

## **Fanhua Q32022 Earnings Conference Call Script**

### **Operator:**

Thank you for standing by for Fanhua's Third Quarter 2022 earnings conference call. At this time, all participants are in 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 call is now being broadcasted live over the internet. Webcast replay will be available within three hours after the conference is finished. Please visit Fanhua's IR website at [ir.fanhuaholdings.com](http://ir.fanhuaholdings.com) under the "Events & 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 Third Quarter 2022 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 US 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 Securities and Exchange Commission, 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 chairman and chief executive officer, Mr. Yinan Hu, chief financial officer Mr. Peng Ge, and chief operating officer Mr. Lichong Liu. Mr. Liu will provide a review of our financial and operational highlights in the third quarter of 2022. There will be a Q&A session after the prepared remarks. Now I will turn the call over to Mr. Liu.

**Lichong Liu [Interpreted]:** Good morning and good evening! Thank you for joining today's conference call.

In the third quarter of 2022, challenges and opportunities coexist. On the one hand, with multiple factors such as the macroeconomic uncertainties, restrained consumption, resurgences of COVID-19 and the regulatory requirement for nationwide double recording at play, the gross written premiums of China's life insurance industry merely recorded a low single digit growth of 1.3% year-over-year, representing a sharp decline in the growth rate compared with the second quarter of 2022. The decline in the number of insurance sales agents in the industry also continued, with substantial declines in sales force numbers reported by many large insurers. On

the other hand, we are encouraged to see a steady growth momentum among insurance intermediaries as a whole, driven by significant growth in agent productivity despite an overall decline in sales force agents. In addition, more and more insurers are engaging intermediary channels and showing a more open attitude towards the mode of cooperation with independent insurance intermediaries, suggesting greater development opportunities awaiting intermediaries like us.

Despite challenging external environment, Fanhua showed resilience with steady business growth during the third quarter of 2022. Our life insurance premiums grew by 6.2% year-over-year to RMB2.8 billion, of which regular life insurance first-year premiums reached RMB529.7 million, up by 9.1% year-over-year. Even with the continued investments in technology and training, our operating income beat expectation to achieve RMB32.2 million, representing a growth of 14.2% year-over-year.

The quality of our sales force continued to improve during the quarter. While total number of performing agents declined in accordance with our plan, the per capita productivity of performing agents grew by nearly 20% year-over-year. The contribution from high-performing agents increased even further, with the number of “100K Premium Agents” growing by 46% year-over-year, contributing 48% of our total first-year premiums in the quarter, up from 39% for the corresponding period in 2021.

Addressing the needs for high-quality senior care, wealth management and inheritance solutions by Chinese mass affluent and high-net-worth families, Fanhua has continued our focus on magnifying our infrastructure platform’s capability to empower agents to better serve clients.

1. Fanhua has implemented the Insurance as a Service model by pooling quality trust and health care service resources in the market on top of a wide spectrum of insurance products, to match customers’ evolving needs throughout their life cycle, and support agents to provide whole life services to their customers.
  - (i) For trust services, as of the end of third quarter of 2022, Fanhua facilitated in setting up nearly 150 trusts accounts with over RMB1.7 billion entrusted assets covering over 270 new insurance policies, contributing RMB85million of total insurance premiums. In the third quarter alone, Fanhua facilitated in setting up nearly 60 trust accounts with

RMB510 million entrusted assets, contributing RMB27 million insurance premiums, and

(ii) For health care services, in the third quarter of 2022, Fanhua continued to increase its efforts to expand health care service resources covering customers' entire life journey, including introducing high-quality life care service resources in the industry. We have also set up 14 health care service experience centers across the country to showcase the health management and elderly care community resources linked by Fanhua across the country, to improve customer experience and facilitate business conversion.

2. Leveraging on the trust and health care service resources and Fanhua's insurance policy custody technology, we have established a "triple F" (representing "Family Office Consultant, Fanhua retirement Planner and Family Policy Custodian") training and certification system to help agents improve professional skills in a tiered approach. This is based on the triple-R (Account Responsibility, Solution Responsibility and Fulfillment Responsibility) marketing model and service scenario marketing. We also established a closed loop of services from training to customer engagement activities, service resource facilitation, solution design and final transaction, to support agents to engage with their customers and drive conversion more easily. Up to now, Fanhua has carried out nearly 200 FOC and FRP training and certification programs nationwide, with a cumulative total of more than 13,000 certified trainees, whom have become the major force to assist customers in setting up trust accounts and selling whole life and annuity insurance products. In the third quarter of 2022, FOC and FRP certified trainees contributed about 66% of Fanhua's first-year life insurance premiums, and the per capita productivity was much higher than that of non-trainees. Building on the success of the FPC training programs in the third quarter, we have accelerated our training, with an additional 3,000 completing our training course in October.
3. By the end of the third quarter of 2022, Fanhua has largely finished the construction of its IT infrastructure to support digital operations. We continue rolling out various frontline digital tools for wider adoption among sales agents across the country and continuously optimizing the functionalities and user experience. Specifically, our Insurance Policy Custody System version 2.0 and Insurance Service Butler Workstation, our proprietary customer engagement platform, were both rolled out in larger scale during the third quarter.

Currently we operate a full suite of digital tools to provide all the support that agents need to manage their book of business online from customer engagement, transaction, customer services to personal professional growth, enabling significant efficiency improvement.

For the fourth quarter of 2022, in view of the ongoing resurgences of COVID-19 cases across the country, the growth prospect of Chinese insurance industry remains challenging. Against this backdrop, Fanhua will continue with our established development strategy to empower agents and create value for customers. The management expects our operating income to be no less than RMB30 million in the fourth quarter of 2022.

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

.....**Q&A Session**.....

- 1. What is the share of savings products in your product mix? Who are the main insurance company partners? And how does the commission rate looks like for this type of products?**

**Lichong Liu (interpreted):** For the third quarter of 2022, savings products such as whole life insurance, annuity and endowment insurance products accounted for 87.5% of our total first year premiums as compared to 83.6% in the same period of last year. Our major product suppliers were Sinatay, Greatwall, Aegon-THIF, Aviva-COFCO and Huaxia, representing 27.3%, 24.8%, 11%, 5.5% and 4.6% of the total first year premiums facilitated by Fanhua.

After the implementation of the C-ROSS phase II, many life insurers will face greater restriction in growing business scale, with lower recognition of long term life insurance policies' profits as core capital under the new accounting rule resulting in lower solvency ratio. As a result, although Sinatay remains our largest supplier, our business with Sinatay as a percentage of our total business contracted slightly sequentially. As we also mentioned earlier, more and more insurers are engaging with independent intermediaries with more open attitude towards the cooperation with independent intermediaries. We expect our product supply and insurance company partners will be more diversified next year.

Based on 10 year APE, the first year commission ratio paid by insurers for savings products is between 90-98% while based on 20 year APE, the FYC will be around 138% to 145%, varying from one insurer to another. However, as savings products generally have shorter payment period, typically 3 years, 5 years or 10 years, with commission rates higher in the first few years and less in the later years of the policy period. So the actual commission rate that we can get is not that high. On the other hand, the payment period of critical illness products is much longer

than savings products. Although first year commission rate on a 20-year APE basis is lower than that of savings products but combining all the renewal commissions, the total amount of commission income that we can get from CI is actually higher than savings products which means it has higher embedded value. This is also something we want to improve by encouraging more sales of 10 year term products and partnering with insures to co-design more innovation products with higher embedded value.

**2. How is the profile of Fanhua's customers and the percentage of mid-to-high end customers?**

**Lichong Liu (interpreted):** Currently, 30% of our insurance policyholders are critical illness policyholders, of whom 66% are female and 46% in the age between 30 to 40 years old, with per policy premiums amounting to RMB4800 and annual premiums lower than 5000. While among the policyholders of savings products such as whole life and annuity products, 76% are female and over 60% in the age of 40-59 years old with average per policy amount reaching RMB48,000. It shows that people in this age group are more willing to purchase whole life insurance and annuity insurance for themselves and their family members, indicating rising demand for elderly care, legacy management and savings for children's education. This also aligns with our customer strategy focusing on serving mid-to-high end customers. There are approximately 300 million mass affluent and high net worth individuals, a lot of them are in the age of 40-60 years old.

**3. Can you share with us your agent recruitment strategy? Is it hard to recruit agents nowadays?**

**Lichong Liu (interpreted):** in 2022, in sales force development, we shifted our focus to building a elite-based agent pool and raising standards in agent recruitment. Compounding with the impact of Covid-19, we did see a slow down in agent recruitment. However, we are encouraged to see a significant improvement in contribution from high-performing agents among the new recruits. In particular in the third quarter, high performing agents who are defined as those contributing over 25,000 first year premiums as a percentage of total new recruits increased from 26% in the same period of last year to 43%. In the meantime, the per capita productivity of effective agents also improved both on a year-over-year basis and sequentially from 14,000 in the same period of last year and 20,000 in the second quarter to 22,000 in the third quarter of 2022.

Building on our advantages in insurance trust service and health care service resources as well as the empowering capabilities of our platform, and riding on the trend of rising demand for elderly care and legacy management by the mass affluent and high-net-worth individuals, Fanhua will step up efforts to introduce Million-Dollar-Rountable Members or MDRT. Our target for this year is to grow the no. of MDRT from 302 in 2021 to 500 and internally train or recruit the number of top performing agents who generate RMB100,000 APE annually from 1600 in 2021 to 2000 by the end of this year, representing a growth of over 30%. As of the end the third quarter, over 300 agents have already been qualified for MDRT and over 1200

contributing over RMB100,000 APE, solely based on their performance in the first nine months. If our business in the fourth quarter to be included, I believe there is high chance to achieve our annual target.

*[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call and may be modified to correct translation discrepancy.]*