Fanhua Q1 2022 Earnings Conference Call Transcript

Operator: Thank you for standing by for Fanhua's First Quarter 2022 Earnings Conference Call.

For your information, this conference call is now being broadcasted 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. If you have any objections, you may disconnect at this time.

I would 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 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, chief operating officer Mr. Lichong Liu and chief digital officer Mr. Jun Li. Mr. Liu will provide a review of our financial and operational highlights in the first 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 participating in today's conference call.

Since the beginning of 2022, the Omicron COVID-19 variant has been fueling outbreaks in provinces including Shanghai, Guangdong, Shandong, Jilin, Hebei and Zhejiang, dealing a severe blow to offline activities and training of our teams. In the first quarter of 2022, one third of the training programs and customer activities were cancelled; and in the most COVID-stricken areas such as Shenzhen and Shanghai, Fanhua's claims adjusting business almost ground to a halt, recording a loss in the first quarter.

The COVID resurgences and economic uncertainties to some extent restrained the release of consumer demand for insurance. Along with the high base effect resulted from the transition to the new critical illness definition framework in the first quarter of 2021, the gross written premiums (GWP) of the life insurance industry in China fell by 3.1% year over year. Against this backdrop, Fanhua's first-year premiums of life insurance dropped in the first quarter of 2022, however the GWP of our life insurance business still managed to grow by 10.1% year over year, defying the industry's downward trend; Fanhua's 13-month persistency ratio still remained above 91%, while most insurers saw deterioration in persistency ratio, manifesting the high quality of our business and the stability of our main sales force; and operating income reached RMB20.6 million, meeting our expectations.

Despite mounting external challenges, we have continued to execute on our "Professionalization, Career-based, Digitalization and Open Platform strategy and made steady progress in the following key initiatives:

i) Achieving cost reductions and efficiency improvements. We have been able to strictly control costs by optimizing staffing, closing low-performing institutions and downsizing inefficient outlets, as well as improving average efficiency of our employees by optimizing the workflow in our daily operations. In the first quarter of 2022, if excluding the increase of investments in our digitalization and Yuntong initiatives, our general and administrative expenses decreased by 17.2% year over year.

ii) Further enhancing our capabilities to offer referral of insurance trust and family trust services to mid-to-high-net worth clients. In the first quarter, we have hosted about 10 Family Office Consultant training sessions which focus on educating our sales agents on all-around knowledge related to insurance trust and family trust, and completed relevant certification programs for over 1500 elite sales agents who are defined as those who have facilitated over RMB100,000 first year premiums annually. We have also organized over 20 customer engagement activities targeting at high-net worth customers, as a result of which facilitated such customers to set up insurance trust accounts covering 50 large-ticket insurance policies, contributing more than RMB32 million of first-year premiums in aggregate, or RMB600 thousand of first-year premiums per policy.

iii) Improving the professional skills of our sales teams. In the first quarter, apart from offering FOC training and certification programs, we have also finished establishing the course framework for Family Retirement Planners ("FRP") with focus on courses in whole-life insurance and annuity products, and authorizing FRP lecturers. Relevant training and certification programs are expected to roll out across the country in the second quarter. For the second half of 2022, we also plan to start training and certification programs for policy managers focusing on helping agents to develop the ability to offer policy custody services and enhance knowledge on protection-typed products including critical illness products), so as to enable agents to transform from experts on insurance products to experts on family-based asset allocation, and then to experts on elderly care and legacy management.

iv) Recruiting high-performing elites. For existing sales force, we have been carrying out the "Huacai Plan" for recruiting industry elite entrepreneurs together with their own sales teams. Over 500 elites as well as their teams have become part of Fanhua since 2021, and contributed approximately RMB45 million of first-year premiums in the first quarter of 2022, representing a strong power for Fanhua's business growth. For the Yuntong business units, the recruitment of Yuntong advisors and financial planners has gone smoothly, despite high standards and performance requirements. As of the end of first quarter, we had over 410 Yuntong advisors and financial planners, contributing approximately RMB15 million of first-year premiums, with per capita productivity of about RMB40 thousand.

v) Finalizing the preparation for the launch of Lan Zhanggui APP 3.0 on May 20, 2022. We have worked to upgrade Lan Zhanggui from a insurance transaction-focused platform to a one-stop digital operation platform, making trading and services smarter, smoother and more convenient.

vi) Working on establishing standard operating procedures (SOP) featuring a 3R ("Account Responsibility, Solution Responsibility and Fulfill Responsibility") marketing model of platform-supported team work to enable our agents to provide more professional and all-around services to their clients; and

vii) Accelerating market development of our open platform strategy. In the first quarter of 2022, first-year premiums facilitated on Fanhua's RONS Open Platform reached about RMB40 million, up by 62.3% quarter over quarter, and have shown an ever stronger momentum month by month.

We still face tremendous challenges in the second quarter of 2022. COVID-19 continues to adversely affect the offline activities of our sales agents. Meanwhile, the regulatory requirement for double-recording is set to be implemented in Hebei Province and other areas starting from June, expected to temporarily impact the whole industry across the board, including Fanhua. Despite the headwinds, the management team is still confident in making operating profit in the second quarter of 2022.

Now I will turn the call over to our chairman and CEO Mr. Hu.

Yinan Hu (interpreted):

On May 26, 2022, our board announced that Fanhua will distribute 4.71 CNFinance ordinary share to the holder of each 20 Fanhua ordinary shares or 0.2355 CNFinance ADS for every 1 ADS of the Company held as the dividend for 2022. The stock dividend is payable on or around June 28, 2022 to shareholders of record on June 9, 2022. Based on the market value of CNFinace as of May 26, 2022, the value of the stock dividend amounts to approximately US$31.4 million, equivalent to US$0.58 per Fanhua ADS, close to the amount of the cash dividends that we paid in 2021.

Q&A Section

Operator: Your first question comes from the line of [Wang Zixian] from CICC.

Wang Zixian: I have 2 questions. The first question is about the saving product. So, could you share us with the Q1 numbers and the future of local saving products as well as the commission rate that we give to the agent and collect from insurance companies. So, it may help us to estimate the brokerage income? And the next question is, do we have full year guidance in terms of APE, revenue or operating revenue? That's all my question. Thanks.

Yinan Hu[Interpreted]: I think your question can be divided into 3 small questions. For the first part, which is the sales of our savings product in the first quarter of this year. Compared to the same period last year, the first year premium of our savings product is flattish year-over-year. However, the percentage as of total amount of first premium is actually higher than the previous quarter and the previous year, mainly due to the high base in the first quarter of last year due to the strong sales of critical illness products prior to the transition to the new critical illness definition framework. As for the changes in market demand, we are observing a trend in customer demand transiting from the critical illness to products that can cater to their needs for elderly care and legacy management. So, we believe that the growth momentum of savings products will continue in the coming quarters.

As for the commission rate for the savings products, for insurance intermediaries, our commissions or commission income consists of both first year commission and renewal commissions. And there are 2 basic characteristics of savings products, which is that per policy amount is large, while the renewal terms are relatively short, which is one of the reasons for the decline of our commission revenue. Since last year, we have observed that the conversion rate between first year premium and APE dropped year-on-year to roughly 30%. We are making efforts to improve the conversion rate by means of improving our product structure as well as the way of selling to extend the renewal periods or renewal terms of the product that we sell to improve the conversion ratio.

As for the full year guidance, we are facing a lot of external macro environment uncertainties, which makes it difficult to give an accurate prediction of the business outlook going forward. Particularly, it is hard to measure the magnitude of the impact of COVID-19 on our business yet. So far, we haven't seen clear signs of easing of the COVID-19 impact, particularly in the second and the third tier cities where the COVID-19 control measures are relatively stricter than the first tier cities. We hope that by the second quarter, we can have a better idea of our future outlook. However, internally, on operational wise, we are actually seeing sequential improvement in our operating metrics, particularly the continued improvement in the productivity of high-performing agents. Thank you.

Zixian Wang [Interpreted]: The CBIRC drafted up a new sales regulation which limited the commission rate and also mentioned to restart the exam for agents. So, can we evaluate the influence of this new policy to our sales force and the future commission income? Thanks.

Yinan Hu [interpreted]: The draft measures, I think the purpose is to curb the irregularities in the industry and to promote a healthy development of the insurance industry in the longer term, so we totally welcome the implementation of this measure. It also aligns with our business philosophy since we are here for the long term. We believe that the new measure will be helpful to protect the interest of both the consumers, insurance companies and all the other participants in the value chain. So, a reasonable or healthy interest spread between different parties of the value chain is helpful for a sustainable development of the industry.

We totally oppose the idea to compete for market share by increasing the commission rate. Instead, we believe that we should provide better services to customers and offer better products. We also observe that from our own statistics that our high-performing agents actually have increased their commission income, not because of the increase in commission ratio, but instead because of the productivity increase. So all our initiatives are moving towards this direction and the results also vindicating this trend. Thank you.

Operator: There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

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

[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.]