**Summary of Q & A of CPIC 2023 Investor Day**

(Hangzhou, July 2023)

1. Q: Phase I of Changhang Transformation has recently been concluded. In light of your original objectives, what have you accomplished according to plan and what have you done better than expected?

A: The blueprint of the transformation highlights 3 objectives, i.e., industry leadership, new model of life insurance and long-term commitments. As for industry leadership, our NBV growth turned positive in the second half of last year, the first among our peers. And the momentum continued to build up, with notable improvement in business quality metrics such as policy persistency and claims ratio. In terms of the new model of life insurance, there was substantial progress on multiple fronts, from career-based agency force to value-oriented bancassurance, from the supportive “product + service” system to risk management, from compliance to investment, and from culture, leadership to talent development. When it comes to long-term commitments, the work Phase I of Changhang Transformation started will continue, such as the restructuring of agency force centering on “3 Directions and 5 Mosts”, and value-oriented bancassurance, all aiming to enhance our productivity; Phase II would focus on organisational transformation, which, in turn, will help with productivity improvement and cultivation of new growth drivers. The two projects are supportive of each other.

2. Q: Phase II of Changhang Transformation intends to shift from centralised management to more independent business operation on the part of branch offices. But how can you maintain the cost advantage of the centralised model? What is the boundary of responsibilities between head-office and branch offices? How do you draw the line? How can you minimise the short-term volatility of business results when implementing Phase II?

A: When business was fast growing, we put emphasis on “one voice” across the entire organisation, i.e., the head-office gives orders, and branch offices execute. Excellent execution became an advantage of us.

But in the new stage of development, as customers become more sophisticated and their needs more diverse, the old approach is no longer compatible with the new customer-centric model. Therefore, we put forward the concept of “headquarters for empowerment and branch offices for business operation”. We hope the head-office could focus on value management, top-level design and strategic planning, while the 38 provincial-level branches, which are in different stages of development, with varying local market conditions, customer profiles and needs, and different organisational endowments, will ensure an alignment of top-level design and development strategies from above with their own, specific realities, and operate on a more discretionary, self-motivated basis. To be specific, they are supposed to be responsible for market strategies, talent development & succession, allocation of financial resources, KPI systems and be more accountable for value creation and profits. The old model is like a slow train, and we want to build a high-speed train. They both move on the same track, towards the same direction. But the high-speed train has multiple drivers, with each compartment, namely, each branch office, having its own engine. In such a way can we ensure a sustainable future of Changhang Transformation.

CPIC Life has 3 gold mines: the sales force, employees and customers. Last year, we mainly focused on fixing the sales force so as to unlock its potential and boost productivity. Next, we'll work on employees, like how to better motivate them, tap their poitential in productivity and creativity, which lies at the heart of organisational vitality. A typical problem with many large firms is that only the head-office is responsible for business performance, such as profits, value growth and business quality, as well as compliance and risk management, while branches only look after sales. Hence problems with business quality, and short-termism practices such as massive recruiting and extra incentives on top of the Basic Law for business promotion.

Next, we'll start with level-II branches, and go down to level-III branches, so that management of branch offices can be serious about business management and shoulder more responsibilities in value creation, cost control, profit contribution, talent and leadership development, risk management and business quality.

As for how to avoid short-term pressures in transformation, pains with the agency channel are already in the past, because we made a paradigm shift which boosted productivity and helped agents with customer service. Ultimately, it's all about enhancing business management capabilities. We seek to improve the professionalism of staff at all levels, from headquarters to branch offices. Their focus will shift away from keeping tabs on how well commands from head-office are executed to a new work mode of empowerment and professional support, such as PDS training of the sales force and NBS coaching. The reform is essentially about removing impediments of further productivity gains, and this would also help us address the short-term pains.

3. Q: In Phase I, we've seen some improvement on certain metrics, such as productivity and NBV growth. In Phase II, what metrics can outsiders use to evaluate the progress of reform?

A: In Changhang Transformation, we focused on capacity-building of the sales force, particularly training of sales capabilities and business management, and this would help us attract competent agent candidates. The KPIs remain the same, such as productivity, headcount of core manpower, recruitment and retention of new agents, business quality and policy persistency. Of course, we would pay more attention to NBV margin, which is a measure of sales capabilities in the second half of the year. Sales of high-margin protection and long-term savings products require stronger capabilities, and this will be our priority going forward. Another priority is high-quality recruitment and retention, which would lead to steady growth of core manpower. In brief, so far we've stabilised the core manpower, and next we will strive for its recovery.

Going forward, the growth of the agency force will be driven by two engines, steady productivity gains and core manpower growth on the back of high-quality recruitment and retention. This would enable sustainable business development.

4. Q: These years the life insurance market talked about reform. It seems CPIC is the most successful. What have you done right?

A: A research report of McKinsey lists the top 3 factors of failure of any reform. First, reluctance to endure short-term pains. Without pains there will be no serious reform, nor can you fix structural problems. The second factor is hesitation, i.e., shying away from short-term pains and getting half-minded. Third is lack of execution. Strategy merely stays on paper without the road-map of execution. In the new cycle of development, many insurance firms are pursuing reform. Our reform has its unique characteristics, which, first and foremost, are manifest in the resolve for self-reform. John CAI came from outside, and is an expert in life insurance. He works closely with CPIC management, combining forces both “outside” and “inside”, with a lot of synergy. Another factor of success is our perseverance. As long as we are sure it’s the right thing to do, we will see it through. The key about doing life insurance is to adhere to the basics, stay on the right path and persevere.

5. Q: This year you seem to be more dependent on investment margin in terms of product mix. In other words, there has been increasing sensitivity of new business value to interest rate movements. How do you balance between different products, and in relation to this, what is your plan for the switch of pricing interest rates?

A: In the context of the product switch, our estimate is 70 products will be replaced by those with lower interest rates. The majority of our core products have completed design and development, and the replacement will proceed in a step-by-step, prudent and orderly manner. As for product mix, protection business is definitely a priority in our strategy, with prompt response in CI product launch such as *Jinsheng*

*Wuyou*. We are committed to continuous diversification of product offerings based on customer needs, and improvement of capabilities in product supply.

The market worries a lot about the product switch, fearing for a crisis. But I think demand will remain intact in spite of a reduced pricing interest rate, since banks are also cutting rates on deposits. Besides, at a time of asset re-allocation, customers still have demand for savings-type insurance. So we will not see a replay of the switch of CI products, where sales fell precipitously. We will return to “normalised” sales of savings business, including customer visits, normalised selling, and needs analysis. And this will help with stable business growth.

An ideal product mix is 1/3 protection, 1/3 traditional and another 1/3 participating. We’d like to use the opportunity of the product switch to promote the sales of participating products, since they are much more attractive than traditional products with pricing interest rates reduced to 3.0%. So the current switch presents a major opportunity for participating business.

6. Q: How will demand evolve in the long term? What about prospects of CI insurance, given its small share of total business and market pessimism? And how will savings-type insurance with guaranteed interest rates compete when the equity market rallies?

A: We are committed to providing integrated solutions to our customers, referred to as the “Golden Triangle” of products in protection, retirement provision and wealth management. The core competitiveness of insurance companies lies in 2 areas: first, risk management; second, long-term asset-liability matching. So when it comes to wealth management, we should focus on long-term savings. The insurance penetration and insurance density of China are very low when compared with levels in Taiwan, Japan and Korea. Steadfast investment in “products + services” is intended precisely to enhance our core competitiveness, which can make us somehow immune to volatility of the equity market.

Customer surveys indicate that the demand for CI remains huge. It’s just that customers prefer personalised products with higher protection levers. The CI insurance performance ratio of agents rose from 5.8% in January to 15.8% in March this year. Of course, in Q2 there was a blip due to the impact of savings business. In the second half of the year, CI is definitely our priority.

7. Q: Ten years ago, the share of your bancassurance was very high. Now you have a team of 3,000 people for the channel. Do you have any targets for headcount growth? Any objective of the share of the channel in terms of premiums?

A: Currently bancssurance accounted for over 1/3 of total business. Ten years ago, at its height, team headcount was 16,000, and now it is 3,000. But the NBV in “dollar” amounts has already exceeded the level 10 years ago, meaning high productivity. Our business plan is to build a team of high productivity, high retention and high quality. To this end, we shifted away from “massive recruiting” towards more balance between volume and quality. About 70% of the team are fully commission-based, which means their compensation is entirely linked to performance, and we think this makes sense for the company. Plans for team headcount and business targets will be formulated in light of NBV targets. When we reinstated bancassurance, we emphasised its value orientation. NBV margin of regular-pay products has always been over 20%.

Bancassurance is at the core of our long-term channel diversification strategy. Now banks are more selective about entering into strategic partnerships with insurance companies. They prefer long-term partnerships with leading SOE insurance firms with strong capabilities in customer service. Therefore, there is no need to be hasty. We seek long-term cooperation, with good quality and a solid foundation.

8. Q: What contribution are your retirement communities making to insurance sales? While your deployment in elderly care is making fast

progress, many firms are investing in home-based service. Do you have similar plans?

A: Currently we've planned 13 retirement communities under CPIC Home, scheduled for opening in the next 2 years. And we expect to have a total of 15-16 "heavy-investment" facilities ultimately. In selection of sites, we prefer places closer to city centres, smaller in size and equipped with more nursing capabilities.

With the ending of the pandemic and kick-off of trial runs, the whole service system is working with high efficiency, becoming a strong enabler of insurance business. To date, 3 retirement communities and 5 experience centres have become operational. By June 30, a total of 5,415 events had been held to give our customers first-hand experience of our facilities and health management service. So far the retirement communities have generated over 7bn yuan in total new business premiums, involving 8,100 certificates of admission, a sharp increase from last year.

With a strategy that covers both heavy investment and light investment, we leveraged CPIC Home and launched a programme for home-based elderly care, known as "Baisuiju" (meaning longevity lodge). The programme provides nursing and access to medical care, promoting the image of "intelligent, responsible and caring" CPIC Service. We believe this service system, with CPIC Home at the top and Baisuiju at the bottom, coupled with affordable service in the middle, can satisfy multi-tiered, diverse and personalised needs for elderly care in China.

Home-based care should have 3 core components: first, mitigating longevity risk via accumulation of wealth; second, acquiring protection against illnesses when relatively young; and third, service for the elderly, such as long-term care. We will unveil our new value proposition of home-based elderly care in due course.

9. Q: What is the input-output ratio of your retirement communities? How big is the cost? What is the long-term return on investments?

A: In terms of asset allocation, insurance companies prefer long-term investments, and retirement property is a perfect fit. The actually invested funds for CPIC Home is over 6bn yuan, with total investments projected to reach 15-16bn yuan. This, compared with 1.8 trillion yuan in total investment assets of CPIC Life, means negligible impact on returns of current investment portfolios. The size of our investment funds and its long-term nature can very well match long-term commitments in the retirement sector, which would lower risks. We are confident to achieve a long-term return of at least 5.5%.

10. Q: In the context of Changhang Transformation, in what way do

you think content-generated AI can empower agents and staff, especially in aspects of marketing, product design and claims management?

A: People tend to overestimate the short-term impact of technology while underestimating its long-term impact. That’s also the case with AI. Digitalisation of insurance companies takes 3 steps: going automatic, getting digital and becoming intelligent. The last step is based on astronomical amounts of data. Therefore we set up the Data Management and Governance Committee for data cleansing. There is a lot AI application can achieve, particularly with regard to its integration with agent sales. But essentially we need to make the most of the underlying infrastructure of digitalisation and automation.