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CISG - Q3 2012 CNinsure Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Oasis Qiu *CNinsure Inc. - IR Officer*

Chunlin Wang *CNinsure Inc. - CEO*

Peng Ge *CNinsure Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Mike Ryan *MJR Capital - Analyst*

PRESENTATION

Operator

Thank you for standing by for CNinsure's 2012 Q3 earnings conference call. At this time all participants are in a listen only mode. All lines have been placed on mute to prevent background noise. After the management's prepared remarks, there will be a question and answer session. Please follow the instructions given at that time if you would like to ask a question.

For your information this conference is being broadcasted live over the internet. The webcast replay will be available within two hours after the conference is finished. Please visit CNinsure's IR website at ir.cninsure.net under the Events and Webcast section. Today's conference is being recorded. If you have any objections, you may disconnect at any time. I would now like to turn the meeting over to your host for today's call Ms. Oasis Qiu, CNinsure's Investor Relations Officer. Thank you, please go ahead.

Oasis Qiu - CNinsure Inc. - IR Officer

Good morning. Welcome to our third quarter 2012 earnings conference call. The earnings results were released yesterday and are available on our IR website as well as on Newswire. Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995.

The accuracy of the statements may be impacted by a number of business risks and uncertainties that will cause our actual results to differ materially from those projected or anticipated. Such risk and uncertainties include but are not limited to those outlined in our filings with the SEC, including our registration statement on Form 20F. We do not undertake any obligation to update this forward-looking information except as required under applicable law.

Joining us today is our Chief Executive Officer Mr. Chunlin Wang and Chief Financial Officer Mr. Peng Ge. Mr. Wang will walk you through our third quarter 2012 financial and operating results and discuss the progress of our strategy transition. Mr. Wang and Mr. Ge will then answer your questions after the prepared remarks. Now I will turn the call over to Mr. Wang. Thank you.

Chunlin Wang - CNinsure Inc. - CEO

(interpreted) Hello everyone. Thank you for joining us on today's conference call. I will begin today's call with a review of our third quarter 2012 financial and operating performance followed by an update on progress of our strategy transition. Then Mr. Peng Ge, our CFO, and I will go into the Q and A session.

During the first nine months of 2012 China's insurance industry remained in the single digit growth category. Despite the challenging marketing environment, however, we are pleased to see that our total net revenues for third quarter 2012 grew 5% year-over-year beating our previous guidance of flat growth.



Looking at our three major business lines Property and Casualty insurance segment recorded [7%] revenue growth year-on-year in the third quarter but intensified competition imposes the increased commissions to our sales agents which resulted in a significant drop of our gross margin and weighed heavily upon our bottom line.

Life insurance segment impacted by subdued sales in the insurance industry witnessed a decline in net revenues in the third quarter but we are encouraged to see that the recurring life insurance premiums that were distributed continued strong growth momentum into the third quarter with a year-on-year growth of 30% mainly attributable to the long-term effect of the Life Insurance business and a high 13 month persistency ratio of over 81%. The growth of our claims adjusting business remained stable in the third quarter 2012 with net revenues increasing 7.9% from the year ago quarter.

Since I took over as CNinsure's CEO last October I have been navigating the Company through a transition and adjustment period, during which we rolled out foreign initiatives to push forward the strategy transition. I'm pleased that the transition plan has progressed in line with our expectations.

Firstly, we have been simplifying our organizational structure in order to strengthen our corporate governance. In October we established the CNinsure Sales Service Group Company Limited which is expected to serve as the PRC holding company for all of our affiliated insurance intermediary companies. This offers an effective way for us to move the VIA arrangement and build a bedrock to improve our corporate governance.

In order to further simplify our corporate structure we plan to gradually change our wholly owned affiliated insurance agencies into branches of our two nationally operating insurance agencies that are wholly controlled by the group company in the coming three years. Meanwhile in five years' time we intend to (inaudible) out all the minority interest of our majority on affiliated insurance agencies and complete a conversion of the statutes into branches.

From a regulatory perspective as the CIRC is nurturing the saleable regulatory frameworks for large professional insurance intermediary companies. To consolidate the market and grow stronger we believe the establishment of the first insurance service group company (inaudible) in China enables us to [nimble] seize the opportunities that such regulatory change provides.

Secondly, we have set up our efforts to construct the e-commerce platform which is one of our strategy focuses during the transition period and is expected to be one of our major drivers for future growth. As a result of our continued effort, we have made two exciting breakthroughs in e-commerce development this year. In January we successfully launched a B2B customer insurance comparison website www.baoxian.com which facilitated group (inaudible) for insurance searching.

Nevertheless in view of the immature insurance B2B market in China we've decided to suspend massive marketing investment in promoting the B2B website and concentrate more effort to develop the mobile sales support system, a key component of a B2B model. The Research and Development process over the past two years has witnessed profound difficulties in not only in the technology arena but more importantly the product supplies capability to integrate with our system.

Despite all the difficulties we still (inaudible) and launched the CNpad the device around mobile sales support system in October. CNpad features a variety of functions comprising insurance purchase, business management, information alerts and image management. We believe it is a powerful weapon for agents to do business in a more efficient and cost-saving way. Attractive as it is to sales agents, it enables CNinsure to reach out to the millions of sales agents across China more easily.

It also enables the Company to break the limitation of traditional sales direct, and speed up sales network expansion through the distribution of CNpad which we believe will largely increase our sales (inaudible). Currently CNpad's primary support is the purchase of auto insurance and we will gradually put other standardized insurance products on shelves such as (inaudible) insurance, travel insurance and home insurance et cetera.

Going forward we also plan to increase products and services that require consultation such as life insurance, wealth management products, health management products and other financial services products on the platform. On top of that, we also plan to integrate the auto insurance claims

adjusting support application into the CNpad which we believe will help sales agents strengthen customer relationships and improve the operating efficiency with getting out auto insurance claims adjusting business.

Currently we are carrying out our entire operation of CNpad in Guangdong Province and starting to grow our national wide distribution by next year. In the coming three years we expect to sell 50,000 to 100,000 CNpads. We believe our strong brand awareness in the professional insurance intermediary industry will power up our [market plan] that aims to further demonstrate into the market.

Thirdly, leveraging on our established life insurance sales network we've devoted a lot of effort to build up capabilities to offer comprehensive financial services in products to our clients which we believe will become another powerful growth driver for CNinsure. While shifting our focus to penetrate into major cities and develop a mid to high end customer base, we've started to cross-sell wealth management products earlier this year through our life insurance sales force.

This business has been growing very fast in the past three quarters with the value of wealth management products that we distributed amounting to over RMB100 million per month. For the first nine months of 2012 the average value of wealth management products distributed by CNinsure was approximately RMB590 million and the number of customers that have bought wealth management products through us was over [890] as of the end of the third quarter 2012.

Our Life Insurance business also benefited from the strong sales of wealth management products which modestly boosted life insurance sales, and more importantly, substantially improved customer loyalty. Next year we plan to accelerate our network expansion into major cities, leveraged on our advantages in diversified product offerings, multiple revenue sources and flat team structure to attract more sales talent to join CNinsure to build up the best sales team in our life insurance intermediary companies and further expand the cross-sales of life insurance and wealth management products.

Fourthly, we have taken various measures to (inaudible) operations to see quality growth instead of quantity growth. First, we abandoned cooperation with some channels which have lower margins and very high management growth. Second, we shut down sales outlets which are less productive. Third, we clear our inactive and unproductive sales agents, particularly within our Life Insurance business segment.

Fifthly, in face with the challenging competitive environment, we have chosen to safeguard our market position rather than near-term margins in order to preserve strength for long term growth. In recent quarters competition among property and casualty insurers have exacerbated amid market growth (inaudible). They were offering higher discounts and commissions and set up efforts to engage in direct channels such as telemarketing and online sales to gain market shares. According to statistics, contributions on telemarketing in (inaudible) opinion was up over 100% for the first nine months of 2012.

As a result, market commissions were driven up to an extremely high level and we have to pay more commissions to our sales agents to be competitive, which significantly reduced the gross margin of our P&C business and further squeezed our profits. However, we managed to maintain a positive growth of our Property and Casualty business despite the measures to streamline operations. In addition, we believe that our P&C growth margin has hit bottom in third quarter and we expect it to rise gradually.

As 2012 is coming to an end, we are pleased to see the progress that we've made with the Company strategy transition over 2012, which is also in line with our expectation. Looking ahead we will continue to execute our strategies to bring CNinsure back on the growth track.

Now we would like to open the floor for questions.



QUESTIONS AND ANSWERS

Operator

We will now begin our question and answer session. (operator instructions). Your first question today comes from the line of Mike Ryan from MJR Capital. Mike, please go ahead.

Mike Ryan - MJR Capital - Analyst

Hi, thanks for taking my call this evening. My first question relates to commissions and fees and how that's trended over the year as a percentage of revenue, and particularly in the current quarter whether there was any sort of unusual items included in that, given the closedown of some of the sales outlets?

Oasis Qiu - CNinsure Inc. - IR Officer

(spoken in Chinese)

And your second part of the question?

Mike Ryan - MJR Capital - Analyst

The second part of the question is what are -- I mean, the current level of commission and fees as a percentage of revenue seems to be untenable. What are we doing to fix it? I understand that what you're saying is that we've -- it's kind of plateaued but what are we doing to drive that down?

Oasis Qiu - CNinsure Inc. - IR Officer

Our CFO would like to take your question.

Peng Ge - CNinsure Inc. - CFO

(interpreted) The commission that we received for the third quarter of 2012 was 23% as compared to 19% last year for the P&C business.

Oasis Qiu - CNinsure Inc. - IR Officer

The CEO would like to answer your second part of the questions.

Chunlin Wang - CNinsure Inc. - CEO

(interpreted) As we mentioned that the commission that we pay our South Asians is reaching very high levels and we believe the highest level in this quarter, in the third quarter, but we believe that the gross margin has already hit bottom in the third quarter. And a way for us to drive the commission cost down is to -- is the development or distribution of the CNpad or the sales support [divide].

Unidentified Company Representative

(spoken in Chinese)

Oasis Qiu - *CNinsure Inc. - IR Officer*

Yes.

Mike Ryan - *MJR Capital - Analyst*

I was just going to ask where do you see the operating margins going? Will we ever get back to 30% operating margins or where do you see them heading based on where sales commissions will end up going?

Chunlin Wang - *CNinsure Inc. - CEO*

(interpreted) Based on the third quarter's results, our gross margin for the third quarter was 27% to 28%, and the expense we show is probably 25% to 26%, so that means the operating margin was only 2% to 3%. Based on our experience and the trends, what we have experienced in the past decade, we believe that the commission level, the commission cost is at the highest level and now our gross margin has reached the lowest level. And we don't think that our operating margin will go down any further.

Mike Ryan - *MJR Capital - Analyst*

I guess what I'm trying to get a better understanding of is how long do you think we'll be at the high level of commission expense? And when do you think that we'll start trending? And maybe you could give a little high level color and why somebody comes to work at CNinsure, is it solely based on the commissions that they're going to receive, or is there some value in being able to -- you know, for a wider variety of products from different carriers, value in the systems you have, maybe talk some more about why sales agents come to CNinsure. Maybe that could help in the answer to where commissions might go.

Chunlin Wang - *CNinsure Inc. - CEO*

(interpreted) So first of all from the market perspective, we have seen very stiff competition among property and casualty insurance companies, and we believe that the (inaudible) of most severe level down, we have everything. And as a result of that we expect that half of the property and casualty insurance companies may report a loss this year. So the likelihood for them to further increase the commissions paid out is very low. So that's why we don't think the commissions cost will continue to go up.

And secondly, for CNinsure we have launched the CNpad and we expect to distribute 50,000 to 100,000 units of the CNpad to South Asians, and because the CNpad (inaudible) is very powerful towards -- or to help Asians to improve their efficiency, reduce their operating costs and also diversify their revenue sources. So that also helped to reduce the commissioned rate that we're going to pay to our South Asians.

And the reason that South Asia may choose to join CNinsure is first of all we have a wider range of product offerings and we represent [mature] insurance companies and we also can help them to better -- provide better services to their clients.

Mike Ryan - *MJR Capital - Analyst*

Great, thanks a lot. I appreciate your time and I'll let somebody else [ask lots of] questions.

Oasis Qiu - *CNinsure Inc. - IR Officer*

Thank you.



Operator

(operator instructions) It seems that we have no further questions on the line today, and that does conclude the call. Thank you all for your participation in CNinsure's conference. There will be a webcast replay within two hours. Please visit CNinsure's IR website at ir.cninsure.net under the Events and Webcast section. Thank you all for your attendance, you may all now disconnect. Goodbye.

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