

Fanhua Q1 2021 Earnings Conference Call Transcript

Operator: Thank you for standing by for Fanhua's First Quarter 2021 Earnings Conference Call. (Operator Instructions) For your information, this conference is now being broadcast live over the Internet. Webcast replay will be available within 3 hours after the conference is finished. Please visit Fanhua's IR website at ir.fanhuaholdings.com under the Events and Webcast section. Today's conference is being recorded. (Operator Instructions)

I would now like to turn the meeting over to your host for today's conference, Ms. Oasis Qiu, Fanhua's Investor Relations Manager.

Oasis Qiu: Good morning. Welcome to our first quarter 2021 earnings conference call. The earnings results were released earlier today 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 U.S. Private Securities Litigation Reform Act of 1995. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause our actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, those outlined in our filings with the SEC, including our registration statement and Form 20-F. We do not undertake any obligation to update this forward-looking information except as required under applicable law.

Joining us today are our Chief Executive Officer, Mr. Chunlin Wang; Chief Financial Officer, Mr. Peng Ge; and Board Secretary, [Lily Lee]. Mr. Wang will provide a review of our financial and operational highlights in the first quarter of 2021. There will be a Q&A session after the prepared remarks.

Now I will turn the call over to Mr. Wang.

Chunlin Wang (Interpreted): For the first quarter of 2021, we once again beat estimate with solid results. For the first quarter of 2021, we've facilitated RMB 3.1 billion total gross premiums, up 27.9% year-over-year, of which first year premiums grew by 57% year-over-year to RMB 892.7 million. Business quality remains strong with 13-month persistency ratio at over 91%.

As a result of the stellar growth in life insurance business, our net revenues reached RMB 1.1 billion, representing a growth of 51.5% year-over-year; and operating income reached RMB 140.4 million, up 133.8% from a year ago. Net income attributable to shareholders were RMB 138.4 million, up 202.2% year-over-year.

Secondly, industry outlook analysis. China's life insurance industry remains gloomy as it undergoes deep reform and transformation, which posed both challenges and opportunities. There has been a fundamental change in customer demand. In the past 6 years since the life insurance pricing liberation, with a rapid growth in the number of sales agents in China and the emergence of the Internet channel, the penetration rate of health insurance products in China has been relatively high. The popularity of government-backed medical insurance in recent years has also absorbed large portion of demand for health insurance products and eroded upside potential for commercial long-term health insurance in China.

On the other hand, we still see a huge potential in the market segment of investment and savings type insurance products. China's middle class population now stands at 400 million. As investment and savings insurance products constitute an indispensable component in middle class family asset allocation, with the continued expansion of the middle class population, there will be explosive demand for this type of insurance product. The biggest opportunity lies in how one can stimulate and meet this implicit demand.

Secondly, there has been fundamental change to insurance agents organization. The traditional organization in [pyramy Structure] can no longer meet customers' evolving demand, which leads to sharp contraction in traditional insurance sales organization and shortage of qualified talent in recent years. The professionalization of insurance sales organization has become an imperative.

Digital capability is now a prerequisite to compete and thrive in the long term. Digital transformation reaches every aspect of business operation, from customer demand insight to targeted marketing, customer experience optimization, operating efficiency improvements and operating cost savings.

Thirdly, with Fanhua's professionalization, digitalization and open platform strategy, we're well positioned to capture market opportunities. We're making steady progress in rolling out our very strategic initiatives as scheduled.

Firstly, professionalization strategy. As of today, we have approved the establishment of 9 Yuntong branches. Yuntong, which is literally translated as Cloud Phoenix tree, is a high-end brand that we have established specifically for our professional elite branches. We expect 2 of these branches will be ready for operation by July.

Digitalization strategy. Our digital marketing center has so far recruited around 100 service representatives, which will be dedicated to providing intelligent services to our customers and facilitating telemarketing transactions. In addition, we started to roll out Fanhua enterprise WeChat application and launched Fanhua RONS digital assistant application on a trial basis in Hebei province, which we believe will provide more efficient way for our agents to engage with their prospective customers.

Thirdly, our open platform strategy, leveraging on our well-proven advantages in technology and bargaining power with insurance companies. We will continue to open our platform to all qualified market participants. As of today, we have established partnership with 16 channel partners. As we are in the process of facilitating system connection and testing business process, approximately RMB 1.5 million was facilitated through the channel partners in the first quarter.

Fourthly, for the outlook in the second quarter and 2021. For the second quarter of 2021, amid persistent headwinds and a difficult year-on-year comparison due to 2020 Q2 post-COVID-19 boost, China's life insurance industry is widely expected to experience negative growth in new business. Against this backdrop, we expect our total GWP is facilitated to be approximately RMB 2.6 billion, representing a year-over-year growth of 6.7%. After considering incremental expenditures required for implementing the new strategy, we expect our operating income will be no less than RMB 50 million.

For the second half of 2021, we will continue to step up investment in executing on our new strategy while ensuring the achievement of no less than RMB 300 million operating income for the full year of 2021.

This concludes my presentation. Now the floor will open for your questions.

Q&A Session

Operator: (Operator Instructions) And your first question today comes from the line of Qingqing Mao from CICC.

Qingqing Mao (Interpreted): First of all, congrats for the exciting results. We have seen some negative effects caused by the [transition] of critical illness definition among peers. How about Fanhua? When do you think this effect would fade away?

Chunlin Wang (Interpreted): The transition from the old critical illness definition framework to the new one is a big event for the industry overall and also has caused a huge impact. And before the suspension of the old critical illness product on February 1, there has been strong sales in critical illness products in January.

There has been a particular characteristic in the Chinese life insurance market, which is that every time before the suspension of a product, there will be a strong sales, followed by a slowdown for a period of time. So this time it is no exception. And in addition to that, we believe that the penetration rate for critical illness products is relatively high in China.

As of date, there has been 300 million outstanding critical illness policies in China. Apart from that, recently, the government has rolled out some short-term medical insurance products, which is more affordable. And this type of product has also become quite popular among consumers, which, in certain ways, absorbed some of the demand for critical illness products.

For the critical illness products to fully recover, I think it will require a lot of innovation and customization of products in order to boost customer demand and create opportunities for upselling. But we believe that critical illness may not be the main driver for the growth of the life insurance industry in the longer term.

We believe that product innovation and customization will be the main trend in the future. In April, actually, we cooperated with Aeon to [custom design] a product, a critical illness product, which is called "Huabai No.1". And as of today, we have sold RMB 20 million in terms of first year premiums, which is much higher than the total first year premiums sold by Sinatay in the same period, according to our visit to Sinatay recently.

For the longer term, no matter for Fanhua or the overall insurance intermediary market, in order to obtain rapid growth, it's important to focus on savings and investment type of products. This is also the key product that we will focus on in terms of building up our off-line sales capability and digital capability.

Right now there are 400 million middle class population in China, and this population has strong demand -- potential demand for savings type of products. So it's our job to stimulate this implicit demand.

Thank you.

Operator: (Operator Instructions) I see that we have no further questions on the line today. I would now like to hand the call back to management for closing remarks.

Oasis Qiu: Thank you for participating in today's call. If there are any further questions, please feel free to contact us. Thank you.

Operator: Ladies and gentlemen, this does conclude our conference for today. We thank you all for your participation. You may now disconnect.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]