

**中国平安 PINGAN**

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# **The China Opportunity in the Post-Crisis Era**

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Group President***

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# Summary

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## I THE CHINA GROWTH STORY...

Despite recent volatility, the Chinese market remains very attractive

- *Fundamentals driving the extraordinary growth of the Chinese economy during the past two decades remain strong*
- *These fundamentals and appropriate government policy adjustments enabled swift recovery from crisis and will support sustained growth going forward*

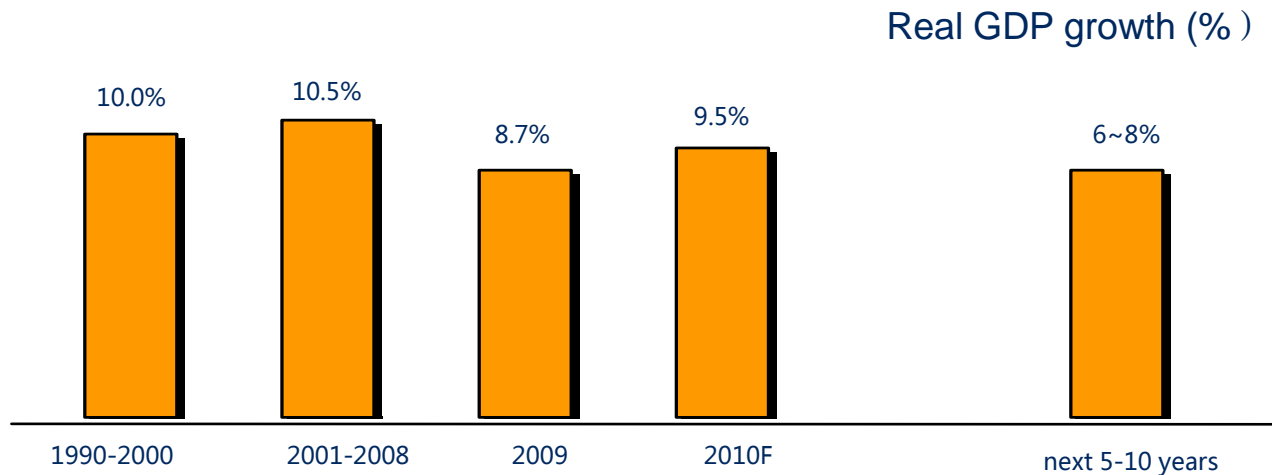
## II THE PING AN GROWTH STORY...

Ping An, born of Chinese economic reform, has built leading positions and advantages to fully exploit future growth of the Chinese financial market

- *Ping An has achieved much faster growth than the economy during the past two decades, and is leading the recovery from the crisis as evident from the rapid market share gains and growth in our insurance, banking, and investment businesses*
- *Our integrated financial services model, our innovative capabilities in product and distribution, and centralized operating platform, put us in a very strong position to capture future growth opportunities in China, particularly in the retail and SME segments*

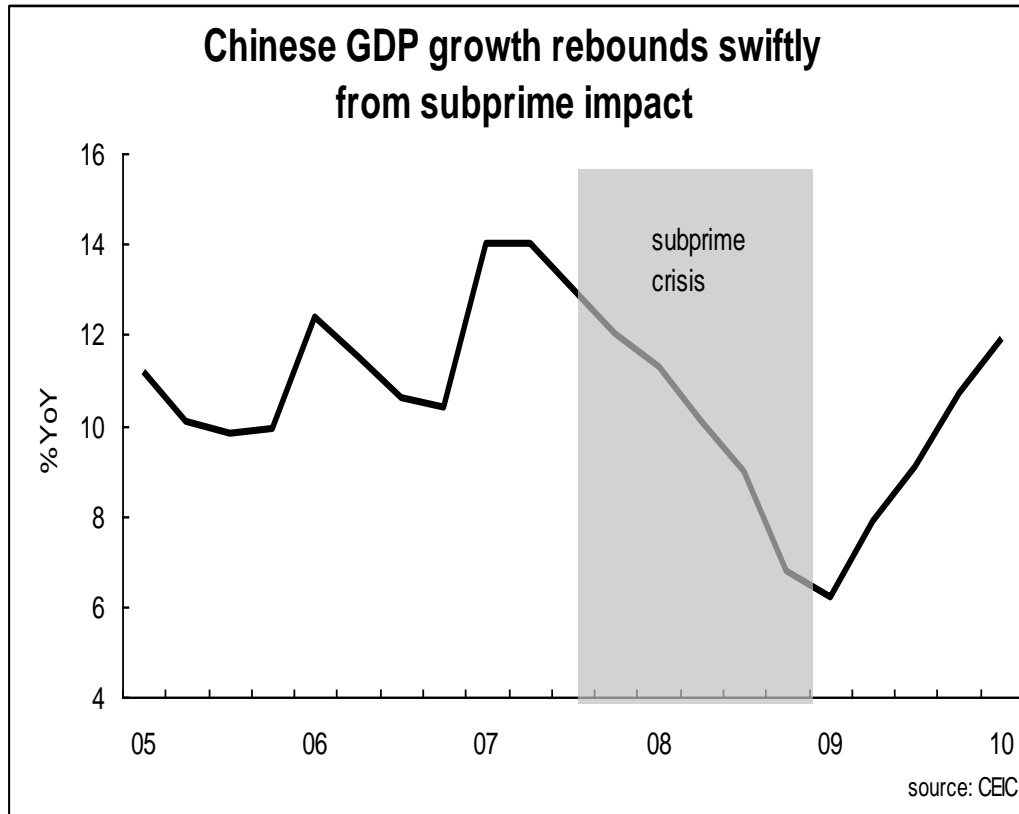
# I THE CHINA GROWTH STORY...

Over the last 2 decades, China has sustained consistent economic growth and continued urbanization



- Growth well sustained through different economic & interest rate cycles
- Development and reform momentum continued despite local inflationary shocks and multiple regional/global crises
- Major overhaul and recapitalization of the financial sector completed

# Though affected by the financial crisis in 2008, China was subsequently leading the global recovery



- Due to prompt government response and a functioning banking system, China managed to become the first major economy to recover from the subprime impact and grow strongly post-crisis
- By 1Q10, Chinese GDP growth was up 11.9% YoY

# Short-term challenges remain but hard landing unlikely, medium term outlook positive with strong fundamentals

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- **Concerns about China's asset bubble and hindering its structural rebalancing are overblown:**
  - *The sharp run-up in China's asset prices has been underpinned by strong fundamentals and funded by savings (not credit, as in the US)*
  - *China's economic structure shows that its rebalancing has started*
- **Policy misstep causing economic hard-landing unlikely:**
  - *Moderating economy reduces risks of economic over-heating and inflation*
  - *Policy adjustments remain ahead of the curve and reduce the risk of draconian policy measures later*
- **Financial liberalization has further room to run:**
  - *The introduction of ChiNext in Oct 09 provides a venture exchange financing platform for SMEs*
  - *Stock index futures and short-selling launched in 2010 provide hedging tools*
- **Unleashing consumption power:**
  - *Spending on health care and education has been increasing since 2006*
  - *Improvement of the social safety net will enhance consumer confidence and spending power; release pent-up demand in countryside*
- **Investment theme strengthened with cheaper Chinese valuation:**
  - *Stock market valuation coming down after recent correction*
  - *PE comparable to Asia's major markets, but economic fundamentals stronger*

# What bubble?

Figure 1: No credit bubble in China

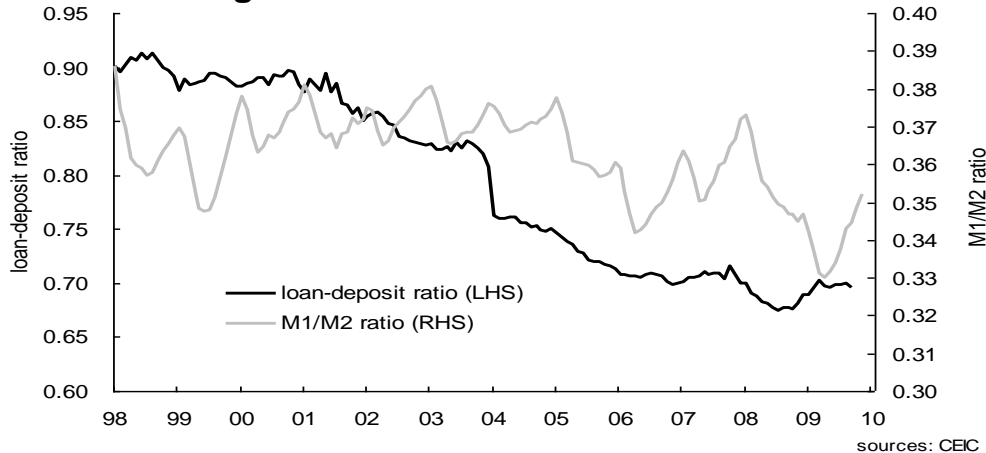
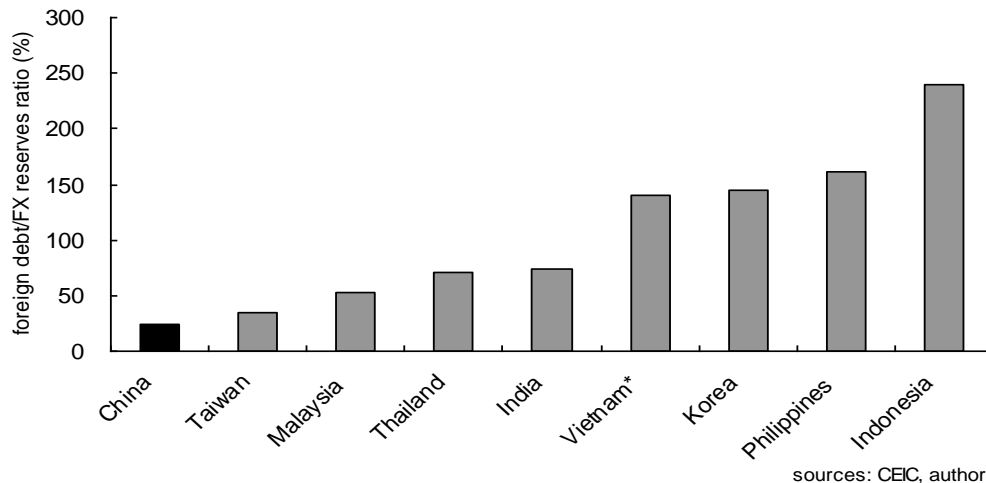


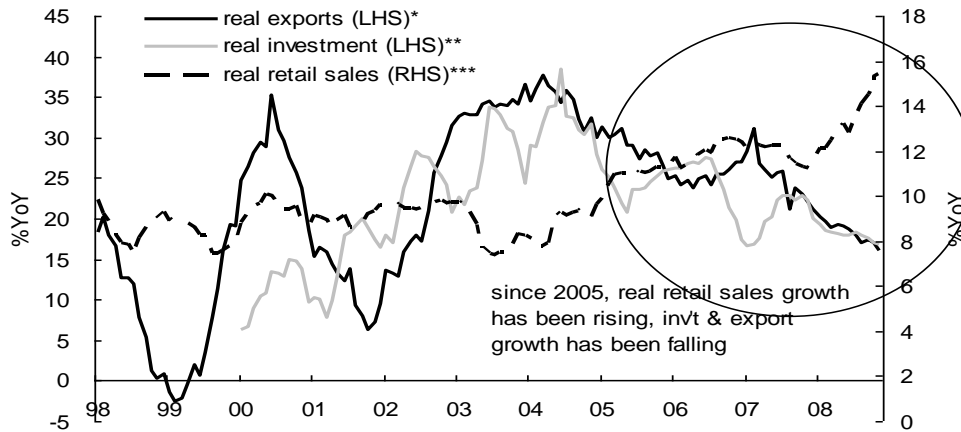
Figure 2: China has little foreign debt (2008)



- Sharp run-up in Chinese asset prices funded by savings (cash) not credit
- No evidence for excessive lending and speculative money building up
- Beijing has acted early to prevent bubbly conditions from spreading
- Little foreign debt => the Chinese system is not held hostage by foreign creditors in case of a loss of foreign confidence

# Growth re-balancing has started

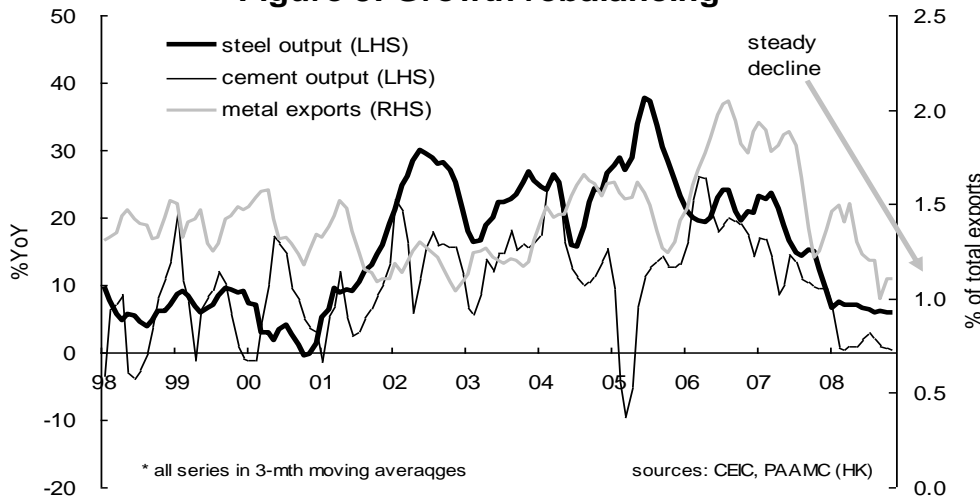
**Figure 4: Initial signs of structural shift in growth**



All series are 6mma, \*deflated by HK re-export prices, \*\*deflated by corporate good prices, \*\*\*deflated by CPI

sources: CEIC, PAAMC

**Figure 5: Growth rebalancing\***



\* all series in 3-mth moving averages

sources: CEIC, PAAMC (HK)

- China's growth structure might have started to shift => less export and investment growth but more consumption
- To boost consumption: policies to facilitate urbanization, improve social safety net, shift income distribution
- Growth of export industries with excess capacity and significant environment damages have been falling
- These structural trends, if sustained, will provide a strong underpinning for Chinese asset values in the long run

# Economic hard-landing unlikely

Figure 3a: Chinese money and loan growth rolling over

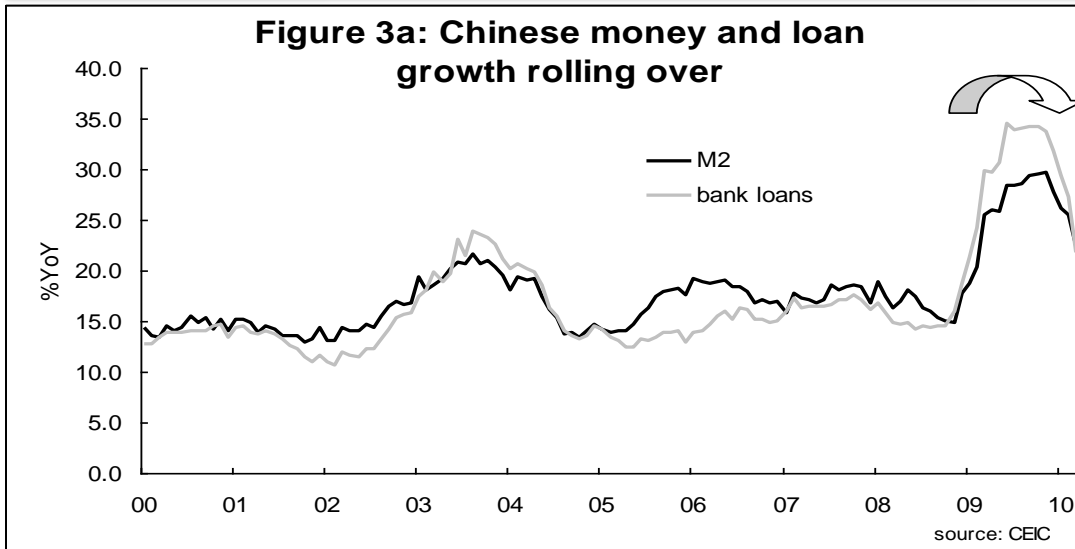
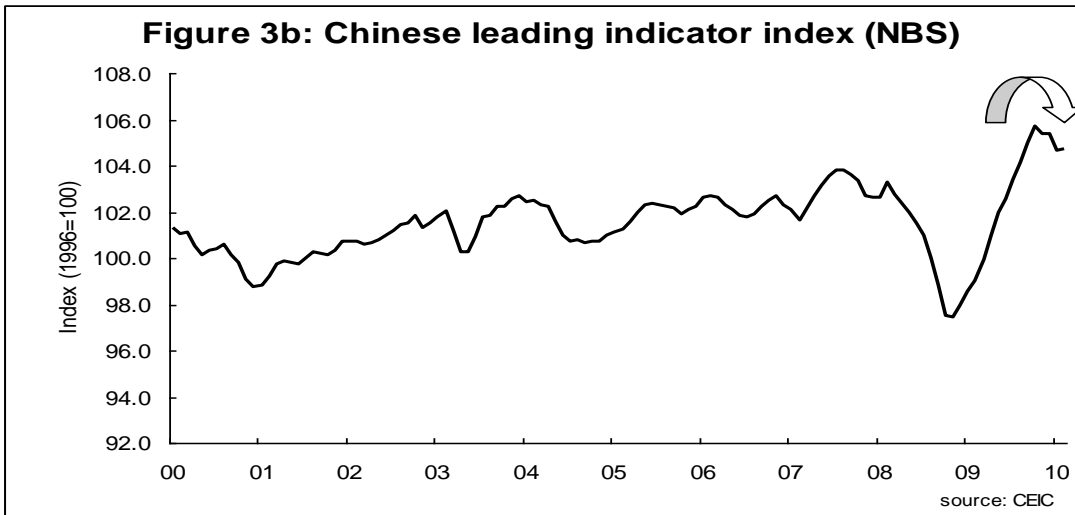


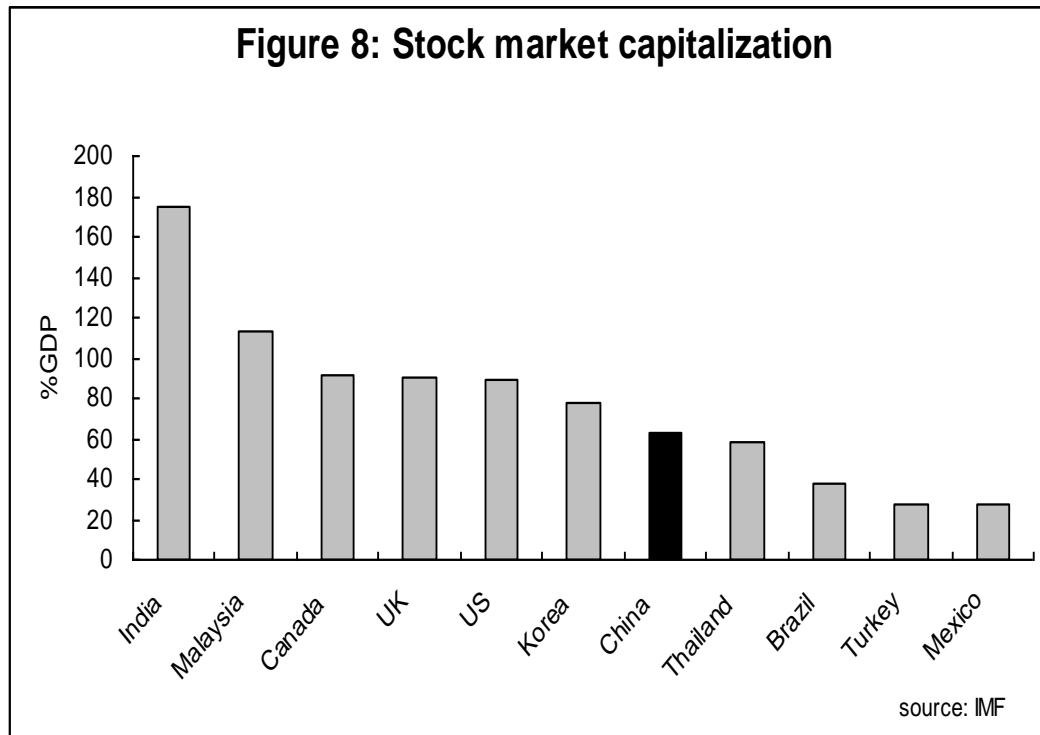
Figure 3b: Chinese leading indicator index (NBS)



- Economic leading indicators rolling over => success of policy tightening
- Moderating economy reduces risks of economic over-heating and inflation...
- ...reduces the risk of draconian policy measures later
- Policy misstep causing economic hard-landing unlikely



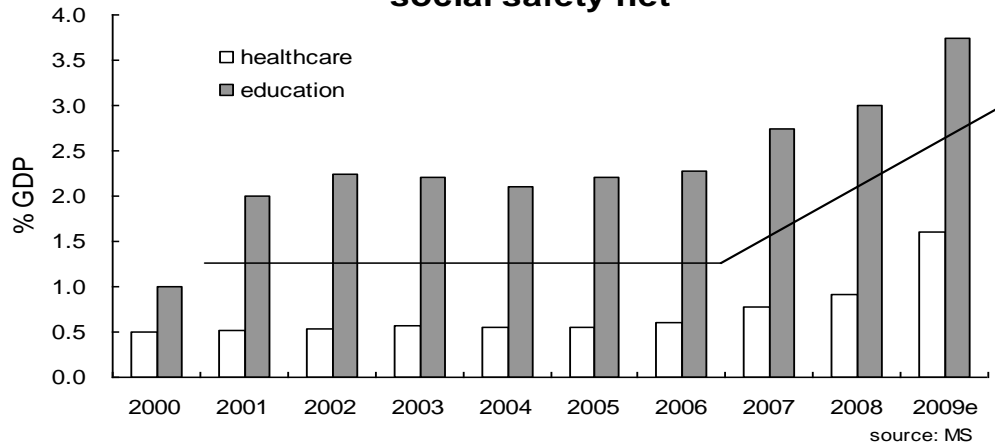
# Financial liberalization has further room to run



- Efforts to liberalize the financial sector = huge opportunity for boosting economic growth
- Significant room for expansion: China's stock market cap is way smaller than India and Malaysia in proportion
- The introduction of ChiNext in Oct 09 provides a venture exchange financing platform for SMEs; stock index futures and short-selling launched in 2010 provide hedging tools

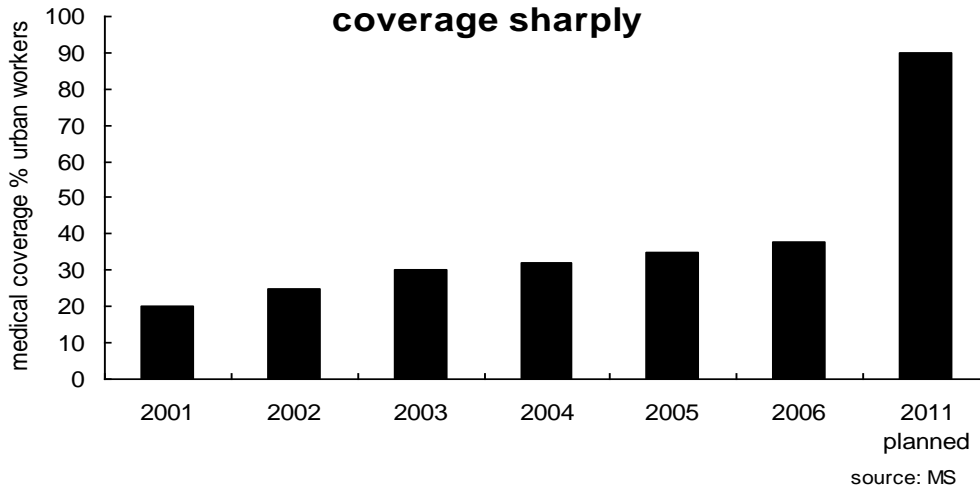
# Unleashing consumption power

**Figure 6: Rising government spending on social safety net**



- Spending on health care and education has been increasing since 2006
- The plan of spending RMB850 bn, or 3% of GDP, aims at increasing the medical coverage for at least 90% of the urban workforce by 2011
- Improvement of the social safety net will enhance consumer confidence and spending power; release pent-up demand in countryside

**Figure 7: Beijing aims at increasing medical coverage sharply**



# China's huge consumption growth potential

**Table 1: Consumption takes off after per capita income reaches US\$6,000**

	Year when per capita income hit \$6,000	Consumption growth 2 years out (%)	Consumer credit growth 2 years out (%)
US	1972	20	31
Japan	1977	22	74
UK	1978	38	52
Hong Kong	1980	39	46
Singapore	1982	15	37
Taiwan	1985	22	40
Korea	1989	45	82
Malaysia	1993	31	56
<b>Average</b>		<b>29</b>	<b>52</b>

source:  
CEIC

**Table 2: China far behind in consumption**

	Per capita GDP (2008)*	Autos per 100 persons	Health spending per capita (US\$)	credit card per person	Insurance premium per capita (US\$)
US	45,931	47.8	6,700	2.35	4,086
UK	44,115	37.3	2,800	1.10	7,113
Japan	33,710	39.5	2,500	1.18	3,319
Hong Kong	32,000	9.18	1,300	1.50	3,373
Taiwan	30,345	24.1	1,450	1.00	2,628
Singapore	28,313	11.73	1,250	1.38	2,776
Korea	21,200	25.4	1,500	2.10	2,384
Brazil	10,643	3.9	800	0.80	202
Average		24.9	2,288	1.4	3,235
<b>China ( in large cities)</b>	<b>6,000</b>	<b>2.2</b>	<b>120</b>	<b>0.20</b>	<b>70</b>
<b>How far behind is China?</b>		<b>91%</b>	<b>95%</b>	<b>86%</b>	<b>98%</b>

\* in PPP terms

source: CEIC

# China at the onset of consumption boom

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- Per capita income in Shanghai and Beijing reached US\$6000 → signals a surge in consumer demand and consumer credit growth
- Consumption in China is far behind major countries, but it will grow significantly in the coming years due to:
  - massive household saving
  - under-leveraged consumer sector
  - improving social welfare and
  - formation of a critical consumption mass
- A stronger consumer sector will reduce China's dependence on external demand → more stable wealth creation in the coming years when consumers in developed world will be stuck in a structural downward adjustment trend

# Chinese stock valuation has become cheaper, high investment value in capital market

	PE ratio		EPS growth		PEG
	2010	2011	2010	2011	2010
<b>CSI300</b>	13.9	12.1	20.6	12.1	0.83
<b>HSI</b>	11.7	10.2	17.4	14.7	0.79
<b>HSCEI</b>	10	8.6	18.5	16.4	0.64
<b>HSCCI</b>	12.3	11.2	9.6	10.4	1.41
<b>Australia</b>	16.4	13.2	23.7	13.1	0.73
<b>Singapore</b>	13.2	12.3	10.2	7.7	1.41
<b>Korea</b>	9.4	8.6	10.5	10.4	0.99
<b>Taiwan</b>	12.2	11.6	13.8	6.9	1.01
<b>India</b>	14	11.3	20.6	19.9	0.82
<b>Japan</b>	18	14.7	22.6	5.3	1.6
<b>S&amp;P500</b>	12.8	11.2	18.7	13.6	0.81
<b>Canada</b>	13.2	12.1	20.6	10.2	0.77
<b>Brazil</b>	10.1	8.6	25.3	16.3	0.5
<b>Mexico</b>	13.2	11.8	16.8	10.8	0.92
<b>ESTOXX50</b>	10.7	9.4	23.7	14	0.56
<b>FTSE100</b>	10.2	9.1	23.9	12.6	0.53
<b>xFrance</b>	10.4	9.3	21.5	12.1	0.59
<b>Germany</b>	11.1	9.7	20.7	13.6	0.65
<b>Spain</b>	10.2	9.1	12.7	10.5	0.91
<b>Switzerland</b>	11.4	10.5	12.2	9	1.05
<b>Russia</b>	6.2	5.6	15.5	9.7	0.46
<b>South Africa</b>	10.4	8.8	29.7	18.6	0.45
<b>Turkey</b>	8.9	7.8	17.1	14.4	0.61

Source: IBES and Datastream

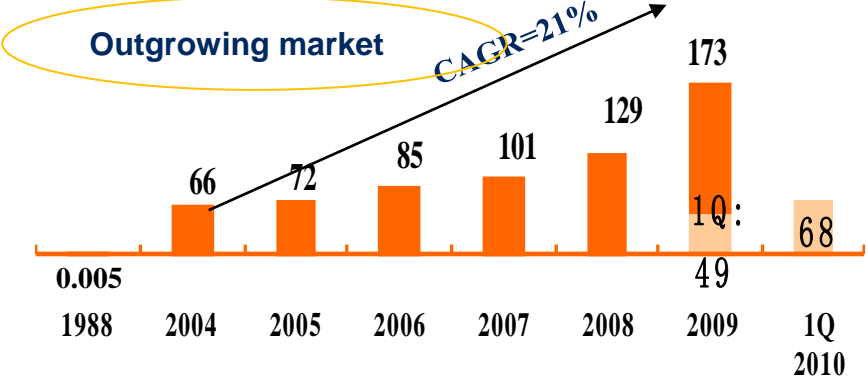
- Chinese stock valuation has come down to reasonable levels after the recent correction
- Its PE is comparable to Asia's major markets, a little higher than the developed markets
- But China's closed capital account and massive domestic savings are conducive to higher stock multiples than developed markets

# II THE PING AN GROWTH STORY...

Over the last 2 decades, Ping An has very much been an integral part of the China growth story....

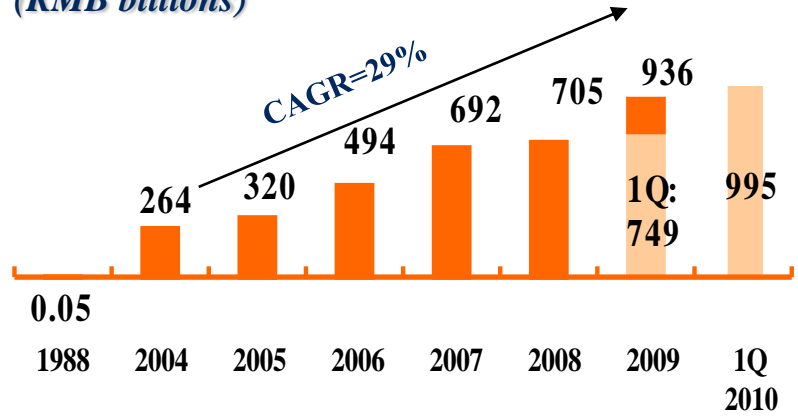
## Insurance Business (Written Premiums)

(RMB billions)



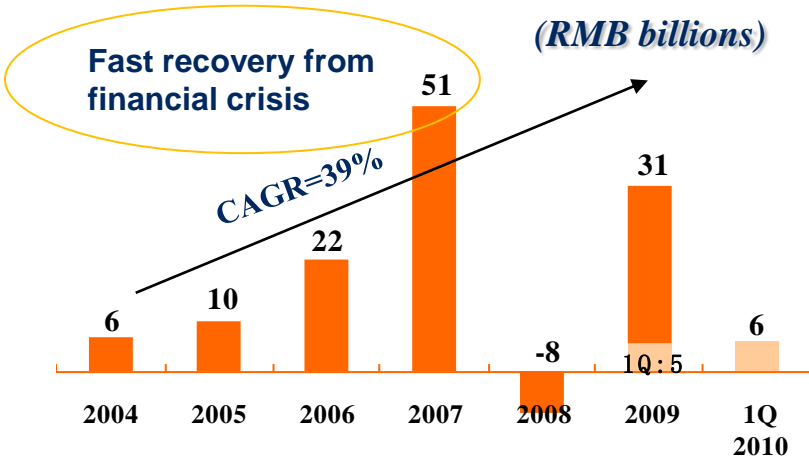
## Total Assets

(RMB billions)



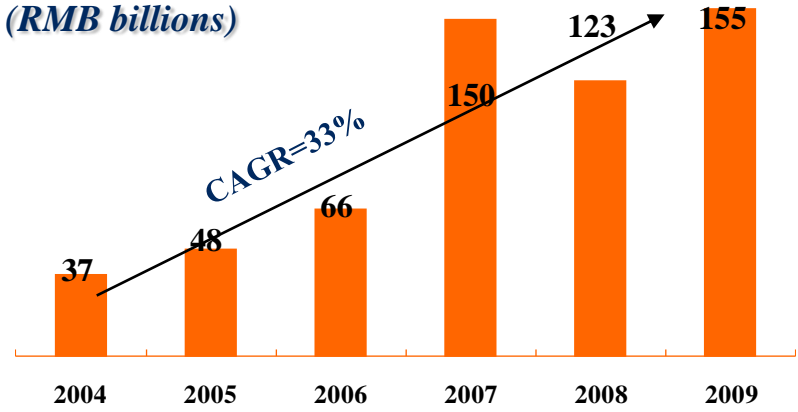
## Investment Income

(RMB billions)



## Embedded Value

(RMB billions)



# In building a winning franchise in China's fast developing financial sector

## Ping An Group

### Life insurance

- 2<sup>nd</sup> largest, outgrowing market

### P&C insurance

- 2<sup>nd</sup> largest, outgrowing market

### Annuity

- #1 in pension

### Health insurance

- Leader in top-end products

### Bank

- National franchise, strong in cards

### Consumer Finance

- Leader in scale and national reach

### Asset management

- Leader in investment performance

### Securities

- Leader in equity/debt new issues

### Trust

- Leader in AuM and alternative investments

## Creating huge shareholder value

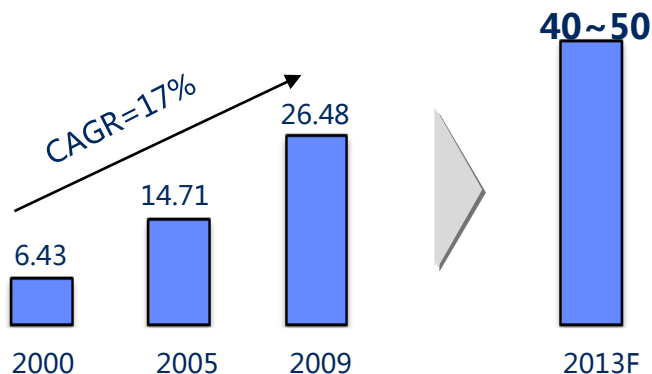
- Market capitalization now ranked top 3 among all global insurance groups
- Share price outperforming major market/sector indices since IPO
- Morgan Stanley and Goldman Sachs exited in 2005 with over 10 times return
- 19,000 Ping An employees still holding over 11% of company shares

# Going forward, we are well positioned to capture the new growth opportunities, especially by focusing on the retail & SME segments...

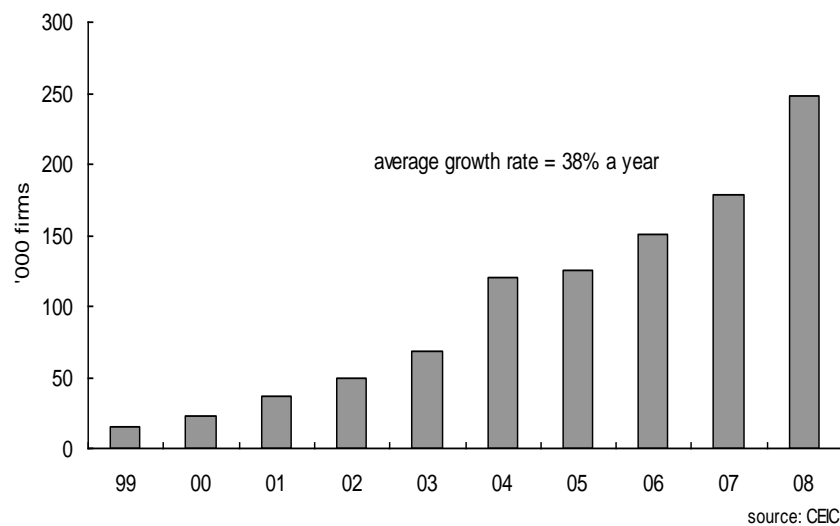
A large, urbanizing population that is growing rich and financial liberalization will help unleash huge consumption power and boost wealth creation and the growth of SMEs for years

## Rapid accumulation of household wealth

Retail deposits (RMB trillions)



## Exponential growth of private enterprises in China





# And executing an integrated financial services model

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Shared  
customer resources

Insurance

Banking

Investment

Leading edge, centralized  
operations and IT platform

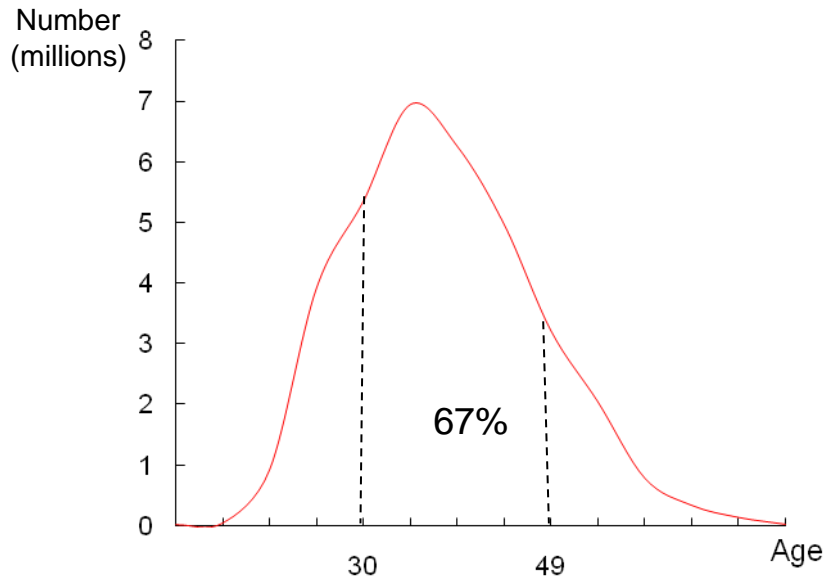
## A refined approach with unique advantages

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- Effective acquisition of customers through large agency force of over 400,000 and high-margin, regular-premium life products
- Cross-selling of other products through strong combined incentives resulting in greater value per customer, higher productivity per agent, and better cost effectiveness
- Deploy telesales and internet sales capability to complement traditional channels
- Maintain single customer database, and enable multi-product, multi-channel operations through a shared platform

# Retail customer demographics working to our great advantage

## Ping An customers age distribution



### Characteristics:

- Over 50 million retail customers by 2009
- 70% of customers in urban coastal areas
- 1/3 having tertiary education
- Annual income per customer 3 times the urban average

## Demographic trend highly favorable

- Ping An customers' average age less than 40 yrs old, and 2/3 concentrated in the 30-49 years old; the growing middle-class segment has a strong demand for financial services
- Over 7 million new customers acquired in 2009, average age below 35
- New customer acquisition trend: rising premium per policy, better education/income level, and improving wealth accumulation potential
- Non-insurance products through cross selling to insurance customers show higher profit contribution

# SME growth also taking off, presenting attractive new opportunities

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## Sharpening our focus on the SME sector

- Accumulated more than 2 million corporate customers by 2009, mostly SMEs
- Established for corporate customers e-marketing models to drive disciplined selling of multiple products to accelerate growth
- Dedicated cross-selling efforts: over 10% new deposits contribution for SME banking, 37% new securities accounts and 40% short-term group insurance business generated by cross-selling in 2009



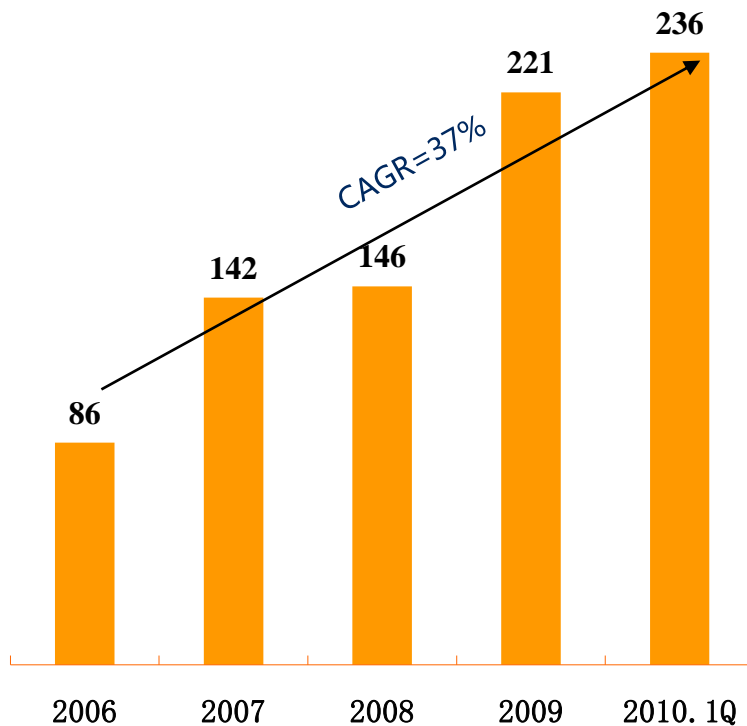
## Very promising trends so far

- Ping An Securities specialized in equity/debt financing for SMEs to achieve market leadership; top underwriter in league table in 1Q2010 for new equity issue
- Ping An Annuity focused on SMEs to achieve #1 market position in assets under trust and investment management
- Ping An P&C built leading position in serving SMEs to generate superior profitability – group motor insurance grew by >20% p.a. over last 5 yrs, contributing to 30% of total motor business but 50% of profits

# Following our bank merger in end 2006, cross-selling has helped accelerate growth and penetration of banking products

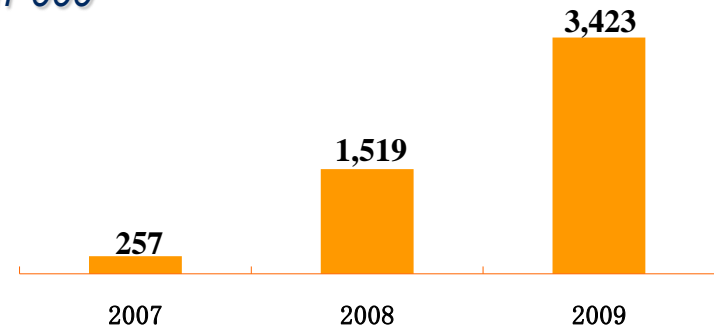
## Total bank assets

(RMB billions)



## Credit cards issued

in '000



Since the beginning of credit card launch in 2007

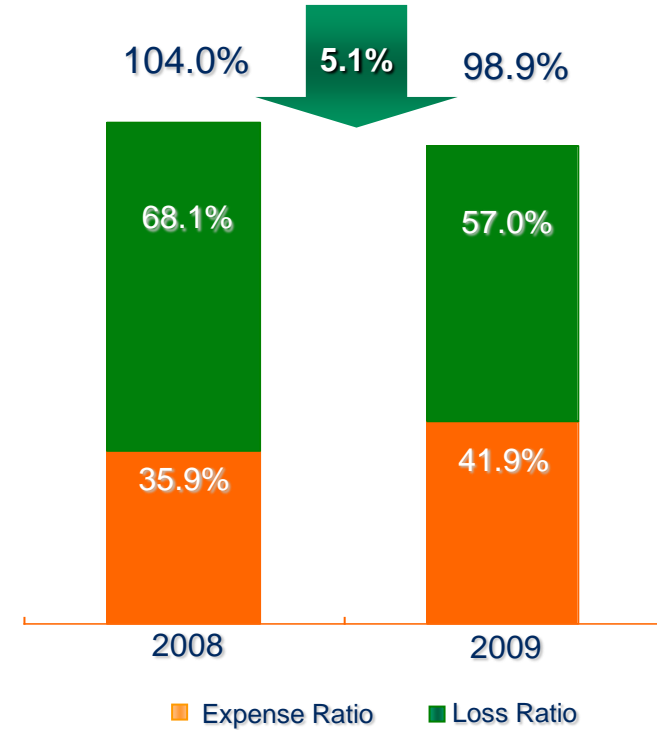
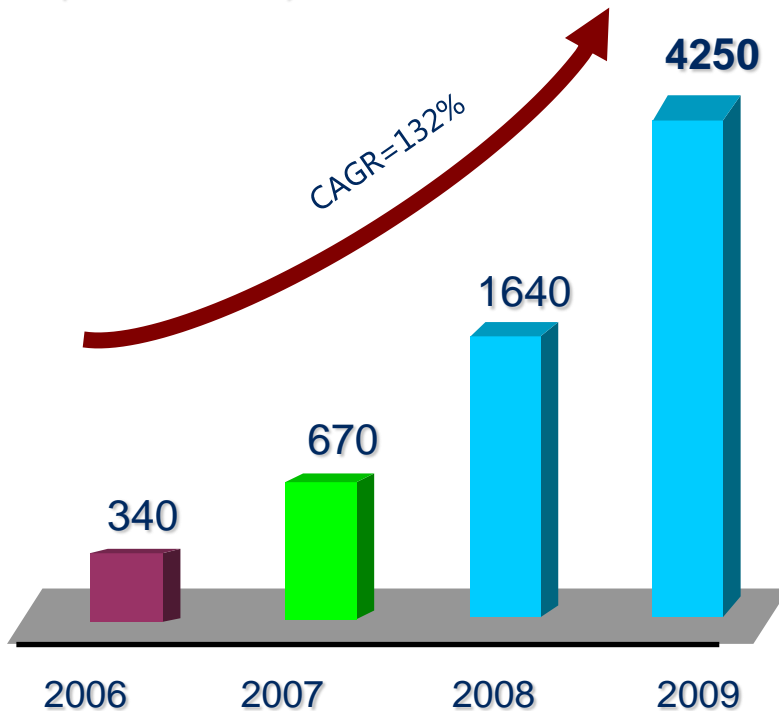
- Over 3.4m cards issued in less than 3 years
- Cross-selling initiative contributes to 60% of new card issuance
- Very high active card ratio, rapidly increasing per card spending

# Innovation in distribution: Centralized telesales contributed to significant rise in insurance premium and improvement in underwriting quality

P&C : Strong Premium Growth contributed from telesales

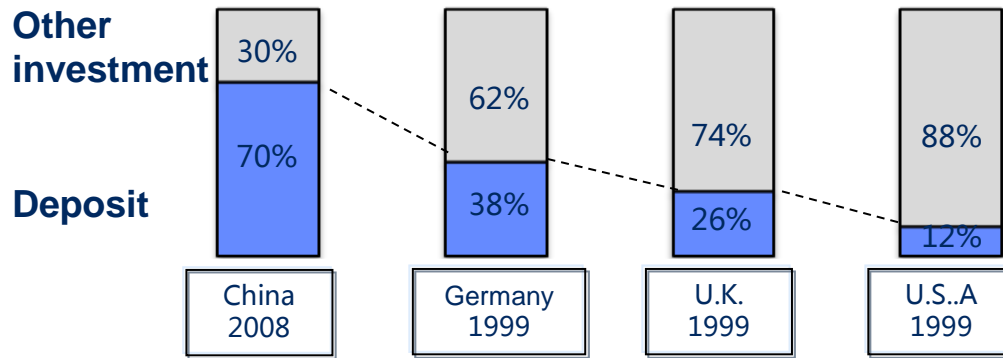
Combined Ratio

(RMB millions)



# Product innovation: Ping An Trust focuses on affluent private customers, strong in product origination with alternative investment classes

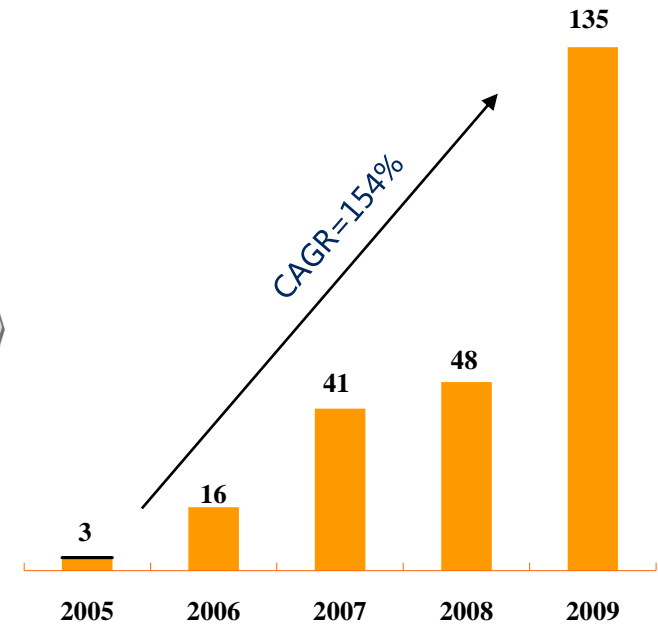
## Distribution of household wealth



- With further development of Chinese capital markets, high net worth individuals will gradually allocate more savings towards financial investment products; in particular, they will likely favor "inflation-proof, stable-yield" investment products
- Ping An Trust captures the opportunity to develop a rich product line, covering the real estate, private equity, infrastructure, fixed income, money market, stock market and other product segments to meet diverse needs of affluent customers

## Trust : Third-party AuM

(RMB billions)



# Ping An's leading edge: Innovation in life insurance sales

1



Promote life insurance products using laptop computer

2



Analysis for clients, recommendations based on customer demand, generation of e-proposals

3



Insurance data upload to back-office

Underwriting information in real-time feedback



4



Receive premium real-time via e-POS, new policy takes immediate effect

5



Add e-policy to customer's combined-account immediately, paper-based policy delivered later

e-marketing allows Ping An to improve operation efficiency and capture cross-selling opportunities

# Ping An's leading edge: Advanced IT capabilities & centralized back-office processing platform

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- **Today, Ping An has a very advanced integrated IT platform**

- Started from 2001, IT has set out to create an integrated technology platform to support the group-wide “single-customer, multi-product, multi-channel” strategy
- This is an ambitious program to create a single customer view, a unified customer front-end and an integrated back-office while working in compliance with multiple regulators in China
- This initiative is ready to take advantage of the cross-selling opportunities across all subsidiaries

- **IT enables a cutting edge back-office**

- A fully shared, efficient, scalable and cost-effective processing platform
- Supports a 50 million+ customer database, a 15K+ telesales force, a centralized back-office with 10K+ operation staff, a 400K+ agency force; all created to support business operations across 10+ major subsidiaries



# To recap ...

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