

Fanhua Q4 2020 Earnings Conference Call Transcript

Operator: Thank you for standing by for Fanhua's Fourth Quarter and Fiscal Year 2020 Earnings Conference Call. (Operator Instructions) For your information, this conference call 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 Webcasts section. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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 fourth quarter and full Year 2020 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 on 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. Mr. Wang will provide a review of our financial highlights in the fourth quarter and fiscal year 2020. There will be a Q&A session after the prepared remarks.

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

Chunlin Wang [Interpreted]: Thank you for joining us on today's conference call. Here with me, we have our Chief Financial Officer, Mr. Peng Ge; and our Board Secretary, [Lily Lee]. On today's call, I will share with you our new strategy initiatives and some key progress, followed by our financial forecast for 2021. Mr. Ge and I will take your questions after the report.

Chunlin Wang [Interpreted]: Part 1. In 2020, while the China's life insurance industry was hit hard by the COVID-19 pandemic, Fanhua stood the test and maintained healthy development. In 2020, despite continued challenges from COVID-19, Fanhua accomplished another major milestone with our gross written premiums on regular life insurance business exceeding RMB 10 billion, representing a year-over-year growth of 16.3% and our operating profit reaching RMB 300 million.

In the fourth quarter of 2020, the gross written premiums of our regular life insurance business increased 21% year-over-year to RMB 2.9 billion. Operating profit reached RMB 71.9 million, exceeding our previous expectations.

Chunlin Wang [Interpreted]: Part 2, our strategy assessment. First, although the growth of China's life insurance market slowed down in 2020 due to the impact from COVID-19 pandemic, we still believe that China's life insurance industry will maintain a long-term rapid growth trend unchanged and that the development of insurance intermediaries will be faster than that of the insurance industry as a whole.

Second, currently, there are various business models in China's insurance intermediary market, including agent-oriented model, business-oriented model and direct-to-consumer model. With evolving technologies and changing market environment, these business models, on a stand-alone basis, may face difficulty to maintain enduring vitality over the long term. Only those, which can facilitate best customer services, extend customers' life cycle and enable repeated transactions, can thrive and prosper in the future.

Chunlin Wang [Interpreted]: Part 3. 2021 marks the first full year for implementing a strategy of professionalization, digitalization and open platform, which we believe will help build new growth engines for Fanhua for 2022 and beyond.

Chunlin Wang [Interpreted]: Our strategy of professionalization, digitalization, and open platform is built upon our existing business model, looking to enhancing the productivity and income of our sales agents and solidifying our existing strength in off-line sales and service capabilities while in the meantime strengthening our capabilities on 2B and 2C fronts to build Fanhua into an open digital platform with greater compatibility and more growth potential. We believe that this new strategy will enable us to build a sustainable business model with enduring vitality.

Chunlin Wang [Interpreted]: In 2020, as part of our plan to professionalize our sales force, we have established a Yuntong Business Division and approved the establishment of 3 city-level branches. For digitalization, we've established a Digital Business Division, and our digital marketing center has been in operation since the end of January 2021. As for open platform, we've established a Cloud Service Division, which has so far formed partnership with 6 cooperative partners and started operating on a trial basis. We expect that the new strategy will start to yield more meaningful positive results in 2022 to drive rapid growth of our business in 2022 and the years ahead.

Chunlin Wang [Interpreted]: Fourthly, financial forecast for 2021. Looking ahead to 2021, we expect gross written premiums of our regular life insurance business to be no less than RMB 12 billion. The initial investments for carrying out the new strategy in 2021 is expected to be around RMB 100 million. Therefore, our operating income is expected to be no less than RMB 300 million in 2021.

For the first quarter of 2021, we expect our regular life insurance GWP to be no less than RMB 3 billion and operating income no less than RMB 120 million. We believe that the new strategy will contribute greater value to the company and generate higher returns to our shareholders over the long run.

Chunlin Wang [Interpreted]: Fifthly, dividend plan. The company is committed to maintaining a regular cash dividend policy. Based on our earnings expectations and the amount of expenditure required for enhancing our professional and digital capabilities in 2021, annual dividend for 2021 will be no less than USD 0.60 per ADS, payable in 4 quarterly installments worth USD 0.15 per ADS for each quarter.

Chunlin Wang [Interpreted]: Thank you. This concludes my presentation. Now the floor will open for your questions.

Q&A Session:

Operator (Operator Instructions) Our first question comes from the line of Qingqing Mao from CICC.

Qingqing Mao [interpreted]: Two questions from Qingqing Mao from CICC. The first question is with regard to our guidance on the GWP of our regular life insurance business in the first quarter, which sounds quite strong growth. She is wondering whether this strong performance is due to the transition of the critical illness definition framework. And after the new critical illness framework took effect in February 1, how are the sales of the new critical illness product so far?

Chunlin Wang [Interpreted]: Firstly, in the first quarter, after the new critical illness framework took effect, the jump-start sales campaign in the first quarter in the industry has actually been performing pretty well, largely thanks to the transition of the critical illness framework. And as for Fanhua, we believe that we have been outperforming the industry.

Chunlin Wang [Interpreted]: It has been an industrial norm that each time after a major regulation or policy change, which resulted a change to insurance products, it will have, of course, a huge impact on the industry. We do expect that after the transition of the critical illness framework, it will probably take the industry sometime to fully adapt and recover.

Chunlin Wang [Interpreted]: We have been proceeding with the transition of the new critical illness products as scheduled, and we've been making preparation for our next marketing campaigns in April and May.

Chunlin Wang [Interpreted]: For the next marketing campaign, our major products will focus on annuity and whole life products, while we will also make efforts to educate our customers on the new critical illness products.

Chunlin Wang [Interpreted]: Thank you.

Operator (Operator Instructions) There's no more questions at this time. Speakers, you may continue.

Oasis Qiu: Thank you for joining us on today's conference call. If you have any further questions, please feel free to contact us. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

[Portions of this transcript that are marked [Interpreted]: were spoken by an interpreter present on the live call and some portions are edited to keep consistency with Chinese version.]