
1 Fanhua Q4 and Full Year 2023 Earnings Conference Call Script

2 Operator:

3 Thank you for standing by for Fanhua's Fourth Quarter 2023 earnings conference call. At this
4 time, all participants are in listen-only mode. All lines have been placed on mute to prevent
5 background noise. After the management's prepared remarks, there will be a
6 question-and-answer session. Please follow the instructions given at that time if you would
7 like to ask a question. For your information, this conference call is now being broadcasted
8 live over the internet. Webcast replay will be available within three hours after the conference
9 is finished. Please visit Fanhua's IR website at ir.fanhgroup.com under the "Events &
10 Webcasts" section.

11 Today's conference is being recorded. If you have any objections you may disconnect at this
12 time. I would now like to turn the meeting over to your host for today's conference, Ms. Oasis
13 Qiu, Fanhua's investor relations manager.

14 Oasis Qiu: Thank you. Good Morning and good evening everyone. Welcome to FANHUA's
15 Second Quarter 2023 earnings call. A replay will also be available on our website after today's
16 call.

17 Please note that the discussion today will contain forward-looking statements made under the
18 Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. These
19 statements are made based on management's current expectations and beliefs concerning
20 future events impacting the Company and therefore may be impacted by a number of business
21 risks and uncertainties that could cause our actual results to differ materially from those
22 projected or anticipated. Such risks and uncertainties include but are not limited to those
23 outlined in our filings with the SEC, including our registration statement on Form 20-F. We
24 do not undertake any obligation to update this forward-looking information, except as
25 required under applicable law.

26 Joining us today are our Vice-chairman and chief executive officer, Mr. Yinan Hu, chief
27 financial officer, Mr. Peng Ge, chief strategy officer, Mr. Ben Lin, and chief operating officer
28 Mr. Lichong Liu. Mr. Hu will start the call by sharing his view on recent market trends and
29 our strategy proposition, followed by Ben who will provide a review of our financial and
30 operational highlights and discuss our business outlook going forward. There will be a Q&A
31 session after the prepared remarks. Please note that you can find our presentation material
32 relevant to this call from our official website. With that, I will turn the call over to our
33 co-chairman and CEO, Mr. Hu. Mr. Hu, you may begin.

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Part One

38 **Yinan Hu, Chief Executive Officer**

39 Good morning and good evening! Thank you for joining us on our Q4 and full 2023 year
40 earnings call.

41 Reflecting on the past year, 2023 proved to be a year of challenges and transformations for the
42 entire life insurance industry. The profound changes in regulatory policies, particularly the
43 downward adjustment of the pricing rate and the implementation of "Filed and Actual Fee
44 Consistency" requirement in the bancassurance channel, presented unprecedented tests for the
45 industry. Fanhua was no exception; however, it was precisely within this challenging
46 landscape that we showcased resilience and achieved stable growth.

47 In the full year of 2023, we achieved a total life insurance premiums of RMB16.4 billion,
48 representing a 28.7% year-on-year growth, continuing to outpace the overall industry growth.
49 First year premiums reached RMB3.8 billion, marking a 30.3% year-on-year growth.
50 Leveraging the efficiency gains from digitization and robust cost control measures, we
51 realized an operating income of RMB195.8 million, up 16.1% year-on-year. Net income
52 attributable to shareholders reached RMB280.4 million, reflecting a growth of 179.7%
53 year-on-year. This solid performance demonstrates the successful execution of our strategy.

54 Over the past year, we have continually strengthened our strategy of driving growth through
55 "professionalization, specialization, digitalization, and open platform," yielding a series of
56 pivotal achievements. For instance, we have consistently bolstered our pool of top-tier agents,
57 enhancing their professional capabilities, with the contributions from top-performing agents
58 and increased productivity of our sales team at all levels serving as pivotal drivers of our
59 growth. Our digital platform has continued to deliver efficiency gains, empowering our
60 insurance advisors while also providing our customers with superior service experiences. The
61 diversified service ecosystem we have built has established a solid foundation for our
62 company's differentiation and long-term development. Furthermore, our open platform and
63 merger and acquisition model have also emerged as key drivers of our company's growth.

64 The forthcoming fee consistency requirement and commission cap, although may inevitably
65 pose significant challenges to the industry, also presents enormous opportunities. We believe
66 that amidst this phase of deep regulatory reform accelerating industry transformation,
67 scale-driven leading players, companies able to offer diversified services, and digitally
68 intelligent platform companies will find themselves in more advantageous positions.
69 Leveraging our strategic achievements in specialization, digitization, open platforms, and
70 service-oriented initiatives over the past two years, we are confident that Fanhua will emerge
71 as the biggest beneficiary.

72 Meanwhile, our internationalization strategy is steadily advancing. Hong Kong, serving as the
73 cornerstone of our international expansion efforts, has seen the official launch of two
74 subsidiaries with Asia Insurance for business operation, providing a solid foundation for our
75 global business layout.

76 Recently, we signed a strategic framework agreement with Singapore White Group, marking a
77 significant milestone in our development journey. This collaboration represents a strategic
78 upgrade towards artificial intelligence and internationalization. Through means such as
79 mergers and acquisitions, we will invest in high-quality overseas assets, deepening our
80 presence in family services including insurance, wealth management, education, health care,
81 and family governance. This move aims to achieve horizontal and vertical integration,
82 allowing us to offer comprehensive and efficient family asset allocation services to our clients.
83 Moreover, it will accelerate our expansion in international markets, paving the way for
84 broader development opportunities and propelling the company to greater heights.

85 Looking ahead, we firmly believe that the industry will gradually move towards consolidation,
86 forming an oligopolistic landscape dominated by a few major players, with services and
87 technology driving the way forward. We are poised to emerge as the biggest beneficiary of
88 this transformation.

89 Embracing the "insurance + services + technology" model, we will provide comprehensive
90 products and diversified services to our customers, while leveraging technology to enhance
91 service efficiency. Our focus will be on serving the "high-net-worth customers and MDRT",
92 which are also our core assets.

93 The year 2024 will be pivotal for our development. We will further expand our scale through
94 industry-leading technology platforms, comprehensive service capabilities, and strong capital
95 to acquire high-quality assets. We believe that in the journey ahead, we will continue to
96 maintain our leading position, create more value for our customers, and achieve the long-term
97 development goals of the Company.

98 **Ben Lin, Chief Strategy Officer**

99 Impacted by two significant regulatory policy changes, specifically, the pricing rate change
100 and commission cap at bancassurance channel, the life insurance industry witnessed a
101 rollercoaster ride in premium growth throughout 2023. Starting with single-digit growth in the
102 first quarter, it soared to double-digit growth in the second quarter due to the front-loaded
103 demand prior to pricing rate adjustment, then reverted to single-digit growth in the third
104 quarter, and ultimately recorded negative growth in the fourth quarter, resulting in a 9.9%
105 year-on-year increase for the entire year. Amidst the dual pressures of sluggish performance
106 on both the liability and investment sides, major insurers are expected to experience
107 significant decline in profitability, as indicated by the 14.9% negative growth in average
108 profits of listed insurance companies in the first nine months.

109 Against this backdrop, Fanhua continued to outperform the industry with stellar performance.
110 In 2023, we achieved RMB16.1 billion in total life insurance premiums, growing by 29.8%
111 year-on-year and net income attributable to shareholders reached RMB280.4 million, up
112 179.7% year-on-year. Overall, we are very pleased with our financial results given the
113 backdrop of a challenging macro and insurance industry environment in 2023. More
114 importantly we are particularly proud of the strategic executions we have carried out to
115 achieve these results.

116 Throughout 2023, we successfully executed each strategic initiative as we had planned. We
117 firmly believe that these strategic achievements will set us on a higher quality and sustainable
118 growth path. I would like to highlight five key strategic achievements:

- 119 1. Firstly, our strategic focus on improving our agent quality and productivity bore
120 significant results and is the major driver of our success in 2023. Our MDRT agents and
121 RMB100K premiums agents have emerged as major contributors to premiums. These
122 agents saw productivity increasing by 15.4% and 10.3%, respectively and they accounted
123 for 65% of our total first year premiums, up by 9 percentage points from last year. These
124 achievements helped offset the significant decline in overall agent number – a metric that
125 we are no longer focus on.
- 126 2. Secondly, significant achievements in digital technology empowerment — Based on the
127 digital infrastructure built on big data, intelligent algorithms etc, Fanhua has built an
128 industry-leading digital empowerment system, covering five major systems including
129 operational support and management empowerment, professional growth and IP
130 promotion system, customer management system, customer service system, and
131 transaction support system. Among the many important tools in our digital empowerment
132 system, in 2023, Fanhua focused on strengthening digital marketing empowerment.
133 Through functions such as Digital Avatar, Intelligent Recommendation Systems,
134 Insurance AI Assistants, and Intelligent Customer Marketing, it helps our salespeople
135 achieve intelligent management in customer acquisition, engagement, and retention. The
136 cost reduction and efficiency improvement brought by the digital empowerment system
137 to Fanhua are evident. In 2023, the operating expense ratio, excluding share-based
138 compensation expenses and amortization of intangible asset recognized in subsidiaries
139 aquisition, decreased by 3.7 percentage points from last year, from 29.4% to 25.7%.
140 Agents who frequently use this system have productivity 1.6 times higher than those who
141 do not.
- 142 3. Thirdly, our Open Platform strategy accounted for over 30% of our total new business. By
143 the end of 2023, we have signed contracts with 854 channels, an increase of 63 from last
144 quarter. These partnerships contributed to a total first year premiums of over RMB1.1
145 billion, accounting for over 32.4% of our total new business. There are also insurance
146 companies, human resources consultancy agencies, and numerous other 2B channels
147 expressing interest in further collaboration with us to use our open platform system and
148 digital tools to sell life insurance products in their businesses.

149 4. Fourthly, our ‘Service Oriented’ ecosystem continues to take shape with evident results.
150 We have developed a robust service ecosystem beyond just life insurance, but covering
151 trust service, family office, health care and wellness, overseas asset allocation, elite
152 education, tax consulting, family affairs processing, etc., providing customers with rich
153 experience scenarios and substantial support to sales agents in insurance marketing.

154 During 2023, we have held 256 FOC (Family Office Consultants) training sessions and
155 salons, training and certifying more than 1,200 family office advisors who have since
156 served a total of 500 families in assisting them to set up a total of 450 trusts, with total
157 asset value exceeding RMB 5.6 billion, and facilitating approximately RMB100 million
158 in first year premiums.

159 By the end of 2023, more than 20,000 FRP, or Fanhua Retirement Planners have been
160 trained and certified. During 2023, nearly 300 visits to Continuing Care Retirement
161 Community were organized, helping nearly 1,000 customers lock in rights for long-term
162 stay in those CCRCs, and more than 4,000 customers obtained rights for sojourn in
163 CCRSs across the nation, helping to achieve over RMB600 million first year premiums.

164 As of the end of 2023, Fanhua has trained and certified more than 20,000 policy
165 trusteeship experts, serving more than 130,000 policy trusteeship families, with 630,000
166 policies under trusteeship, generating cross-sale and upper-sales to 30,000 customers,
167 facilitating about RMB550 million in first year premiums.

168 **5. Last but not least, we’ve made significant progress in our global expansion strategy.**
169 **Since the establishment of two subsidiarries with Asia Insurance in Hong Kong in**
170 **October, the insurance brokerage company has completed the formation of its core**
171 **business team and signed contracts with about 10 major insurance companies in**
172 **Hong Kong, ensuring the ability to meet diverse customer needs. Operations**
173 **officially commenced in early February. On the technology side, we are actively**
174 **engaging with a number of insurers and we are confident that our technology**
175 **business will have its own milestones in 2024.**

176 Looking ahead to 2024, the insurance industry, especially the independent intermediary
177 channel, will face a series of challenges and opportunities. Due to the significant uncertainty
178 surrounding the specific timing and extent of the implementation of the requirement for
179 consistency in reported and actual fees in independent intermediary channel, we are unable to
180 make precise predictions regarding our annual performance targets. However, what can be
181 anticipated is that while the regulatory change may lead to short-term pains, it will also bring
182 important opportunities for the development of our open platform.

183 Our strategic focus in 2024 include:

184 **1. Continue to build a professional and specialized sales team—we aim to increase our**
185 **market share by growing the number of high quality agents, particularly MDRTs, taking**

186 advantage of the market consolidation opportunity that is likely to arise as a result of the
187 commission cap to be implemented.

188 **2. Enhance our capabilities to serve high-net-worth individual clients — we will**
189 **continue to build out our Service ecosystem, supplementing our offerings in financial**
190 **services to education, elderly care and overseas travel.**

191 **3. Bring in high-quality assets while going global, accelerating internationalization and**
192 **digitization process— we have already been invited by insurers to setup operations in**
193 **Macau and Singapore.**

194 **4. Pursue merger and acquisition opportunities to achieve horizontal and vertical**
195 **integration — given our strong financial position, with over 1.4 bn RMB in net cash and**
196 **the backing of our potential strategic shareholder, White Group, we are probably the most**
197 **well resourced intermediary in the region, with the capacity and capability to undertake**
198 **attractive and accretive M&A opportunities both inside and outside of mainland China.**

199 **Thank you.**

200 **Oasis Qiu**

201 **Now the floor opens for the Q&A session.**

202

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

204 **Yuyu Zhang, CICC**

205 1. My first question is about the impact of the upcoming regulation on commission cap in the
206 intermediary channel. You've made a lot of discussions before in this regards. But can we be a
207 little bit more precise on this? According to your observation, to what extent you may expect
208 the commission revenue be cut? Is there any numbers you can share with us? My second
209 question is for the overseas business. Could you share more details on what you've done in
210 2023 and where do in 2024? And about White Group, how can FANHUA cooperate with it to
211 achieve more market share in the insurance intermediary market? Thank you very much.

212 **Lichong Liu, Chief Operating Officer (translated)**

213 The requirement for consistency in reported and file fees will be implemented within the
214 independent brokers channel for sure. Although the regulatory body has not yet provided a
215 specific timeline for implementation, industry rumors suggest it may occur in April.

216 Regarding the extent of the commission cap, there is also no specific guidance from the
217 regulatory body. However, there is a consensus among many insurance companies that the
218 commission rate for similar types of products may decrease by 30% to 40%. Well, it's for certain
219 that the business for independent insurance brokers will be severely impacted.

220 Currently, insurance companies are strategizing differently to adapt to market changes. They
221 are shifting their focus from whole life insurance products to participating insurance products
222 to mitigate some of the loss in commission income for independent insurance intermediaries.

223 The requirements for a commission cap represent an inevitable trend, driven by the ongoing
224 decline in interest rates. However, this trend may bring short-term challenges to the industry.
225 Nonetheless, we are fully prepared for these changes. We have expanded our platform models and
226 anticipate that this regulatory shift will encourage more collaboration with small and
227 medium-sized insurance intermediary companies on our platform. This, in turn, will help us
228 maintain and even enhance our market share. Thank you.

229 **Ben Lin, Chief Strategy Officer**

230 Okay, I'll answer that the first part of the second question with regard to our progress in the Hong
231 Kong market. So, we established the two joint ventures with our partner Asia Insurance back in
232 late October. So it's been about five months, and I'm very pleased to say that we have made very,
233 very significant progress with our two joint ventures.

234 Firstly, in terms of our teams set up in office. So we now basically have two offices in Hong Kong.
235 One is our brokerage business and the other one is our technology business. In our brokerage
236 business, we have now built a team of 13 members. They're basically in the administration, in the
237 technical representative areas to facilitate contract signing.

238 In the period of November to January together with the management team from Asia Insurance,
239 we met with all major life insurance in Hong Kong to start the process of contract signing. So far
240 we have signed contract with 10 insurers and over the last few weeks we have received the
241 commission schedule from some of the insurers. So I'm very, very pleased to say that we can
242 officially commence business from this week.

243 In terms of where we differentiate in Hong Kong and why we are confident that we can be
244 successful in our first market of Hong Kong? I think it comes down to really two things. Firstly,
245 we are the only broker in Hong Kong in fact – in the region that's backed by two listed companies
246 with abundant resources. And this provides us with abundant opportunity and capability to offer
247 comprehensive services to our customers.

248 Secondly is on the technology front. As I've highlighted in the past, the broker technology segment
249 in Asia remains very, very underdeveloped. Even in mature markets like Hong Kong, a lot of the
250 contract signing is still very paper-based compared to 100% digital or paperless in China. So we're
251 the only broker with more than 200 in-house IT support staff that can basically transfer a lot of the
252 know-how that we've built in the Chinese market to Hong Kong.

253 In the discussions that we had with all the life insurers from the period of November to January,
254 the focus was really on two topics. The first one is obviously contract signing, but more
255 importantly, the second one is really on IT integration. And I'm very pleased to say that all insurers
256 expressed a strong interest not only to work with us in terms of doing the business of selling, but
257 they're also very interested in our digital capability and how we can work together to improve the
258 sales technology in the Hong Kong market. And what's interesting is we're not only trying to work
259 with these insurers to develop technology that would help them to work with local brokers. But

260 more importantly, we're now also convincing them that maybe, maybe they could also outsource
261 their in-house sales technology to FANHUA. Because the reality is we have spent an enormous
262 amount of resources over the last four, five years in our sales technology capability. And a lot of
263 these know-how, I think is probably 10 years ahead of the Hong Kong market, even compared to
264 insurers.

265 So, we're very, very confident that our technology capability and efficiency and differentiation is
266 going to be one of our strong competitive advantages in the Hong Kong market. And although we
267 just commenced our Hong Kong business, we're already invited by a number of insurers to
268 basically start operations in Macau and also in Singapore, because in these markets, there is also a
269 lack of presence in terms of a major broker that has strong shareholder backing as well as
270 technology capability. So, one step at a time, I wouldn't be too surprised that in 2024 we will
271 expect – we will expand beyond Hong Kong.

272 So the second question – the second part of the second question, Mr. Hu will talk about our
273 progress with Singapore's White Group

274 **Yinan Hu, Founder, Vice Chairman & Chief Executive Officer (Translated)**

275 So, look, first and foremost, what we want to reiterate is that our collaboration would not change the
276 positioning of FANHUA and our strategic direction. Last year, we issued our new mission statement
277 for the company, and we made it very clear that our objective going forward is to become the regional
278 service provider for family services, broadening our capability beyond insurance, like into education,
279 retirement, et cetera. So what we're advocating is insurance plus model beyond Mainland China. And
280 we think this opportunity to have [ph] our recent White Group is very, very timely for us.

281 So the synergy that can bring about with our cooperation White Group is really based on to upgrade in
282 terms of our capability. The first one is that the Singapore's White Group have much better capability in
283 terms of capital raising, particularly in the international market compared to FANHUA. Secondly is
284 that their track record and capability in mergers and acquisitions is also very evident given the history
285 and success. We think these two capabilities serves as important upgrades for FANHUA as we pursue
286 our strategy of going global through organic and inorganic strategies.

287 M&A will be a core part of our strategy because we think that the opportunity for consolidation in the
288 market, not only in China but across the region, is very, very significant. And really, we'll focus on two
289 areas. Number one is all our mergers and acquisitions will focus on bringing capabilities to improve or
290 help us execute on our strategy of developing a professional sales team across the region. And then,
291 secondly, is helping us to broaden our services to high net worth clients.

292 So, without a doubt, the biggest change to our industry from 2024 onwards is the commission cap. And
293 we think if you look at the regulatory purpose of the commission cap is really to drive higher quality
294 growth. Now, how do you achieve that? We think at the end it comes down to upgrading your
295 capability. That's going to be very, very important. So we think, the commission cap is the right thing
296 for the industry. We fully embrace it and our strategy is on basically putting the resources on improving
297 our capability so that in this environment we will become the biggest beneficiary

298 Oasis Qiu:

299 Thank you for joining us on today's conference all . If you have any further question, please feel
300 free to contact us.

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

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