China Insurance Sector

Positive (maintained)

Wang Wen
SFC CE No. BGL298
wangwen@gf.com.cn
+86 755 8826 1286

With contribution from the GF A-share research team.

GF Securities (Hong Kong) Brokerage Limited
29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Industry focus shifting from scale to quality

Agency channel still key for product promotion The insurance industry in China started with the direct marketing model (1982-1992), but moved on when AIA Group (1299 HK) first introduced the agent system (1992-2000), and was strengthened further when Ping An began exploring bancassurance (2000-2013). As regulatory requirements change, bancassurance and the agent model have developed in turn. Although insurance product promotion continues to evolve along with increased use of the internet and other new technologies, the agent channel remains the key driver for insurance sales and is seeing a significant rise in scale (number of agents) and quality (NBV per agent).

Independent brokers dominate sales in mature insurance markets

US: The US market was the birthplace of the independent agent system. This intermediary system meant the coexistence of professional agents (life insurance salespeople) and independent agents (life insurance brokers), with the latter accounting for the majority of sales.

UK: British life insurance is typically sold through direct marketing and intermediary sales, with the latter accounting for over 80% of new premiums during 2004-12.

Listed insurance companies: both agent number and NBV per agent have risen

The number of agents at the four A-share listed insurance companies continues to grow, rising to 1.33m, 1.94m, 0.87m and 0.33m at China Ping An (601318 CH), China Life (601628 CH), China Pacific (601601 CH) and New China Life Insurance (601336 CH) by end-1H17, meaning CAGRs of 17.9%, 16.9%, 17.5% and 10.2% respectively during 2011-16. NBV per agent at these insurers also rose significantly, with CAGRs of between 2.3%-8.1% during the five years. China Ping An and China Pacific posted the highest growth in agent size and NBV per agent.

Outlook: focus shifting to building high quality agent teams

The cancellation of insurance sales tests in 2015 led to a sharp increase in the number of insurance agents, but this rapid growth may not continue over the long term as the proportion of insurance agents in urban areas is already close to that in developed insurance markets. According to the China Insurance Regulatory Commission (CIRC), there were 8.07m insurance agents in China as of end-2017, or 0.82% of the urban population, compared to no more than 1% of urban populations in the US and Japan. The pursuit of a large number of agents could mean high human resource costs for insurers, so building a high quality agent team and improving NBV per agent is now key for sales channel development.

Investment

In the short term, number of agents will continue to play a key role in industry premium growth, whereas over the long run the industry will focus more on building efficient and high-quality agent teams, as well as on the transformation of product offerings and the shift from the pursuit of premium scale to quality premiums. Listed insurance companies will continue to dominate amid this industry transition and have a competitive advantage given their early channel establishment. We recommend China Ping An, China Pacific, New China Life Insurance and China Life Insurance.

Risks

Slower-than-expected agent growth and adjustment of product offerings may lead to a decrease in premium growth; improvements in quality in agent teams miss expectations; interest rate volatility and investment uncertainty affect performance at insurance companies.
Agent channel comparison for the four insurance companies

According to New China Life Insurance’s chairman Wan Feng, despite there being over 100m insurance clients in China, there is still significant market space given an insurance policy per person rate of only 0.3, compared to 8 in Japan and 3 in the US. At present, the agent channel dominates insurance sales and is seeing a significant rise in quantity (agent size) and quality (NBV per agent).

Quantity: agent scale continues to grow

The number of agents at the four listed insurers has continued to grow: as of end-1H17, the number of agents at China Ping An, China Life, China Pacific and New China Life Insurance reached 1.3255m, 1.937m, 870,000 and 333,000 respectively. China Ping An and China Life insurance took the lead in terms of agent number, while China Pacific has posted strong stable growth in its number of agents, rising at a CAGR of 18.1% during 2011-16.

China Ping An’s agent number has seen strong growth, rising at a CAGR of 21.3% during 2012-16. As of end-Sept 2017, the company had more than 1.4m agents, up 26% since the beginning of the year. China Ping An has adopted questionnaires, face recognition and other new technologies to bring about efficient and accurate staff increases. As of end-June 2017, China Life had 1.937m agents, up 6.8% since the beginning of the year. The company’s agent retention rate was below China Ping An’s but comparable to other peers.
China Life’s bancassurance channel and its group insurance agents continued to grow, accounting for 18.3% as of end-June 2017, while China Ping An saw an increase in telephone sales.

China Ping An took a leading market share in first-tier cities while the other three have focused on more undeveloped areas in China. China Pacific Life favored agents with proven sales success in industries other than insurance, whereas China Ping An has established a more mature training system which has equipped newcomers with industry knowledge and sales skills in a short period of time.

**Figure 3: Agent number and growth for China Ping An and China Life**

![Agent number and growth for China Ping An and China Life](image1)

*Sources: Company data, GF Securities Research*

**Figure 4: Channel breakdown for China Life (thousand agents)**

![Channel breakdown for China Life (thousand agents)](image2)

*Sources: Company data, GF Securities Research*

**Figure 5: Channel breakdown for China life (thousand agents)**

![Channel breakdown for China life (thousand agents)](image3)

*Sources: Company data, GF Securities Research*
Quality: boosting agent productivity and structural optimization

The four listed insurance companies have also emphasized agent quality improvements as well as an increase in overall agent number.

**Figure 6: Productivity per capita (Rmb per month)**

![Productivity per capita chart](chart.png)

*Sources: Company data, GF Securities Research*

**China Ping An: agent team has the best productivity** With an agent number of over 1.5m and high staff turnover, China Ping An manages agents in groups and evaluates agents according to their productivity and behavior risk. Thanks to a mature cross-selling system and the group's rich business resources, monthly per capita productivity for Ping An agents reached Rmb12,438 in 1H17, up 59% compared to the beginning of the year, and ahead of others in the industry. Meanwhile, first year premiums per agent grew by 18.2% and monthly income per agent increased by 14%. On the risk management side, the company will give greater autonomy to reliable agents and put in place special management measures and supervision for the 2% of agents with higher risk to improve overall agent quality.

**Figure 7: Monthly income per agent at China Ping An (Rmb)**

![Monthly income per agent chart](chart.png)

*Sources: Company data, GF Securities Research*
New China Life  Unlike its peers who focus on agent numbers to drive premium growth, New China Life has put more emphasis on agent quality. At end-Sept 2017, the company had 330,000 personal insurance agents, up 13% YoY, generating monthly comprehensive productivity of Rmb7,093, up 13% YoY. The agents in New China Life had a monthly average performance rate of over 50% compared with the industry average of 30%. Aiming for a high performance rate, high productivity and a high retention rate, productivity per agent has quickly improved despite a relatively small agent number.

China Pacific  China Pacific has also continued to increase agent productivity through core KPIs and staff structure improvements while expanding its agent size. New premiums per agent amounted to over Rmb6,000 as of end-Sept 2017 and has risen at a CAGR of 9.7% during 2011-16. Retention rate was 42.1% in 9M17, up 6.9% YoY. In 1H17, insurance policies sold per agent reached 2.54 per month, far higher than at China Ping An.

Figure 8: Monthly new insurance policies per agent

There are three major challenges when developing an insurance agent team in China: high staff mobility; dispersed agent distribution, which is hard to manage; lack of training resources in some remote areas. The listed insurance companies have explored different ways of overcoming these challenges: China Ping An relied on big data and cloud platform technologies to improve its management capabilities as well as agent training quality.

New China life designed an incentive system around sales, service, organization and management to improve overall productivity. China Pacific accelerated the development of its long-term protection-type insurance products and optimized regional distribution, instead of simply increasing commission incentives as it had done previously.

Meanwhile, with the insurance industry returning to being more protection oriented, product structure will continue to be optimized, with a rise in regular premiums and personal insurance, thereby helping NBV per agent to rise. CAGRs for NBV per agent were 15.04%, 2.66%, 6.53% and 7.22% for China Ping An, China Life, New China Insurance and China Pacific respectively during 2014-2016. Overall, China Ping An took the lead in the overall amount and growth of NBV per agent. In the short term, the quantity and quality of insurers’ agent teams will continue to be the two key drivers for premium growth in insurance industry.
Outlook: focus shifting to building high-quality agent teams

Rapid growth in insurance agent numbers may not be sustainable

The number of insurance agents stood at 8.0694m at end-2017, according to the CIRC, up 22.8% YoY. The cancellation of insurance sales tests in 2015 led to a sharp increase in the number of insurance agents. Given increasing awareness of protection-style insurance and supportive government industry policies, rapid growth in the number of agents has directly driven high growth in premiums and new business value.
But the rapid growth in agents may not continue over the long term as the proportion of insurance agents in the urban population in China is already close to that in developed insurance markets. The number of insurance agents grew at a CAGR of 12.04% during 2009-17 while the urban population grew by just 3%. In mature insurance markets, there is a relatively stable proportion of insurance agents of around 1%. As of end-2017, the CIRC announced that there were 8.07m insurance agents in China, or 0.82% of the urban population, whereas this was 1% in the US in 2016 and 0.86% in Japan in 2015. This implies that the rapid growth in agent numbers may slow and no longer be the main premium driver going forward.

### Jan premiums contribution may decline

Jan premium income is typically a significant indicator of insurers’ annual performance, and has accounted for an increasing proportion of total premiums during 2011-16 (except at New China Life), coming in between 19%-29% in 2016. Products promoted in Jan are usually short-term...
financial products with high premium contributions but a low value contribution. Given that Jan sales play an important role in indicating whole-year performance, insurers have arranged product promotion and agent recruitment accordingly. Therefore, the extensive sales of low value insurance products in Jan encourage insurers to hire more agents regardless of agent quality to further strengthen sales of the low value insurance products.

However, these kinds of products are not in line with the direction of development towards protective insurance products and require a high number of agents to achieve sales. The pursuit of a large number of agents could mean high human resource costs for insurers, so building a high quality agent team and improving NBV per agent is now key for sales channel development. Therefore, as growth in the number of agents levels off and product lines continue to be optimized, Jan sales may no longer be a good indicator for whole-year performance. In Jan 2018, there was a slowdown in YoY premium growth following the issuance of No. 134 Document as well as other regulatory guidance.

![Figure 13: Jan premiums/total premiums](image)

**Sources:** Company data, GF Securities Research

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Life</td>
<td>12%</td>
<td>-5%</td>
<td>73%</td>
<td>6%</td>
<td>44%</td>
<td>30%</td>
<td>-21%</td>
</tr>
<tr>
<td>China Ping An</td>
<td>17%</td>
<td>22%</td>
<td>45%</td>
<td>28%</td>
<td>42%</td>
<td>40%</td>
<td>21%</td>
</tr>
<tr>
<td>China Pacific</td>
<td>4%</td>
<td>-9%</td>
<td>32%</td>
<td>11%</td>
<td>60%</td>
<td>56%</td>
<td>24%</td>
</tr>
<tr>
<td>New China Life</td>
<td>20%</td>
<td>-10%</td>
<td>130%</td>
<td>6%</td>
<td>-25%</td>
<td>-22%</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Sources:** Company data, GF Securities Research

### Insurance brokers to play a bigger role

**Decreasing bancassurance contribution** Bancassurance used to play an important role in insurance product promotion. However, with increasing emphasis on protection-oriented insurance products in recent years, the proportion of premiums sold via bancassurance has declined significantly for listed insurance companies. At New China Life, bancassurance contributed 67.53% of total premiums in 2010 but this had decreased to 19.2% in 1H17. In the current market environment, we expect the contribution from bancassurance to continue to decline.
**Insurance brokers positioned for growth** We expect the number of insurance brokers to rise significantly to become one of the most important channels for insurance product promotion in China.

At present, personal insurance product promotion mainly relies on insurance agents. But small and medium-sized companies lost the opportunity to establish agent teams as the large insurance companies have dominated the agent recruiting market. On the other hand, the insurance broker channel is still developing in China.

Compared to insurance agents, insurance brokers have advantages in the following aspects: 1) insurance brokers can sell products from multiple insurers and sign agreements with multiple insurers at the same time, which makes insurance brokers more objective and more client-oriented during insurance product marketing than insurance agents who have to serve a particular insurer with limited product choice. 2) they are a lower cost sales channel for insurers as they only need to pay commissions but not any fixed salaries or other benefits.

In addition, the number of high-net-worth (HNW) individuals is rising rapidly as China’s economy continues to grow. The Hurun Research Institute reported that the number of HNW individuals with wealth of over Rmb10m was 1.34m at end-May 2016, up 10.7% compared with the beginning of the year. HNW individuals demand more and complicated protection which is unlikely to be met by just one insurer, whereas insurance brokers are able to flexibly combine insurance products from various insurers and make an individually tailored insurance solution based on HNW clients’ diversified protection needs.
New technologies to promote insurance sales

With the development of technologies and increasing internet penetration in China, online channels will also become an important source of future life insurance sales in China. As of end-2017, the number of internet users in mainland China had reached 772m, with a YoY growth rate of 5.6% and there were 40.74m new internet users in 2017, indicating continuous steady growth. The penetration rate was 55.8% in China, higher than the global average of 51.7% and the Asia average of 46.7%.

Given this market environment, insurance premiums sold online in China surged from Rmb3.2bn in 2011 to Rmb234.7bn in 2016, indicating a five-year CAGR of 136% and representing an increased contribution to total premiums, from 0.2% in 2011 to 7.6% in 2016. Life insurance...
overtook P&C insurance to account for the majority of insurance products sold online in 2015, and has accounted for more than 80% of products sold since 2016.

**Figure 79: China's insurance revenue from online sales (Rmb bn)**

![Graph showing China's insurance revenue from online sales](image)

*Sources: Wind, GF Securities Research*

**Figure 20: Life insurance accounts for more than 80% of all internet insurance premiums**

![Graph showing life insurance accounts for more than 80% of all internet insurance premiums](image)

*Sources: Wind, GF Securities Research*

**Internet channel advantages for life insurance products**

1) **Lower costs:** Costs related to selling life insurance products online are typically around 30% lower than selling through other channels. There are three reasons for this. First, big data and other technologies are used to optimize the design of online life insurance products for more accurate definition of target clients and their real needs, resulting in a lower cost for the product itself. Second, online selling involves greatly reduced intermediary commission and marketing costs. Third, internet and related technologies, such as intelligent underwriting and rapid claims, not only provide value-added services for insurance buyers, but also are convenient for insurers in terms of reducing operating costs and improving operating efficiency.
2) **Client data accumulation:** In traditional insurance sales, it is often not possible to accurately record and store customer data, which makes it difficult for insurers to immediately recognize changes in demand and the market situation. Instead, various kinds of client data can be accurately and immediately recorded through internet insurance product sales, with less loss of information and lower chance of errors. Comprehensive information accumulation enables insurers to design better insurance products based on real needs. Moreover, internet and related technologies make individually-tailored pricing possible with an applicant's historical data used to judge the probability of an insured loss occurring.

3) **C2B model emerging in online insurance selling:** In the past, insurers designed and sold products and consumers passively accepted information on products. The internet may change this by allowing customers to self-tailor insurance products online according to the personal needs. More customers will be able to take advantage of customized insurance that was previously only available to HNW individuals. Insurers will also receive feedback from clients and enhance risk-pricing capabilities through big data.

As industry leaders, the four listed insurers have actively explored the internet insurance business, which has begun to bear fruit. China Ping An, one of the early adopters of the internet and other related technologies, has established a comprehensive online financial services platform to connect various business segments in the group and to better connect with its offline businesses. The company has continued to hire experienced internet professionals and demonstrated a strong internet strategy.

**Investment**

The number of insurance agents will continue to play a key role in the short term, but the rapid growth in agent numbers will not be sustainable over the long run and the industry’s focus will shift to building more efficient and high-quality agent teams. At the same time, product offerings will be transformed, as companies focus more on protection-oriented products. Insurance brokers and online sales will become increasingly important in the promotion of life insurance.

Listed insurance companies will continue to dominate amid this industry transition and have a competitive advantage given their early channel establishment. We recommend China Ping An, China Pacific, New China Life Insurance and China Life Insurance.

**Figure 21: Key data**

<table>
<thead>
<tr>
<th></th>
<th>EV 1</th>
<th>1YVNB</th>
<th>F/EV</th>
<th>VNBX</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Ping An</td>
<td>30.24</td>
<td>34.89</td>
<td>43.62</td>
<td>53.93</td>
</tr>
<tr>
<td>New China Life</td>
<td>33.10</td>
<td>41.49</td>
<td>48.36</td>
<td>57.16</td>
</tr>
<tr>
<td>China Pacific</td>
<td>22.69</td>
<td>27.14</td>
<td>31.43</td>
<td>36.73</td>
</tr>
<tr>
<td>China Life</td>
<td>19.82</td>
<td>23.07</td>
<td>25.59</td>
<td>29.26</td>
</tr>
<tr>
<td>Industry Average</td>
<td>1.27</td>
<td>1.07</td>
<td>1.07</td>
<td>1.07</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>EPS</th>
<th>BPS</th>
<th>PE</th>
<th>PB</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Ping An</td>
<td>2.97</td>
<td>3.41</td>
<td>4.20</td>
<td>5.68</td>
</tr>
<tr>
<td>New China Life</td>
<td>2.76</td>
<td>1.58</td>
<td>1.93</td>
<td>2.75</td>
</tr>
<tr>
<td>China Pacific</td>
<td>1.96</td>
<td>1.33</td>
<td>1.65</td>
<td>2.41</td>
</tr>
<tr>
<td>China Life</td>
<td>1.23</td>
<td>0.68</td>
<td>1.18</td>
<td>1.47</td>
</tr>
<tr>
<td>Industry Average</td>
<td>2.34</td>
<td>2.86</td>
<td>3.88</td>
<td>4.33</td>
</tr>
</tbody>
</table>

*Sources: Wind, GF Securities Research*
Figure 22: Valuations

<table>
<thead>
<tr>
<th></th>
<th>A share price (Rmb)</th>
<th>H share price (HK$)</th>
<th>H/A share price</th>
<th>P/EV in A share market</th>
<th>P/EV in H share market</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Ping An</td>
<td>69.32</td>
<td>83.50</td>
<td>97%</td>
<td>1.99</td>
<td>1.59</td>
</tr>
<tr>
<td>New China Life</td>
<td>53.87</td>
<td>45.85</td>
<td>69%</td>
<td>1.30</td>
<td>1.11</td>
</tr>
<tr>
<td>China Pacific</td>
<td>40.39</td>
<td>38.15</td>
<td>76%</td>
<td>1.49</td>
<td>1.28</td>
</tr>
<tr>
<td>China Life</td>
<td>27.51</td>
<td>23.15</td>
<td>68%</td>
<td>1.19</td>
<td>1.08</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>A share price (Rmb)</th>
<th>H share price (HK$)</th>
<th>H/A share price</th>
<th>P/B in A share market</th>
<th>P/B in H share market</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Ping An</td>
<td>69.32</td>
<td>83.50</td>
<td>97%</td>
<td>3.47</td>
<td>3.02</td>
</tr>
<tr>
<td>New China Life</td>
<td>53.87</td>
<td>45.85</td>
<td>69%</td>
<td>2.89</td>
<td>2.65</td>
</tr>
<tr>
<td>China Pacific</td>
<td>40.39</td>
<td>38.15</td>
<td>76%</td>
<td>2.78</td>
<td>2.55</td>
</tr>
<tr>
<td>China Life</td>
<td>27.51</td>
<td>23.15</td>
<td>68%</td>
<td>2.63</td>
<td>2.31</td>
</tr>
</tbody>
</table>

Sources: Wind, GF Securities Research

**Risks** Slower-than-expected agent growth and adjustment of product offerings may lead to a decrease in premium growth; improvements in quality in agent teams miss expectations; interest rate volatility and investment uncertainty affect performance at insurance companies.
Rating definitions

Benchmark: Hong Kong Hang Seng Index
Time horizon: 12 months

<table>
<thead>
<tr>
<th>Company ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buy</strong></td>
</tr>
<tr>
<td><strong>Accumulate</strong></td>
</tr>
<tr>
<td><strong>Hold</strong></td>
</tr>
<tr>
<td><strong>Underperform</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive</strong></td>
</tr>
<tr>
<td><strong>Neutral</strong></td>
</tr>
<tr>
<td><strong>Cautious</strong></td>
</tr>
</tbody>
</table>

Analyst Certification

The research analyst(s) primarily responsible for the content of this research report, in whole or in part, certifies that with respect to the company or relevant securities that the analyst(s) covered in this report: (1) all of the views expressed accurately reflect his or her personal views on the company or relevant securities mentioned herein; and (2) no part of his or her remuneration was, is, or will be, directly or indirectly, in connection with his or her specific recommendations or views expressed in this research report.

Disclosure of Interests

(1) The proprietary trading division of GF Securities (Hong Kong) Brokerage Limited (“GF Securities (Hong Kong)”) and/or its affiliated or associated companies do not hold any shares of the securities mentioned in this research report.
(2) GF Securities (Hong Kong) and/or its affiliated or associated companies do not have any investment banking relationship with the companies mentioned in this research report in the past 12 months.
(3) Neither the analyst(s) preparing this report nor his/her associate(s) serves as an officer of the company mentioned in this report and has any financial interests or hold any shares of the securities mentioned in this report.

Disclaimer

This report is prepared by GF Securities (Hong Kong). It is published solely for information purpose and does not constitute an offer to buy or sell any securities or a solicitation of an offer to buy, or recommendation for investment in, any securities. The research report is intended solely for use of the clients of GF Securities (Hong Kong). The securities mentioned in the research report may not be allowed to be sold in certain jurisdictions. No action has been taken to permit the distribution of the research reports to any person in any jurisdiction that the circulation or distribution of such research report is unlawful. No representation or warranty, either express or implied, is made by GF Securities (Hong Kong) as to the completeness of the information contained in the research report. GF Securities (Hong Kong) accepts no liability for all loss arising from the use of the materials presented in the research report, unless is excluded by applicable laws or regulations. Please be aware of the fact that investments involve risks and the price of securities may be fluctuated and therefore return may be varied, past results do not guarantee future performance. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. The report is not to be taken in substitution for the exercise of judgment by respective recipients of the report, where necessary, recipients should obtain professional advice before making investment decisions.

GF Securities (Hong Kong) may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in the research report. The points of view, opinions and analytical methods adopted in the research report are solely expressed by the analysts but not that of GF Securities (Hong Kong) or its affiliates. The information, opinions and forecasts presented in the research report are the current opinions of the analysts as of the date appearing on this material only which may subject to change at any time without notice. The salesperson, dealer or other professionals of GF Securities (Hong Kong) may deliver opposite points of view to their clients and the proprietary trading division with respect to market commentary or dealing strategy either in writing or verbally. The proprietary trading division of GF Securities (Hong Kong) may have different investment decision which may be contrary to the opinions expressed in the research report. GF Securities (Hong Kong) or its affiliates or respective directors, officers, analysts and employees may have rights and interests in securities mentioned in the research report. Recipients should be aware of relevant disclosure of interest (if any) when reading the report.

Copyright © GF Securities (Hong Kong) Brokerage Limited.
Without the prior written consent obtained from GF Securities (Hong Kong) Brokerage Limited, any part of the materials contained herein should not (i) in any forms be copied or reproduced or (ii) be re-disseminated.