

Fanhua Q3 2021 Earnings Conference Call Transcript

Operator: Thank you for standing by for Fanhua's Third Quarter 2021 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, and good evening. Welcome to our third quarter 2021 earnings conference call. The earnings results was 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 the 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 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 and Chairman of the Board, Mr. Chunlin Wang; Chief Financial Officer, Mr. Peng Ge; and Board Secretary, [Lily Li]. Mr. Wang will provide a review of our financial and operational highlights in the third quarter 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]: Good morning, and good evening. Thank you for participating in today's conference call.

First off(I), market assessment.

One, despite a steady recovery in the Chinese economy, economic recovery across industries have remained unbalanced due to COVID-19 uncertainties and macroeconomic control measures. Due to concerns over macroeconomic uncertainties, consumer confidence has not yet recovered fully, especially for products such as life insurance that are not considered to be eminently needed. As a result, the life insurance industry is still struggling to bounce back in a short time span.

Second, the Notice on Further Regulating the Internet Life Insurance Business of Insurance Institutions (referred to as the "New Regulation") issued by China Banking and Insurance Regulatory Commission (CBIRC) on October 22 has become a trending topic in the industry. The rationale behind the New Regulation is to refocus on offline insurance distribution and strengthen compliance. Insurers and brokers with a large number of offline sales outlets are set to benefit from the new regulatory change and usher in broader development opportunities.

Third, it is well proven that Fanhua is correct in carrying out the strategy of Professionalization, Digitalization and Open Platform, and in advancing the development model with positioning of catering to the demands of 400 million middle class families for family asset allocation services. We will thus unswervingly continue

down this path with an all-out effort.

II. Fanhua's performance in the third quarter of 2021 met expectations.

China's life insurance industry witnessed a continued fall in total insurance gross written premiums("GWP") in the third quarter of 2021, with a negative growth of 1.9% year-over-year.

Amid deep industrial adjustment, Fanhua managed to record RMB2.7 billion worth of total GWP in the third quarter of 2021, representing a growth of 8.9% year-over-year, with operating income reaching RMB28.2 million, higher than expectation.

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Total life insurance GWP in the industry suffered a negative growth of 0.1% year-over-year in the first nine months of 2021. Despite this, Fanhua registered RMB8.4 billion in total insurance premiums during the same period, a higher-than-industry growth of 13.7% year-over-year, and RMB219.6 million in total operating income, meeting nearly 75% of the target for 2021.

III. Fanhua's strategy of Professionalization, Digitalization and Open Platform well under way in the third quarter of 2021

We saw encouraging progress in Professionalization: We have approved the establishment of 22 Yuntong (literally translated as Cloud Phoenixtree) branches/business units, among which Shenyang Business Unit and Chongqing No.1 Business Unit were already open for business at the end of October. By the end of October, we have recruited 180 Yuntong advisors and over 40 Yuntong financial planners.

We completed the target of building 10,000 digital entrepreneurial teams well ahead of schedule. We had expected to accomplish this target by November 30, but as of November 23, we already built over 12,000 teams. Currently we are at the stage of operating WeCom-based online chatgroups for digital entrepreneurial teams to drive conversion.

We are also encouraged by remarkable results from our product customization strategy. As of late, Fanhua, together with insurers and reinsurers, has co-launched 9 exclusive customized products, including Huabai No.1, Huading No.1, Huacheng Guardian No.1, Huaxiaozhu No.1 and Fanyongheng. These customized products, sold online and/or offline, range from whole life, term life insurance, critical illness and annuity and million-yuan medical insurance to personal accident insurance for COVID-19, providing all-round, diversified choices to meet customers' demand for healthcare, pension, financial legacy management and so on. The customization strategy also enables us to establish closer bond and expand mutual reliance with our insurance company partners. In the third quarter of 2021, customized products contributed over 30% to our total new policy sales.

IV. Business Outlook for the Fourth Quarter of 2021

Looking ahead to the fourth quarter of 2021, we see both challenges and opportunities. Fanhua will remain focused on the execution of our growth strategy, and get prepared for the Jumpstart Sales Campaign 2022 to achieve our full year target for 2021 while winning a good start for 2022.

For the Jumpstart Sales Campaign 2022, our management and operation teams at all levels have made thorough preparations:

1) Sales force geared up: more than 12,000 digital entrepreneurial teams, all the financial planners in Yuntong business units, approximately 60 channel partners of our Cloud Service Division and Baowang have all been mobilized to join the upcoming year-opening sales campaign.

2) Abundant product supply: a total of 11 Fanhua exclusive customized products will be available for the Campaign. These products include offline and online popular products, each with outstanding advantages. It is estimated that 70% of the business during the Campaign will come from Fanhua's customized products.

3) Strong operational support: we have established a four-level digital operation system from the group to city level, and started empowering digital entrepreneurial teams and Yuntong teams through digital tools (including Fanhua WeCom, RONS Digital Operating Platform, RONS Guanxia, etc.), supported by various targeted training programs. Kick-off meetings at different levels are also ready to go, including live streaming of a kick-off conference which will be graced by a few distinguished guests and is expected to attract over 100,000 audiences.

4) Together with our insurance company partners, we will jointly roll out unprecedented sales incentive programs, including but not limited to 12 levels of prizes and tickets to a Summit that we intend to host in Macao for top sellers.

Operating income is expected to hit RMB80 million for the fourth quarter of 2021 and RMB300 million for 2021.

V. Dividend Plan for the Third Quarter of 2021

The quarterly dividend for the third quarter of 2021 is US\$0.15 per ADS. The dividend is payable on or around December 22, 2021 to shareholders of record on December 8, 2021.

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

Q&A Section

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

Wang Zixian: I have 2 questions. First, could you please introduce more about the productivity of top sellers and new hired brokers? And second, company mentioned that the tightened up online insurance might benefit offline brokerage intermediates. Have we seen any change of product suppliers of our company since small- and medium-sized insurance companies are forced to reduce the supply of long-term insurance? And could you provide more details about the influence, the expected influence on FYP and the commission rate?

Chunlin Wang [Interpreted]: As of the end of the third quarter, our registered sales agents amounted to about 300,000. And in the third quarter, performing agents amounted to about 60,000, of which the number of performing agents for life insurance was about 17,000. And in the first 9 months of 2021, the number of performing agents for life insurance was about 50,000 in total.

As for the productivity of top sellers who are defined as those who have contributed over 10,000 APE on a 20-year basis, the monthly average of APE contributed by these top sellers was about 26,000 in the third quarter.

Our sales force consist of existing sales teams, our digital teams as well as Yuntong sales teams. To upgrade our existing sales force, we are establishing digital entrepreneurial teams to attract elite sales agents to join Fanhua.

And we are leveraging on the WeCom-based online chat groups model to expand our sales organization. And this strategy has so far been quite effective. We expect that this digital entrepreneurial plan will help attract more top agents to join Fanhua in 2022.

On professionalization strategy, we have made good progress on this part. Our Yuntong plan has caused quite an impact and established a good reputation in the industry, attracting a lot of interests from top agents in the industry. We have interviewed quite a lot of candidates in the past couple of months. And the persons that we have interviewed have good qualities which are basically in line with our expectations.

We expect our Yuntong teams will join the jump-start sales campaign, which will be a good opportunity for us to test the actual results. And on the basis of this, we will further optimize our professionalization strategy.

On the second question regarding the new regulation on online life insurance distribution. We have done a lot of studies and interpretations on this new regulation. We believe that the nature of this new regulation is to refocus on offline distribution and refocus on financial compliance. And we believe that this new regulation will provide a lot of good opportunities for insurance companies and insurance intermediaries with a larger geographical reach and a larger number of sales outlets.

In the past, a lot of insurance company with limited offline network coverage have mainly developed their business through online distribution channel. And after this new regulation, a lot of them will be compelled to return to offline distribution and the demand for intermediary channels will be a lot higher.

As far as we know, some of the insurance companies with limited offline sales coverage have decided to restructure their internet business units into units that focus more on cooperation with independent insurance agency channel.

Therefore, we believe that insurance companies with limited coverage will strengthen cooperation with independent insurance intermediaries with a larger geographical reach and step up cooperation in terms of innovation on product customization, in services, business operations as well as marketing strategies.

Fanhua will also proactively approach insurance companies to adapt to these new changes and hopefully help Fanhua and insurance companies to achieve further business development.

Operator^ And your next question comes from the line of [Allen Feng] from Morgan Stanley.

Allen Feng: This is [Allen Feng] from Morgan Stanley. I just have one quick question. We see that the CBIRC bureaus and Hunan in Beijing in the past couple of days have issued refresh regulations on the insurance intermediaries, particularly in Hunan. The regulators aim to limit the development of the so-called MGA, the managing general agency, model within its jurisdiction. I just want to hear what management has to comment on this latest development.

Chunlin Wang: [Interpreted] Thank you for the questions. We have also noticed the new policy issued by the Hunan CBIRC bureau. And we believe that it will provide us with more opportunities than challenges. And it's, in general, more positive for Fanhua. As I mentioned, our sales force consists of our existing sales organization, digital teams as well as Yuntong teams, which will form the backbone for our business development.

As for internet business or the MGA business model which are somewhat new practices in the industry. We have done some attempts in these new areas. But such business as a percentage of our total sales is still quite

limited. Therefore, the impact for us will be quite limited. Instead, the restriction on these new practices will be positive for us in general.

Due to these regulation changes, for a lot of companies which used to adopt this MGA model or operate Internet insurance sales, I think there will be opportunities for us to consolidate their sales teams or their customers. As of date, we have about 800 sales outlets. We will take advantage of our strength in sales network and proactively pursue cooperation with these companies or consolidate the resources from these companies to drive further business development. 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.]