into equity assets, in particular, private equity. In the context of lower interest rates in the medium and long term, as equity investment generates higher long-term expected return, we would moderately increase its share based on our Risk Appetite, particularly the share of private equity investments, in order to improve long-term expected returns on portfolios.

In 2021, with the spread of vaccination and control of the pandemic, global economic recovery can be expected. In China, the pandemic is under effective control, paving the way for a fast economic recovery and presenting structural opportunities for equity assets. In the meantime, China’s monetary policy remains stable and prudent. Therefore, we would expect reduced downward pressure on market interest rates this year. Against this backdrop, and within the SAA framework, we would adopt a “dumb-bell” strategy in allocation of long-term assets based on their risk/reward profile, namely, focusing on long-duration T-bonds or local government bonds on the one hand to extend the duration of fixed-income assets, and equity assets including private equity on the other.

7. Q: Last year, both the agent headcount and income fell, and post the pandemic, the recovery has been subdued. What is your view on the difficulty in recruitment? What are the main problems with the top-level design and execution of the agency force system? Do you have any solution?

A: Indeed, in 2020, both headcount growth and income of agents were under big pressure for CPIC and the industry. Agency force upgrading is a priority of both Transformation 2.0 and the Changhang Programme. Since we floated the strategy of building 3 agency force segments, a series of measures and plans have been rolled out, including recruitment, training, amendment of agent compensation & management regulations and digital tools & empowerment, with some tangible results, particularly in high-performing agents, evidenced by a marked growth of agency force income in Q1, and over 30% increase in MDRT members amid a strong beginning of the Jump-start. Such developments point to initial success in the agency force upgrading. Going forward, this will remain the first priority of the Changhang Programme. We will do our best, focusing on details and execution. In particular, we are reviewing and optimizing the methodologies and road map for the upgrading, centering on a results-oriented training system and career development paths for the full life cycle of the agency force. We are full of confidence. The recent regulatory policies and rules on management of the agency channel are highly aligned with the direction of our work, and are beneficial to healthy, long-term and steady development of China's life insurance market.

8. Q: Critical illness (CI) insurance is a key driver of value growth. The momentum of its growth began to diminish in March. How long do you think the weakness will last? What is the long-term growth potential of CI insurance in the future?

A: In January, the switch of CI Definitions considerably stimulated market demand, leading to robust sales upfront, though followed by much weakened momentum in the rest of the quarter. This pattern was the result of a one-off factor. In the long term, there is still a lot of demand for CI insurance. First, the average sum assured (SA) on CI insurance is relatively low on the market, less than 200,000 yuan on the average. With improvement in people's living standards, the level of CI protection still has big space of growth. Second, customer demand for CI insurance is also evolving from merely financial compensation to integrated solutions, including booking of doctor appointments, hospitalization, rehabilitation and care. The company is stepping up deployment and capacity-building in health management in an all-around way. Third, the demand for CI insurance will be more differentiated. We will meet their diverse needs via use of big data and increased effort in product innovation targeting customers with prior conditions, in tandem with improved capability in on-line customer service and risk control to better match supply with demand.

9. Q: In the annual report, the Company disclosed the number of customers with sum assured (SA) on CI products of over 300,000 yuan, which was 4.73mn, a growth of 17% from the start of the year. How does this compare with previous years? Did this growth meet your expectations? And what is your target for the future?

A: Two reasons for the considerable increase of customers with SA over 300,000 yuan. One is the pandemic, which stimulated people's demand for CI insurance. The other is pro-active effort by the company to promote business development, which helped with increase in the level of protection.

The level of CI protection for our customers as a whole is far from being enough. Last year we did a lot in product promotion and customer education, encouraging our agents to talk to customers and help them understand the need for expanded coverage and increased protection, which delivered satisfactory results. Besides, we leveraged health management programs like CPIC Blue Passports, which provided a "top-up" of insurance products, and played an important part in driving overall customer demand. The growth of SA in 2020 actually picked up from the previous years. We believe with improved living standards of the Chinese people, there is still big potential for continued growth. Going forward, the company will push for higher SA and the provision of more diversified health management service to promote the model of "insurance + services".

10. Q: Last year, due to the comprehensive reform, industry auto insurance premiums fell by about 25%. What is the situation in CPIC? What is the impact on your combined ratio and how do you plan to address the challenge?

A: The comprehensive reform did have a profound impact on the industry. Since its launch, the impact of the reform on industry premium was about 25%, and that on CPIC was similar. This year to date, the impact on our premiums was less than that on the industry. At the same time, the reform also impacted claims frequency and expense ratio. Between 19 September and the end of 2020, claims ratio and expense ratio moved in opposite directions, and in balance, the impact on the combined ratio was roughly 1pt; between the start of the year and now, the impact was about 3pt. Of course, in 2020, as the reform was only in implementation for a short period of time, coupled with lower claims frequency due to the pandemic, the profitability of our auto insurance business was largely stable.

In 2021, we expect to face more challenges from the comprehensive reform. We have pro-actively made plans and taken steps to cope with the challenge. One is customer operation. We have set up the Centre of Individual Customers to shift away from a product-centered approach towards a customer-oriented mode. So far we have delivered some tangible results. The penetration of up-sell reached a high level. Second is digital platforms. We made full use of new technologies to establish a digitalized business operation platform to obtain insights into customer needs and achieve precision in marketing. On this front, after one year of effort, we have achieved a lot in on-line operation, customer insights and customer needs mining. Third is centralized operation. We are now proceeding with a Transformation 2.0 project on centralized operation. Transformation 1.0 was successfully completed. The current project adopts a systematic instead of a fragmented approach, and focuses more on on-line than off-line centralization. Our target is to emulate world top-notch operational systems. Fourth is customer service, which we believe is ultimately the central value proposition of insurance. We have re-engineered the system of business operation along the customer dimension, stepped up efforts in customer service allocation, customer experience and development of services and products. We hope this would drive the progress of CPIC Service, and help us realize high-quality development of auto insurance amid a challenging market environment.

11. Q: Your non-auto business maintained rapid growth in 2020, and why? Given your priority of underwriting profitability, what is the strategy for non-auto business in 2021?

A: The non-auto insurance market has experienced profound changes in the past few years. The launch of comprehensive reform of auto insurance in 2020 also had a big impact on this market. In response to the changing market environment, we pro-actively accelerated transformation in pursuit of high-quality development of non-auto insurance business, which grew by 30.9% in 2020 and made a much greater contribution to incremental P/C premiums. In 2020, due to the deterioration of credit risk in the context of COVID-19 and the "squeeze-out" effect of auto insurance reform, a lot of companies focused more on non-auto business, leading to intensified competitions and a steep fall of market rates. Besides, claims frequency began to catch up post the pandemic. As far as we know, industry non-auto combined ratio was over 100% in 2020, with many peers incurring underwriting losses. Our combined ratio, though higher and exceeding 100%, was still better than the industry average. Of this, agricultural insurance managed to achieve underwriting profitability, albeit with a small margin, in spite of the pandemic and natural disasters.

There were two reasons for underwriting losses of non-auto insurance business. One is operating factors, mainly including intensified competition and much lower premium rates due to the "squeeze-out" effect of auto insurance reform; spike in claims frequency of certain business lines as a result of worsening credit risk; lack of effective control of expenses for certain business; the impact of African swine flu on livestock insurance. The other is non-operating factors. The company stepped up the development of government-sponsored business in the past few years, with health insurance business growing by 72.7%, agricultural insurance by 44.8%, and liability insurance 44.1% last year. A big portion of them is government-sponsored business, which has a pronounced feature of payment of premiums by installments. Under current accounting standards, such business tends to have a major adverse impact on profit/losses of the reporting period.

Going forward, we will adhere to high-quality development, continue to build comprehensive capabilities in business quality control, customer operation, expense management and risk management.

12. Q: The outstanding claims reserves fell compared with that in interim report, and the ratio was below 30%. What is your assessment of the reserves adequacy?

A: The reserves level is adequate and reasonable. The change highlighted in the question was mainly due to the following. First, COVID-19 led to a considerable decrease in claims frequency, which, according to our calculations, fell by 3.6pt and 17.4pt for auto and non-auto insurance business respectively in the first half of last year. This had a big impact on reserving, as lower claims frequency means less claims paid and less IBNR cases. Second, the claims settlement ratio also played a part. In the past few years, we have been enhancing claims management, with the claims settlement ratio reaching 99.8% in 2020, leading in the industry. A higher ratio means increase in claims pay-out and decrease in outstanding claims, which, in turn, would impact reserves. Third, analysis of reserves development in the past three years clearly shows an adequacy level of above 100%. Besides, findings of the external auditor also confirm that our reserves level is adequate and reasonable.

13. Q: You have made a lot of investment in technology and have entered into strategic partnership with leading technology firms in the past year. Any progress from the cooperation? In the medium and long term, will you focus more on third-party cooperation or proprietary development?

A: Building an ecosystem for technological cooperation is an important way to enhance technological capabilities. In the second half of 2020, we formed close cooperation with Huawei, Alibaba and institutions of higher learning. In particular, we jointly established a data middle platform with Alibaba, and have incorporated full-domain data into the data lake, with capabilities in full life-cycle data management and data analytics. Building on this platform, and in light of IFRS 17, we developed a digital computing platform, which went into test-run yesterday, leading in the industry. We set up an AI lab in collaboration with Shanghai Jiaotong University, and have kicked off 6 projects in image recognition, voice recognition, behavior prediction and intelligent investing, with on-the-ground applications in the Group AI middle platform, CPIC P/C, Changjiang Pension and CPIC Fund. We jointly launched a lab with Fudan University focusing on insurance knowledge graphs. We established another lab in block chain with Shanghai Insurance Exchange, with successful application in "instantaneous" claims payment for health insurance.

As for the split between outsourcing and independent R&D, it depends on the stage of the capability-building. If we divide the entire process into IaaS, PaaS and SaaS, the first two stages will focus on cooperation with third party firms by way of integration. At SaaS level, it's mainly independent development. The approach may also vary depending on the area of expertise. For AI, we will work with leading technology firms, acquiring the best "building blocks" technology, which is to be upgraded via combination with insurance scenarios. Going forward, as we climb up the "ladder" of technological sophistication, we will go down in levels of independent development.