

# THE FUTURE OF FINANCIAL PRODUCT DISTRIBUTION IN CHINA

—— Ben Lin ——

Co-chairman & Chief Strategy Officer

2023.09

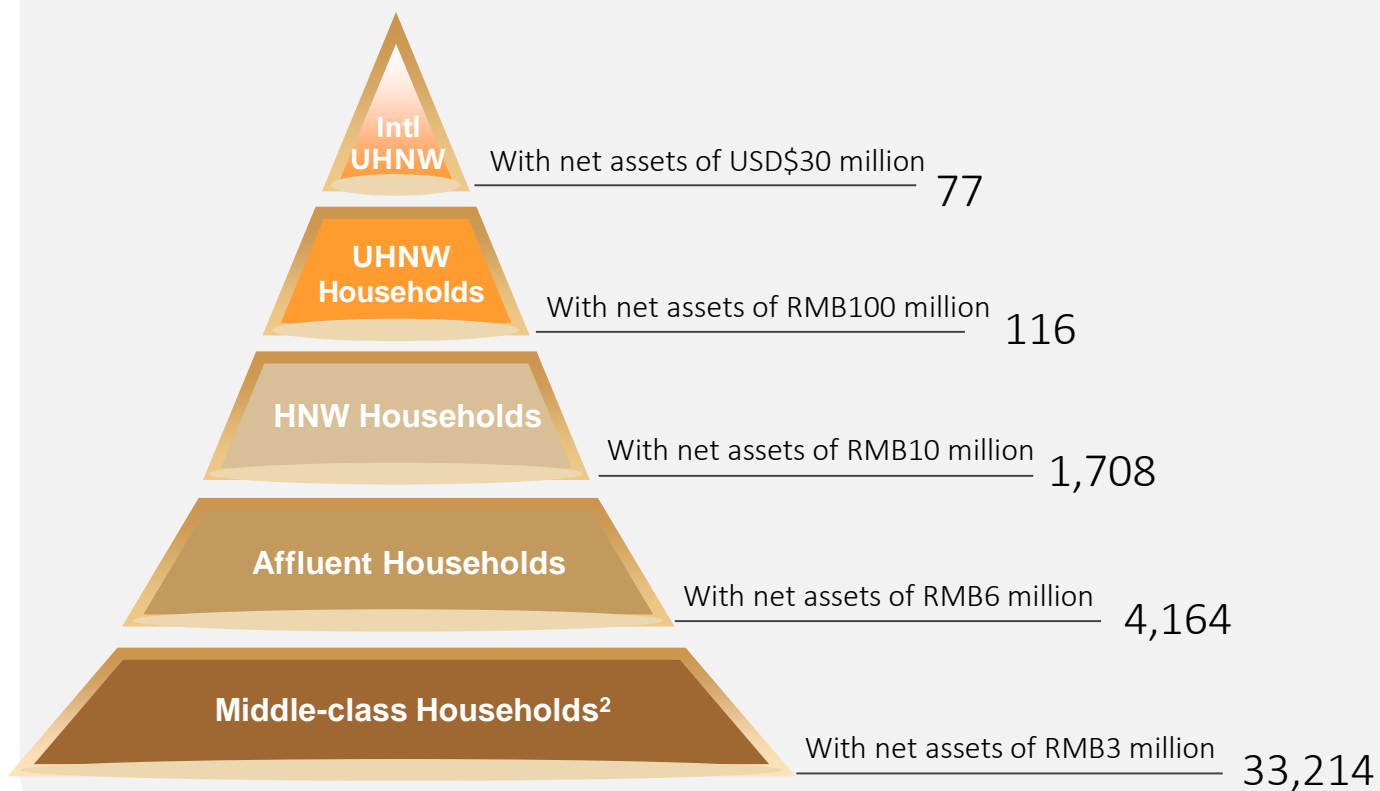
# What You Could Take Away From This PPT

- What Does China's Middle and Affluent Class Look Like?
- What is Wrong With Current Financial Distribution Models?
- What Could Change and Where are the Opportunities?
- What We at Fanhua are Doing?

# China's Middle Class – NAV & Asset Class

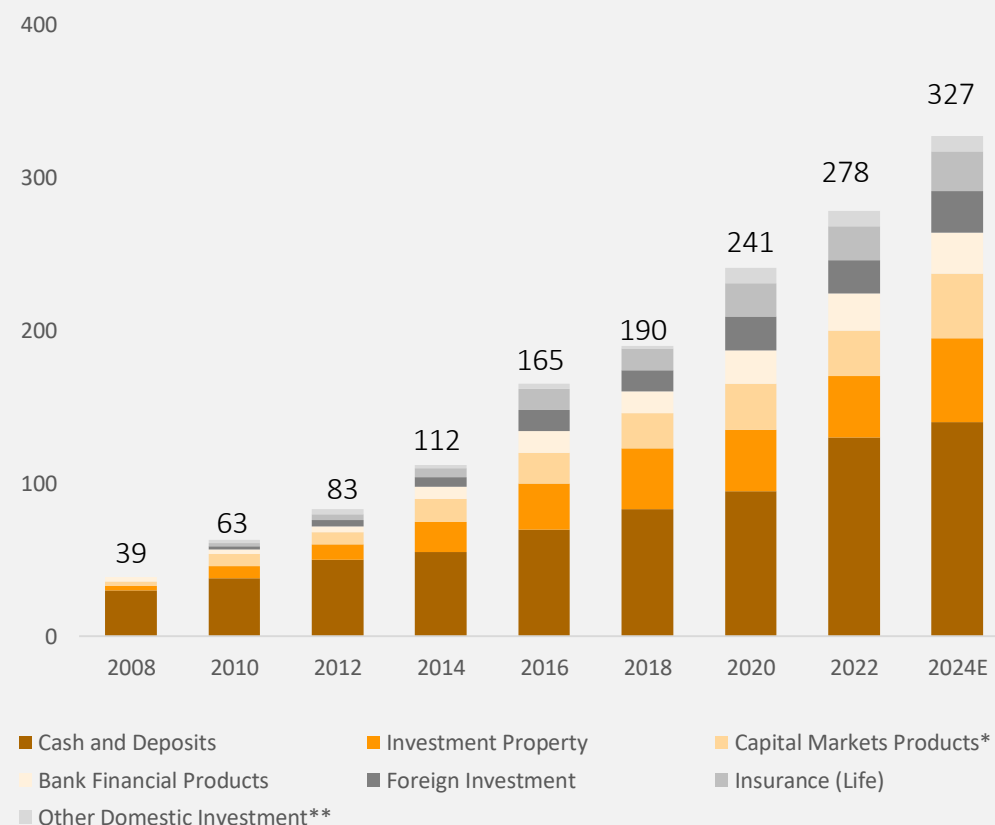
## Middle Class and Above Households in China<sup>1</sup>

(000')



## Total Investable Assets Of Individuals In China<sup>3</sup>

(RMB:tn)



Data source: 1. Hurun China Wealth Report 2022; 2. Hurun China Wealth Report 2019; 3. Bain Capital, China Merchants Bank

\*Capital Market Products includes stocks, public funds, NSS and bonds held by individuals.

\*\*Other Domestic Investment includes trusts, fund accounts, brokerage management, private securities fund products, gold, private equity, etc. held by individuals.

# China's Middle Class & Available Financial Products

- ◆ Financial products available to Middle Class remain limited and skewed towards short-term savings products.

Category		Risk Profile	Yields	Liquidity
Fixed-income	Term Deposits	Low	Low	ranging from months to years
	Bank WM products	Low	Low	mainly 3-6 months
	Income certificates	Low	Low	mainly 1 year
	Fixed-income trust products, ABS	Relatively low	Relatively low	mainly 1-3 years
	Savings-typed insurance	Low	Low	mainly 3-5 years
Structured Products	Income-strengthened institutional products	Medium	Medium	mainly within one year
	Leveraged structured products	High	High	mainly within one year
Publicly-raised Funds	MMF	Low	Low	Daily redeemable
	publicly issued bonds	Relatively low	Relatively low	Daily redeemable on specific time
	Stock-focused funds and alternative funds	Relatively high	Relatively high	
Securities-Backed Privately-raised Funds	Privately-raised bonds	Relatively low	Relatively low	Monthly/quarterly redemption
	Quantitative private fund & QPF FOF	Medium	Medium	Monthly/quarterly redemption
	Long-only private equity fund & Event-driven private equity fund	Relatively high	Relatively high	Monthly/quarterly redemption
Private Equity	Mezzanine fund	Relatively high	Relatively high	Minimum 2 years
	Start-up fund, Growth fund and M&A fund	High	High	Minimum 5 years
Overseas Products	Offshore funds, QDL & QDIE	Non-specific	Non-specific	Non-specific
	QDII	Non-specific	Non-specific	Mainly short-to-medium term

# Fanhua - Puyi Household Wealth Survey

## About the Survey

The survey will be co-published by FANHUA, PUYI Standard, a leading independent research firm focusing on statistics analysis and research in China's financial service sectors and PUYI Inc. (Nasdaq: PUYI), a leading independent wealth management service provider in China.

- The data covers populations in 214 cities across 30 provinces and municipalities in China.
- Based on the size of investable financial assets, the respondents were divided into middle-class households (CNY 100,000 to 600,000), affluent households (CNY 600,000 to 6,000,000), and high-net-worth households (over CNY 6,000,000).
- The survey analyzes the sources of income, distribution channel, asset allocation methods, as well as the current status and challenges of wealth inheritance for different classes of households.



# Background of the Respondents

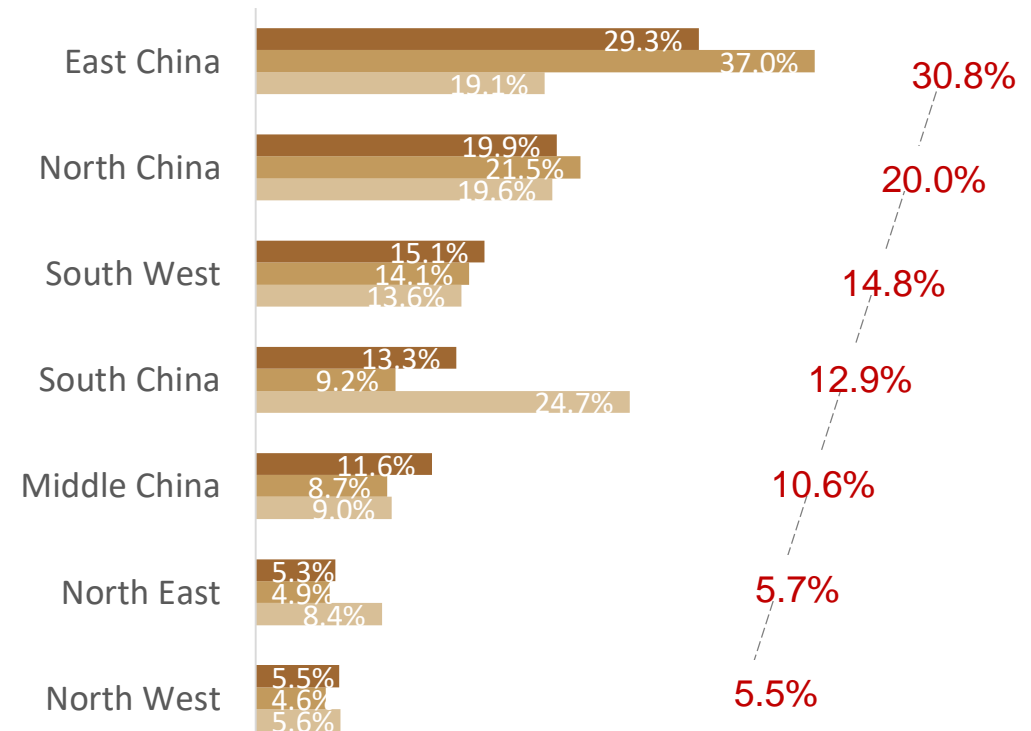
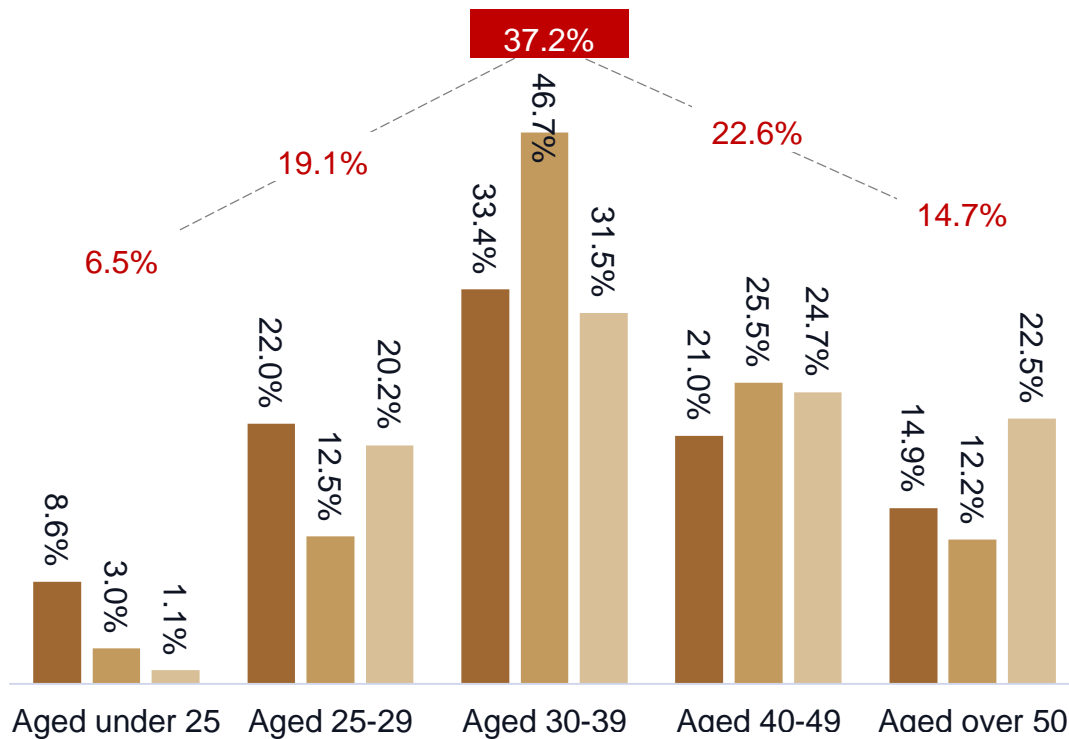
## —Age Group and Geographic Distribution

### Age group of middle class and above households:

- 31.5% - 46.7% in the 30-39 age group;
- 21.0% to 25.5% in the 40-49 age group;
- High-net-worth families having the highest presence (22.5%) in the 50 and above age group

### Geographic distribution of middle class and above households

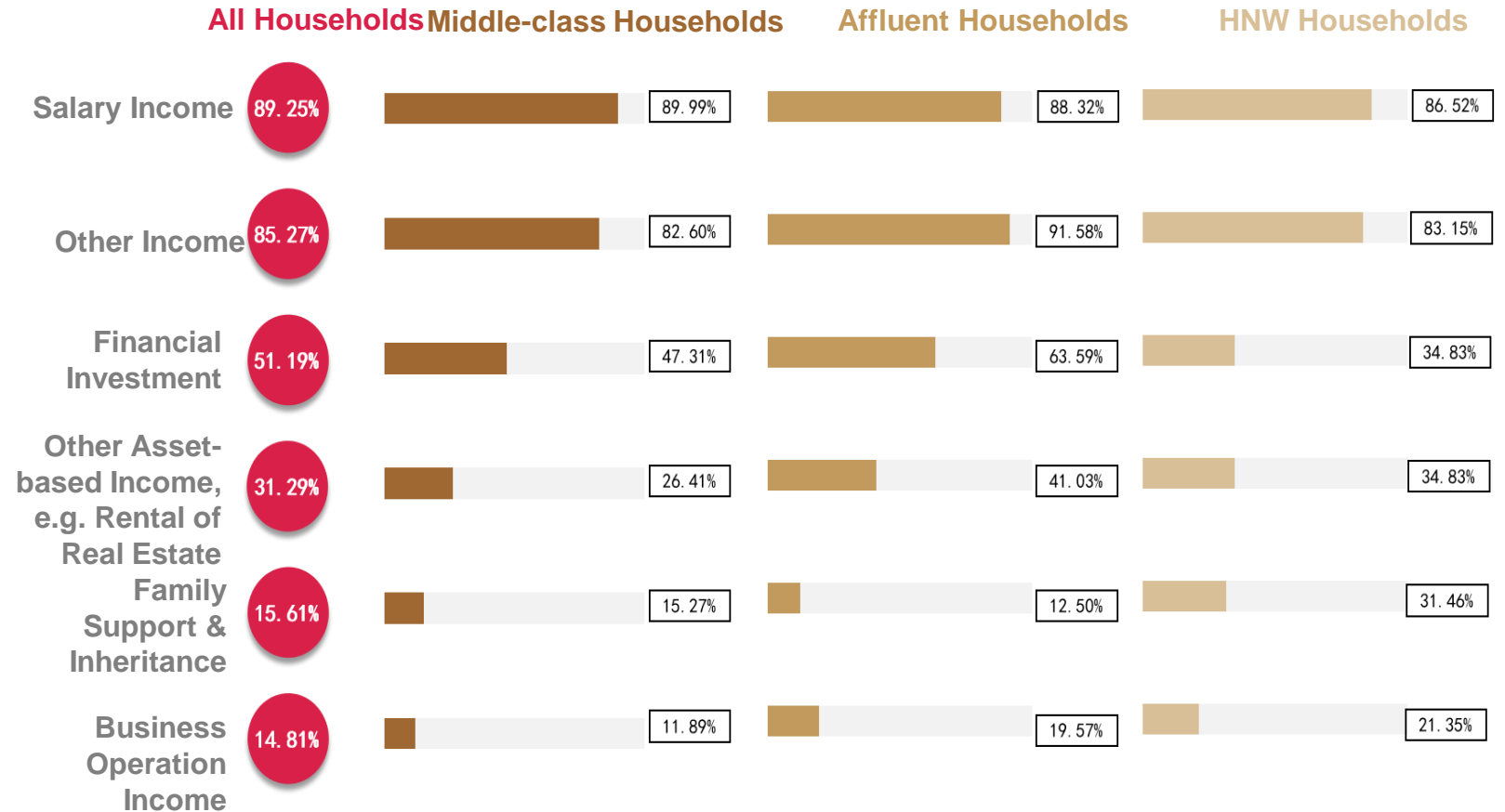
- Middle-class and affluent households predominantly situated in the East China region, with distribution percentages of 29.29% and 36.96%, respectively.
- High-net-worth households notably concentrated in the South China region, representing 24.72%, followed by the North China and East China regions.



# Sources of Family Income

Main sources of income for middle class and above households:

- Salary Income  
-- 86% ~ 90%
- Financial Investment  
-- 34% ~ 64%
- Other Asset-based Income  
-- 26% ~ 42%





# Family Income Statement

## Family Annual Income

### Middle-class families:

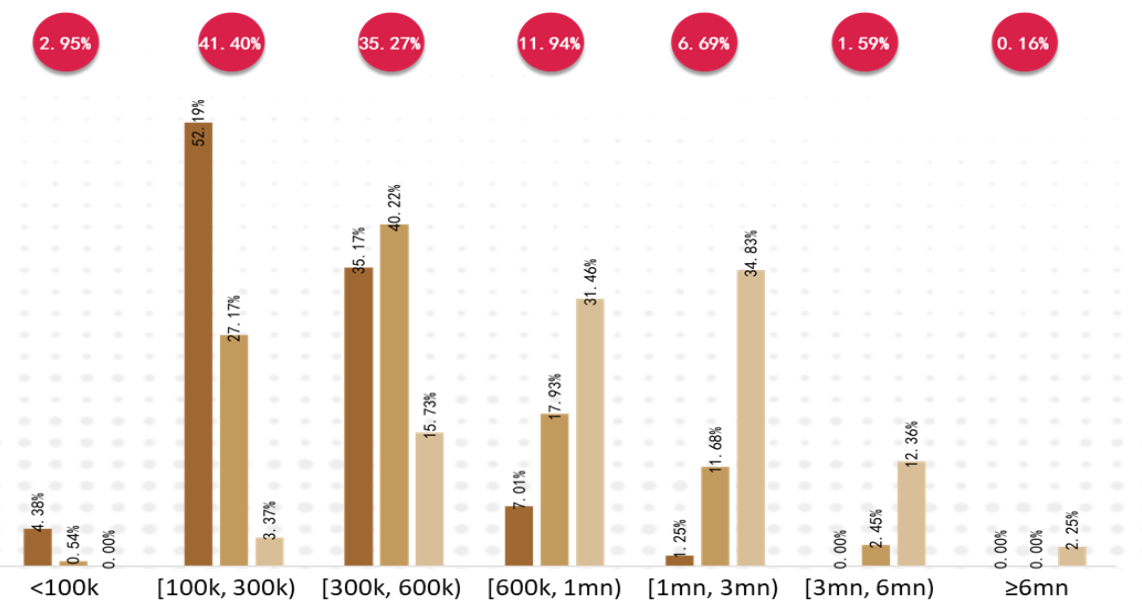
- Highest proportion in the income range of RMB100k-300k at 52.19%.

### Affluent families

- Highest percentage in the income range of RMB300k-600K at 40.22%.

### High-net-worth families

- Relatively higher proportions in the income ranges of RMB600k-RMB1 mn and RMB1 mn-3 mn, at 31.46% and 34.83%, respectively.



● All Households ■ Middle-class Households ■ Affluent Households ■ HNW Households

## Family Annual Expenditure

### Middle-Class Families:

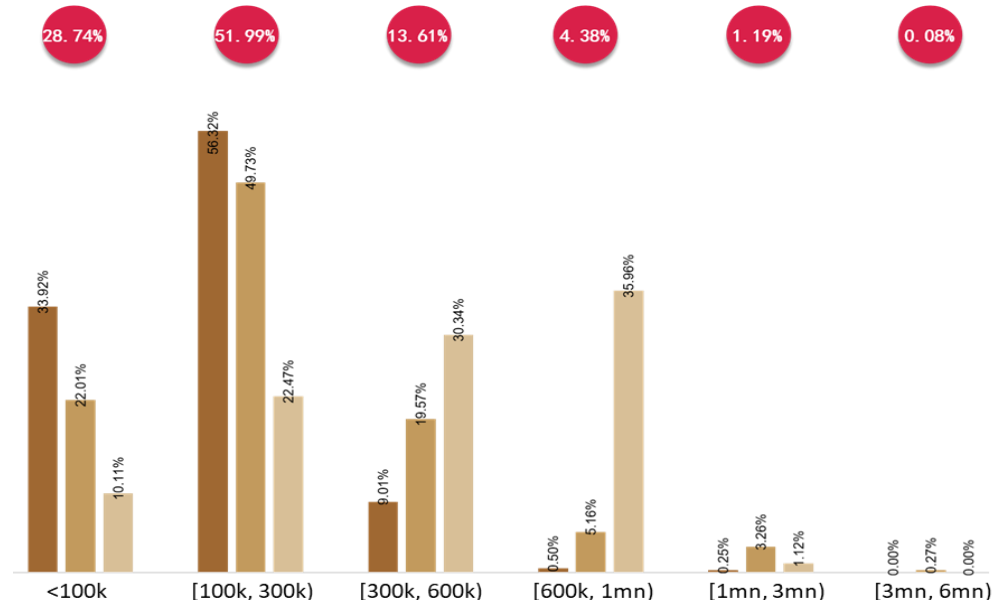
- Highest proportion in the range of RMB100k-300k at 56.32%

### Affluent Families:

- Highest proportion in the range of RMB100k-300k at 49.73%

### High-Net-Worth Families:

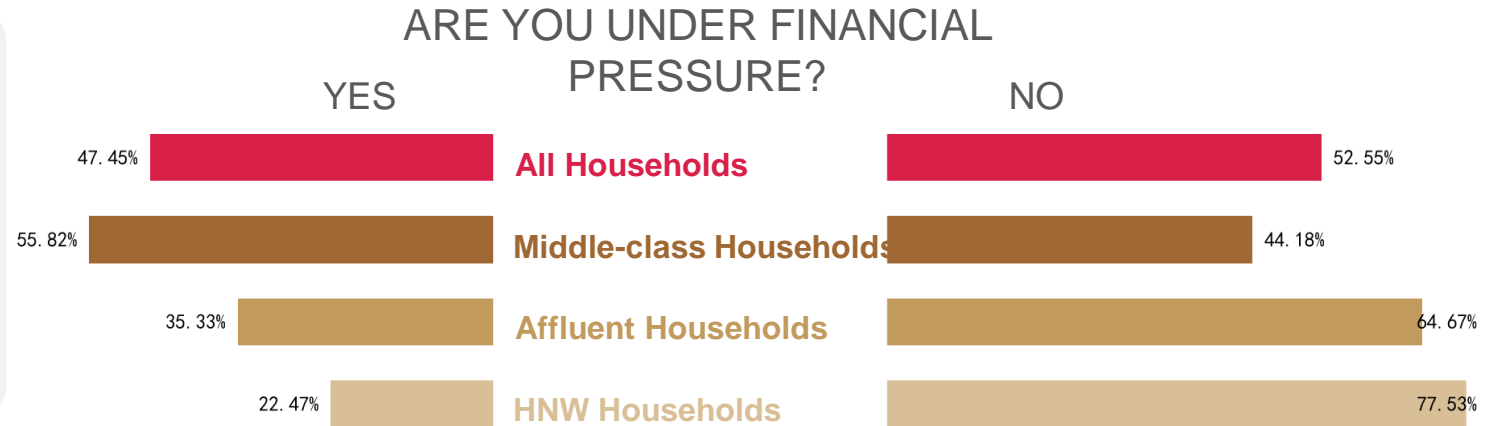
- Highest proportion in the range of RMB600k – RMB1 mn at 35.96%



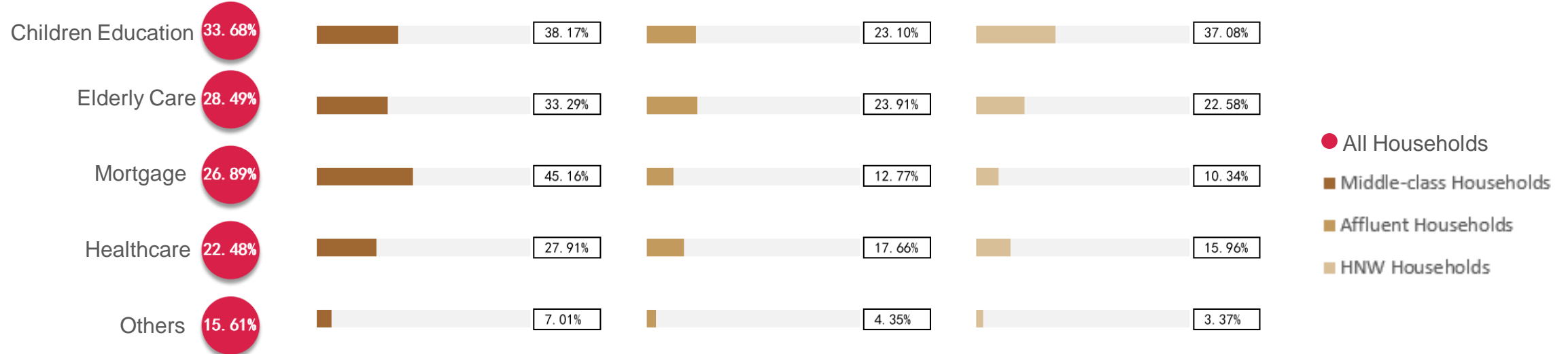


# Key Pressure Points

- The biggest pressure points for middle class and above families are child education with 23.1% to 38% expressing concerns, followed by elderly care, debt burden and health care.
- Middle-class families face significantly higher economic pressure compared to affluent and high-net-worth families.

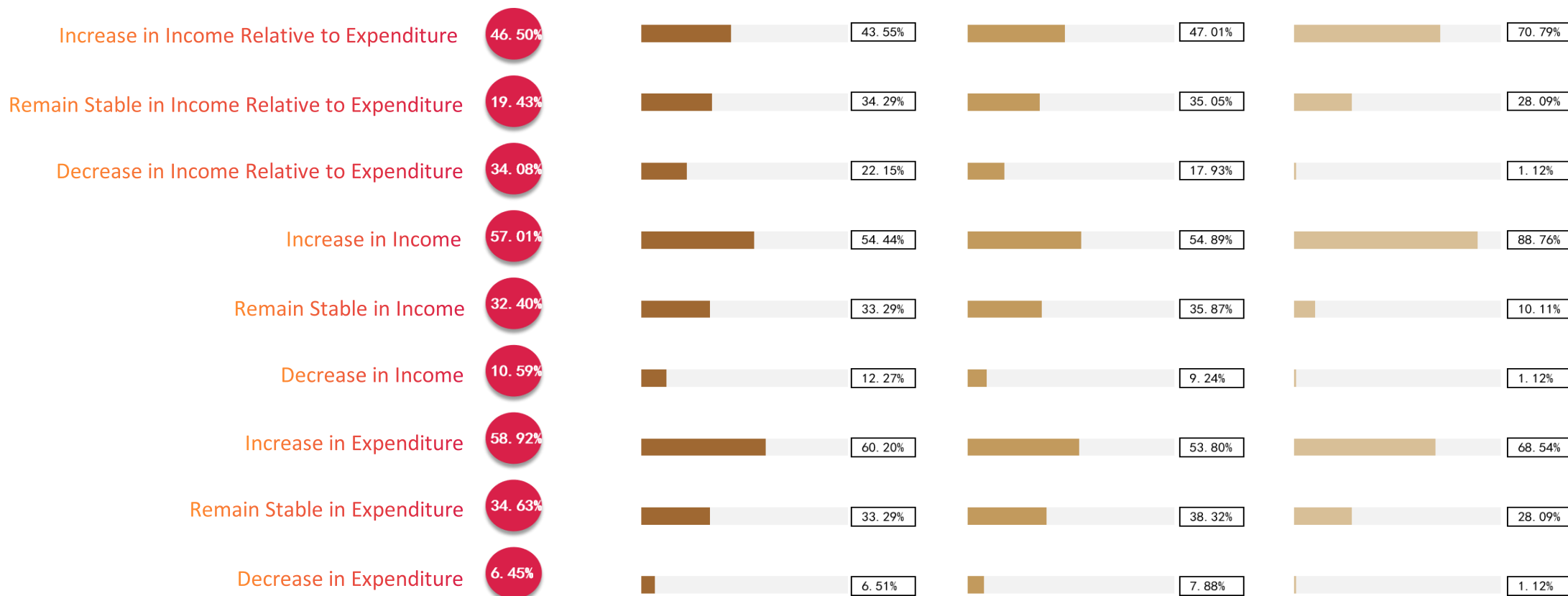


## SOURCE OF FINANCIAL PRESSURE



# Expectations of the Next 5 years

- All households expecting greater increase in income relative to expenditure
- High-net-worth families are more optimistic about their future income relative to expenditure



● All Households ■ Middle-class Households ■ Affluent Households ■ HNW Households

# Content

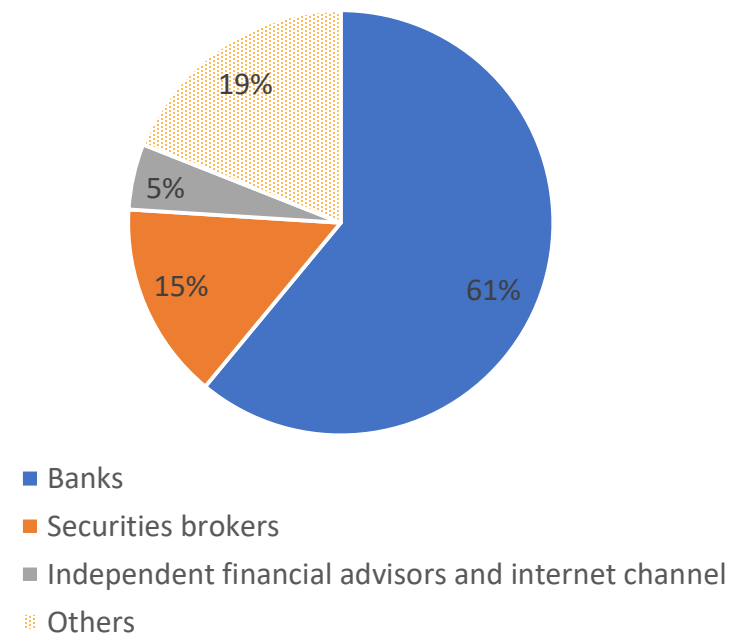
- What Does China's Middle and Affluent Class Look Like?
- **What is Wrong With Current Financial Distribution Models?**
- What Could Change and Where are the Opportunities?
- What We at Fanhua are Doing?

# What is Wrong with Current Distribution Models?

- Banks continue to dominate offline sales channels
- Distribution channels fragmented, quantity over quality
- Lack of universally accepted professional qualifications such as CFP & AFP

Product Type	Distribution Channels
Banking WM Products	Banks
Trust Products	Trust companies, banks, insurance companies, insurance asset management companies, securities brokers and fund companies
MMF	Banks, fund companies, securities brokers, independent financial advisors (securities investment advisory firms and independent fund distribution agencies), internet channels
Publicly-raised funds	Banks, fund companies, securities brokers, independent financial advisors (securities investment advisory firms and independent fund distribution agencies), internet channels
Privately-raised funds	Banks, fund companies, securities brokers, independent financial advisors (securities investment advisory firms and independent fund distribution agencies)
Asset Management Plans	Banks, fund companies, securities brokers, independent financial advisors (securities investment advisory firms and independent fund distribution agencies)
Insurance Asset Management Plans	Trust companies, banks, insurance companies, insurance asset management companies, securities brokers, and fund companies
Savings-typed Insurance Products	Banks, insurance companies, independent insurance brokers and internet channels

Channel Mix By Asset Value

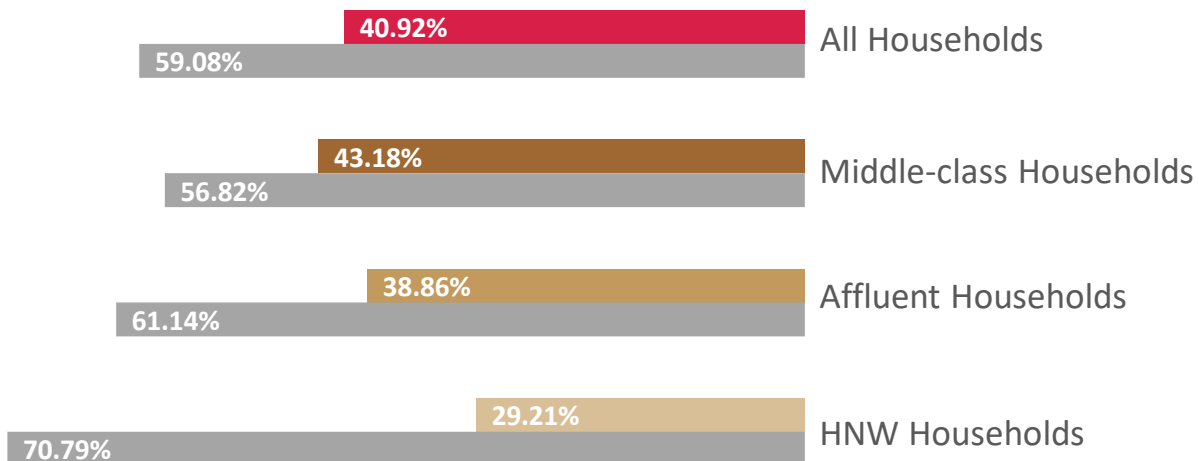


Data source: *Blue Paper: CICC Asset Management, 2022*

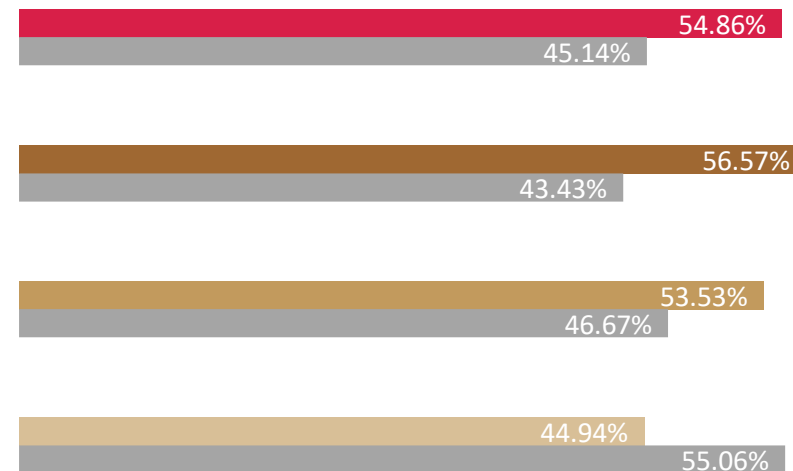
# Lack of Professional Advice Leads to...

- Mis-selling
- Making the Wrong Investment Decisions
- Bad Customer Experience and Regulatory Complaints

Faced with Loss on Investment



Faced with Gain on Investment



I often choose to sell



I often choose not to sell

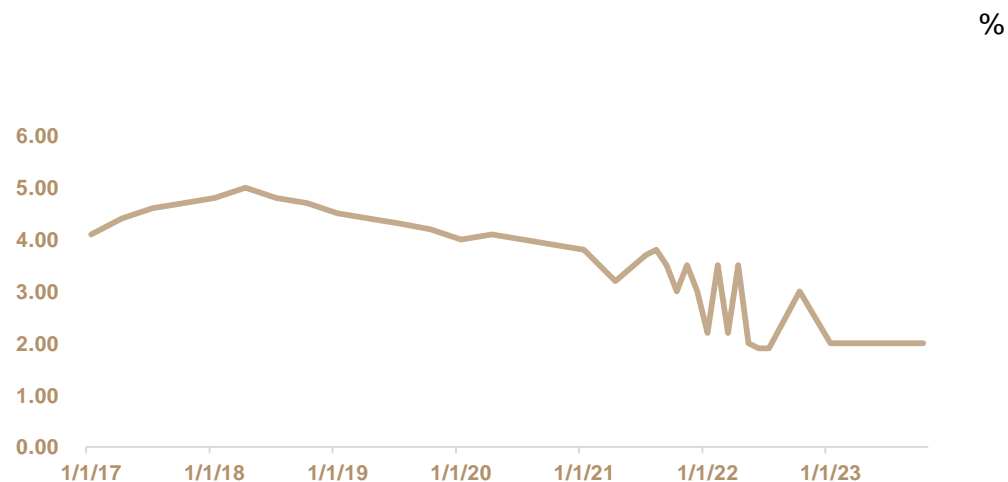
# Content

- What does China's Middle and Affluent Class Look Like?
- What is Wrong with Distribution in the Past?
- What Could Change and Where are the Opportunities?
- What We at Fanhua are Doing?

# What could Change and Where are the Opportunities?

- Removal of implicit guarantee of return for WM products and declining yields of bank WM products present opportunities for independent financial service providers to gain market share
- Western style Independent Financial Advisor model almost non-existent due to strict regulation on cross selling
- Life insurance agents, particularly independent agents, have the best chance to transform in to IFAs but professionalism is key
- Insurance industry growth over past 30 years largely driven by 'mass agent' model which has reached the end
- We estimate the industry has less than 1m professional advisors, but the market needs at least 3mn

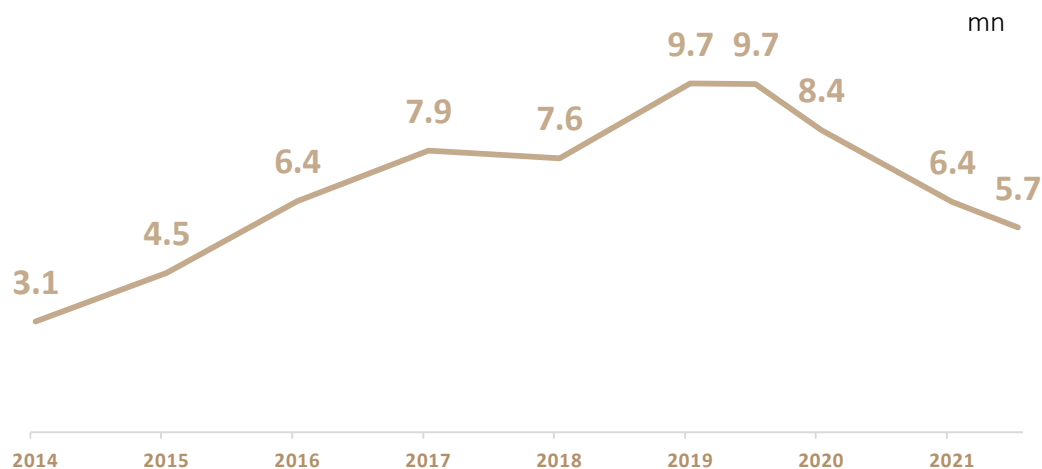
## DECLINING YIELDS OF BANKING WEALTH MANAGEMENT PRODUCTS



Data source: wind, Development Research Center of Guangfa Securities

## MASS AGENT MODEL PHASING OUT

### NO. OF INSURANCE SALES AGENTS





# Retirement Needs and Considerations

Deficits in Pensions

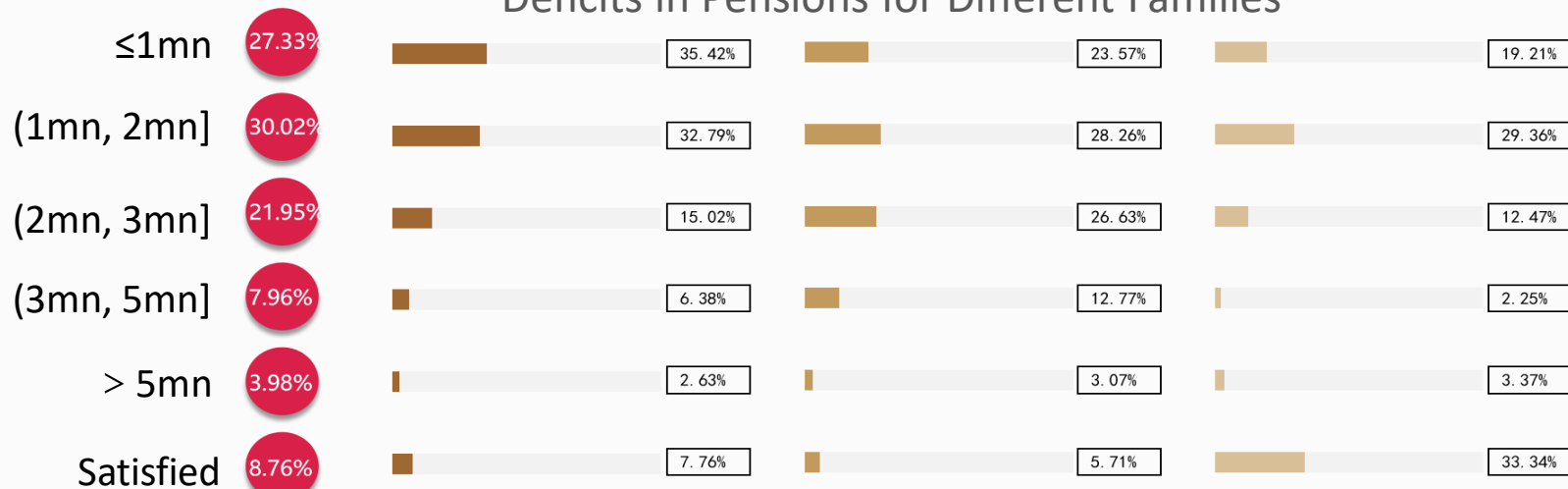
Growing retirement concerns

Key considerations for future financial assets allocation:

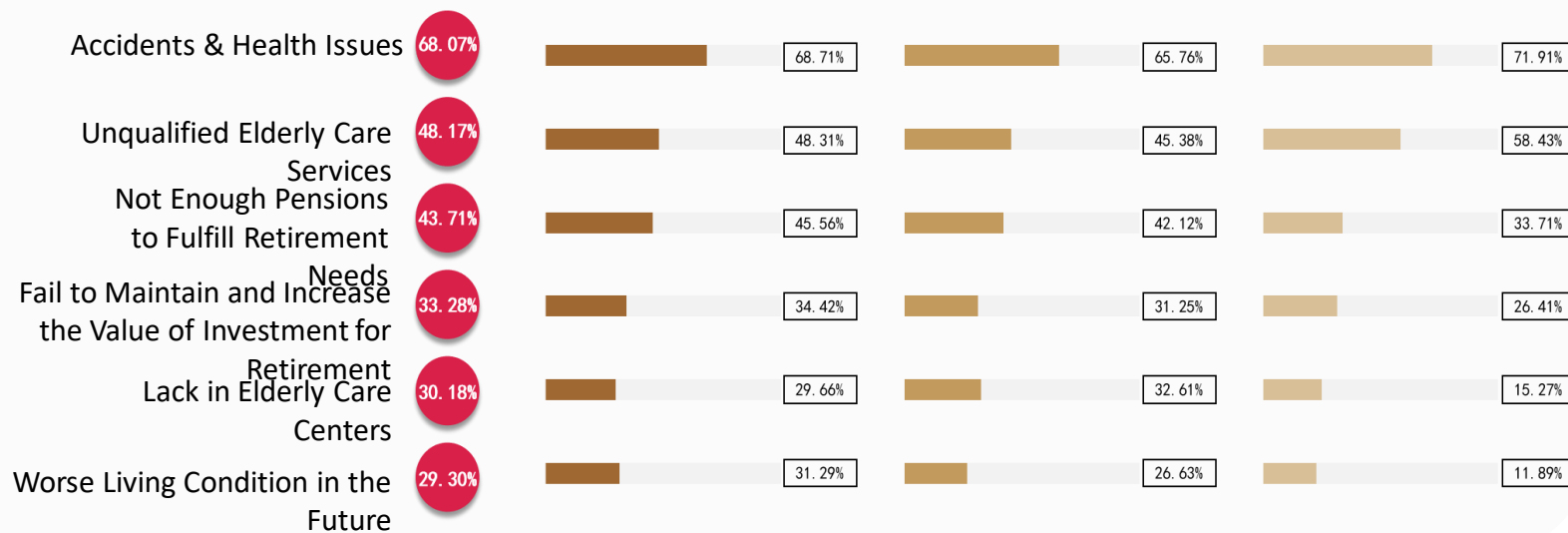
- Retirement Plans
- Inheritance

Need more professional financial sales channels

## Deficits in Pensions for Different Families

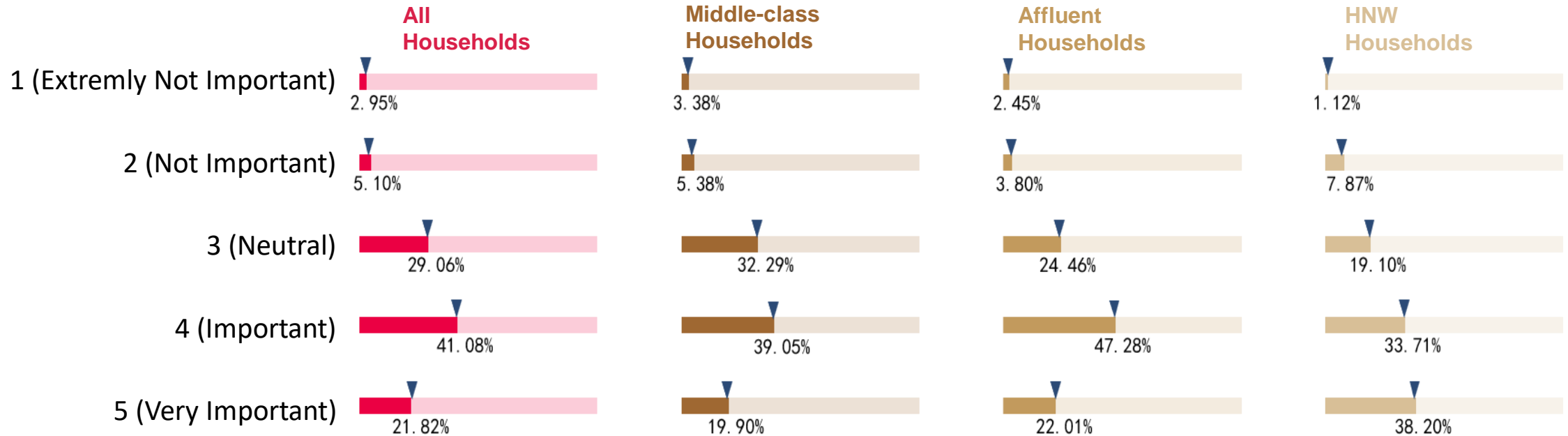


## Retirement Concerns for Different Families



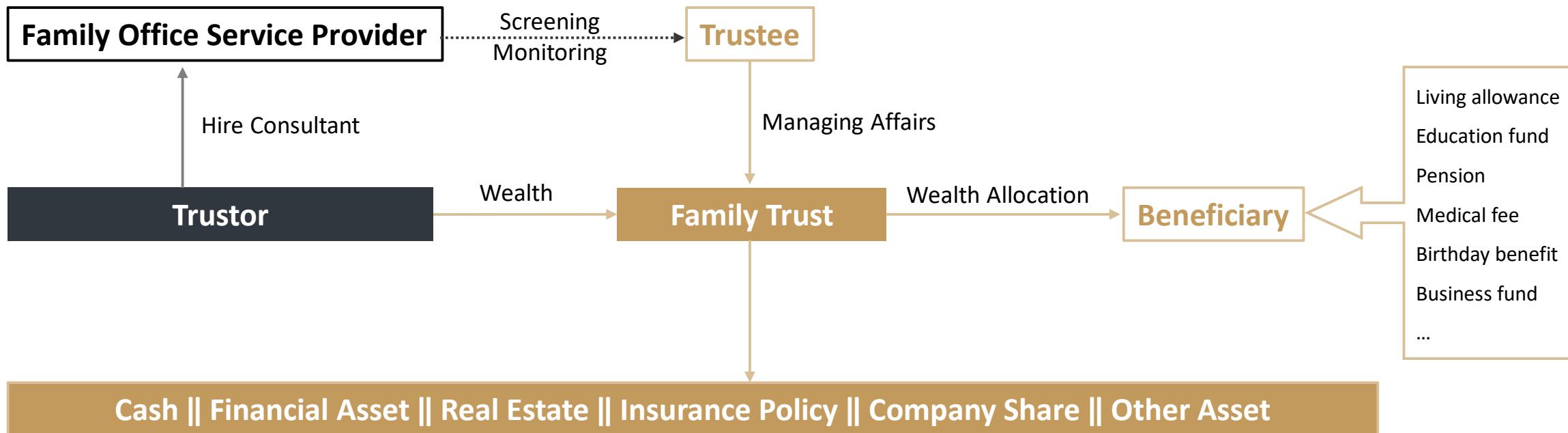
# Inheritance Considerations

- High-net-worth families place greater emphasis on wealth inheritance, with the highest proportion of selecting a score of 5 (very important) for inheritance, at 38.20%
- Middle-class families have the relatively higher proportion of selecting a score of 1 (extremely not important), at 3.38%.



# Growing Trend of Family Trust/Office Services

## Architecture of Family Trust



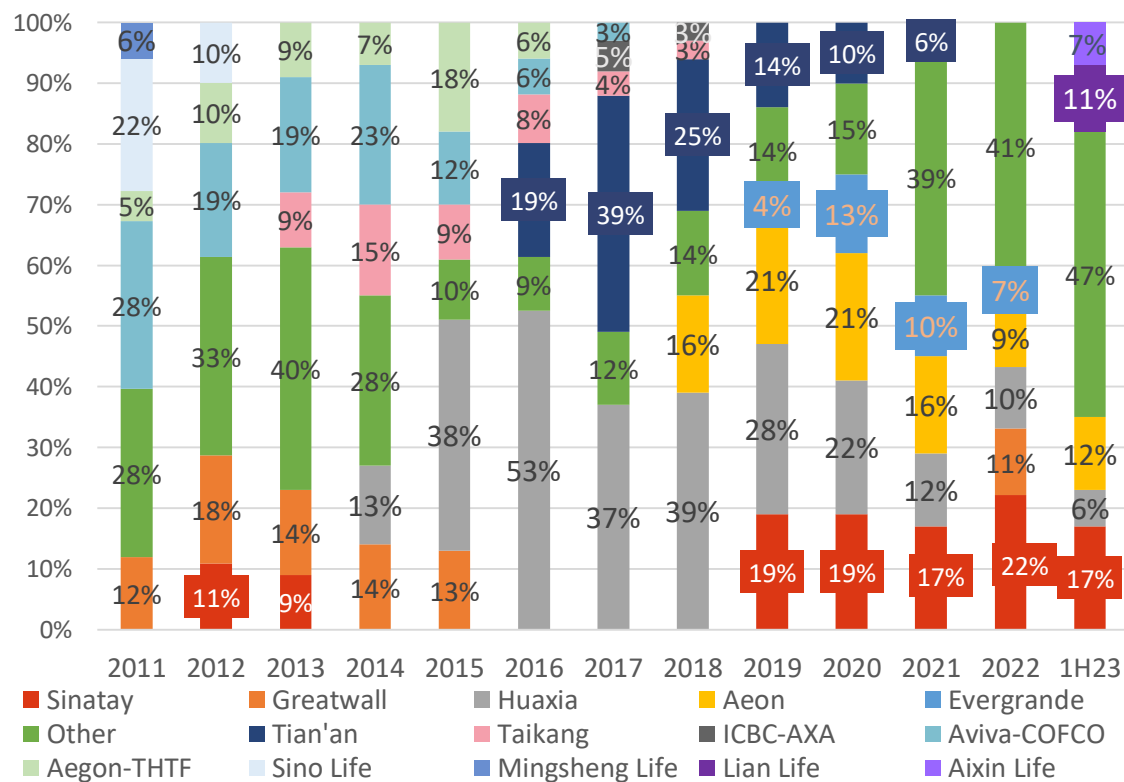
# Content

- What does China's Middle and Affluent Class Look Like?
- What is Wrong with Distribution in the Past?
- What Could Change and Where are the Opportunities?
- What We at Fanhua are Doing?

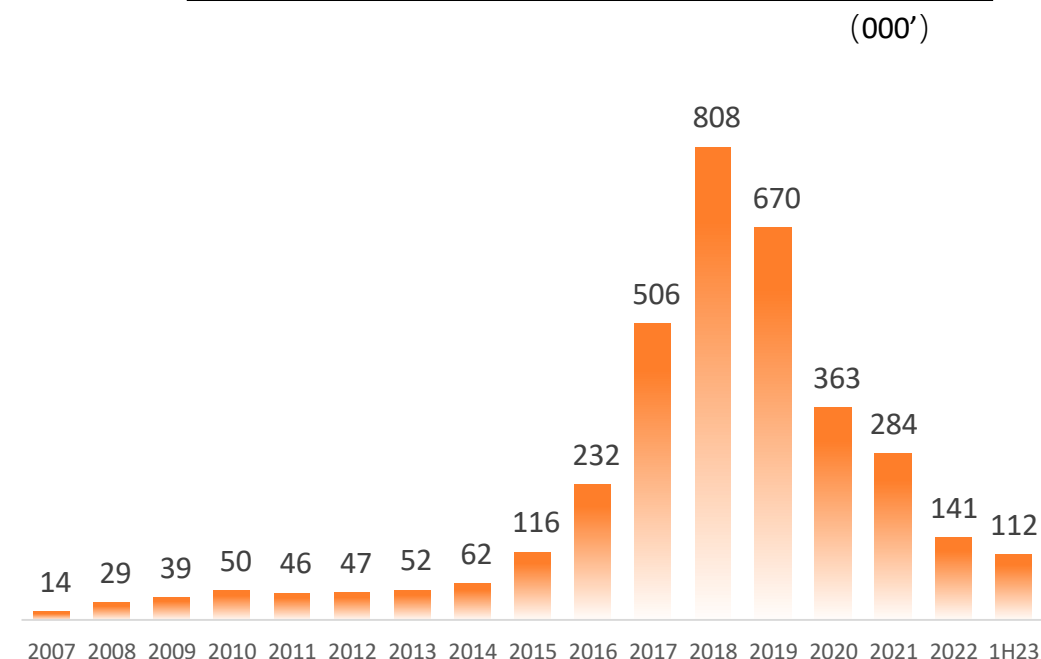
# Fanhua's Development Paint Points in the Past

- ◆ Volatility in insurance product suppliers due to continued change in competitive landscape
- ◆ Historically heavy reliance on mass agent-driven model

## Top Life Insurance Partners by Revenue (2011-2022)



## Number of Registered Agents (2007-1H23)



# What Are We Doing to Drive Quality Growth?

## Fanhua's Vision: To Build a Technology-Driven Financial Service Platform

### Revamping the Traditional Model

#### Professionalization



- Captive advisors getting more "specialized, professional and elite", transforming from solely product advisors towards financial and wealth mgmt. advisors

#### Digitalization



- Developing various digital tools to enable advisors to enhance their productivity and service capability

#### Integration



- Leveraging comprehensive financial advantages to develop diversified insurance products and expand service offerings of "insurance+"

### Dual Growth Engines



### Building an Open Platform

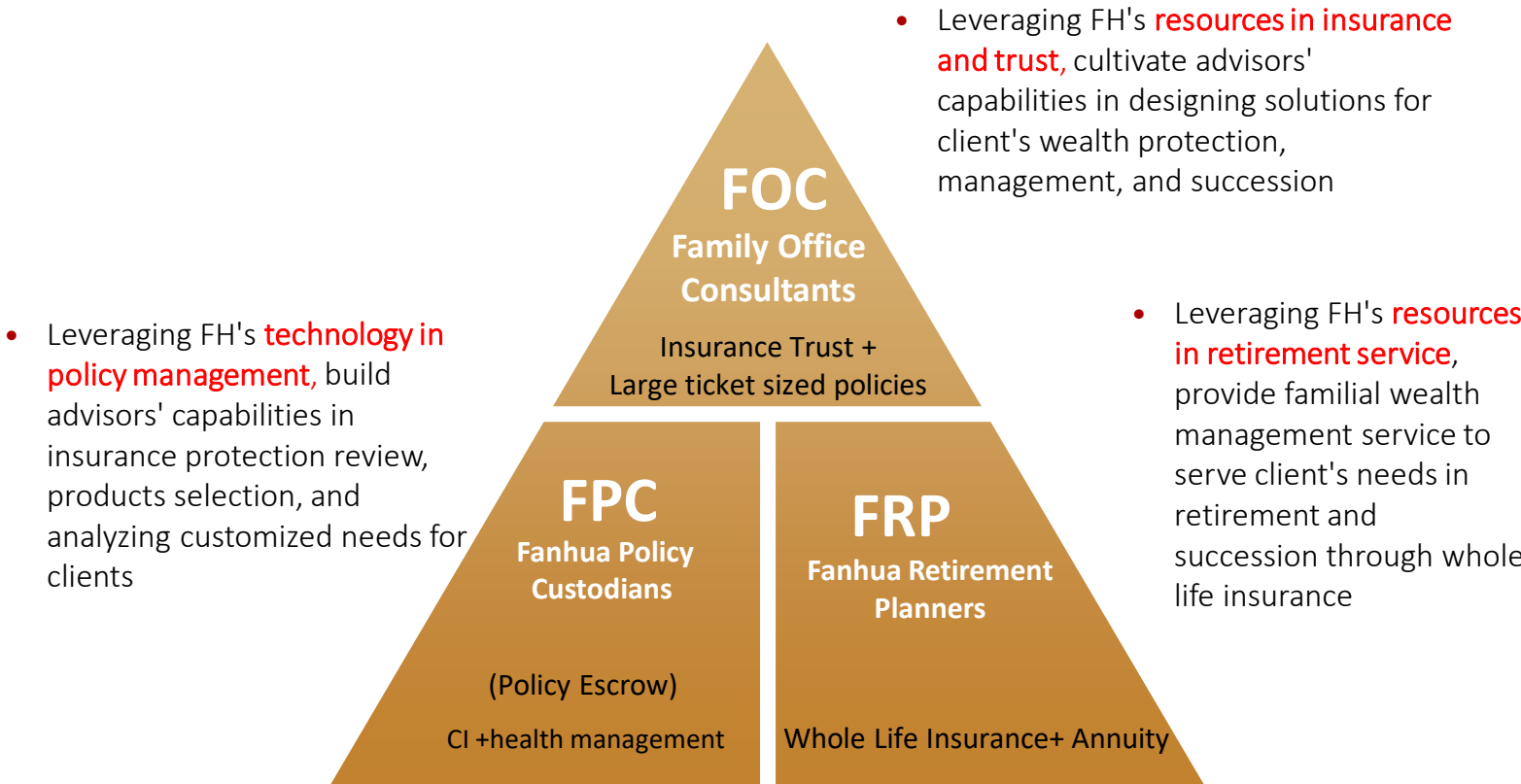
- Develop an open platform to enable various types of insurance brokerages, sales organizations and individual agents:
  - **Lower IT and compliance costs** through a unified compliance structure and IT infrastructure
  - Providing **diversified product offerings**
  - Enabling agents' **digital transformation**
  - Offering professional training support, **assisting advisors in productivity and professionalism improvement**
  - Providing cash flow support and capitalization paths to **enhance liquidity**



# What Are We Doing to Drive Quality Growth?

## Developed Professional Training - Empowering Advisors' Career and Business Development

### 3F Training System



#### FOC

- ✓ **3,324**  
# of Accumulated Trained Agents
- Goal for 2023: to train 3000 external FOC candidates

#### FRP

- ✓ **13,071**  
# of Accumulated Trained Agents

#### FPC

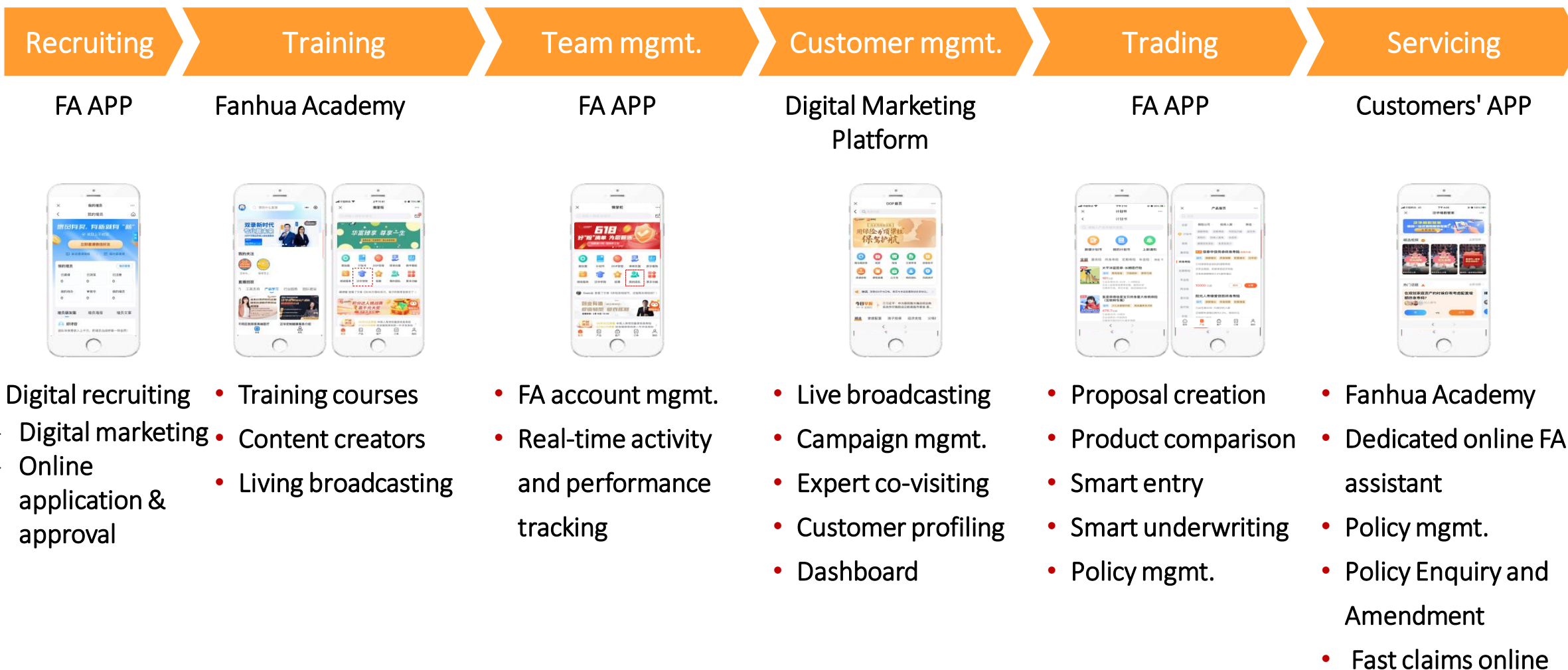
- ✓ **15,070**  
# of Accumulated Trained Agents

\*FOC refers to Family Office Consultants, FRP refers to Fanhua Retirement Planner, FPC refers to Fanhua Policy Custodian



# What Are We Doing to Drive Quality Growth?

## Technology – Developing Digital Tools to Drive Professionalisation & Efficiency Gains



# This is How We Are Using AI...



Chinese Version

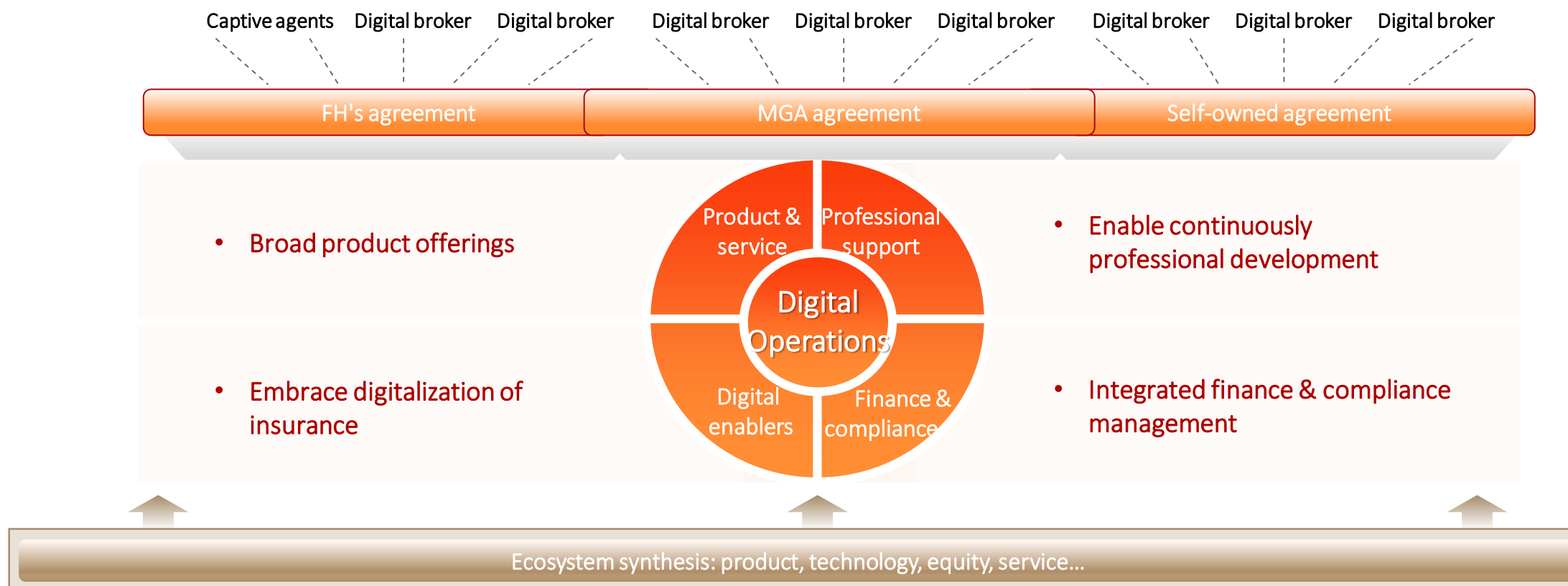


English Version

# What Are We Doing to Drive Quality Growth?

## An Open Platform to Empower Independent Insurance Brokers and Advisors

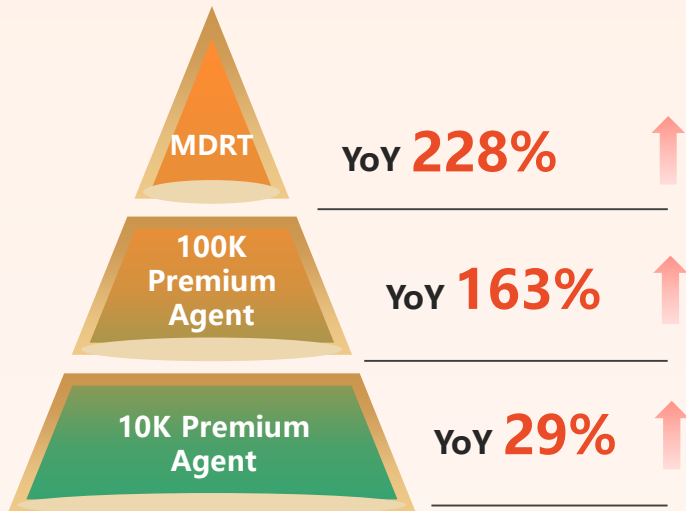
- With our open platform, we seek to empower platform users by:
  - Sharing a unified compliance structure and IT infrastructure to drive efficiency and lower IT and compliance costs
  - Sharing deep and broad relationship with life insurers to provide the best exposure for all
  - Enabling agents' digital transformation
  - Sharing 25 years of accumulated experience and knowhow to empower professional development
  - Providing cash flow support and capitalization paths to enhance liquidity and security



# Encouraging Results - Significant Improvement in Advisor Quality

## Steady Growth in No. of Top Agents

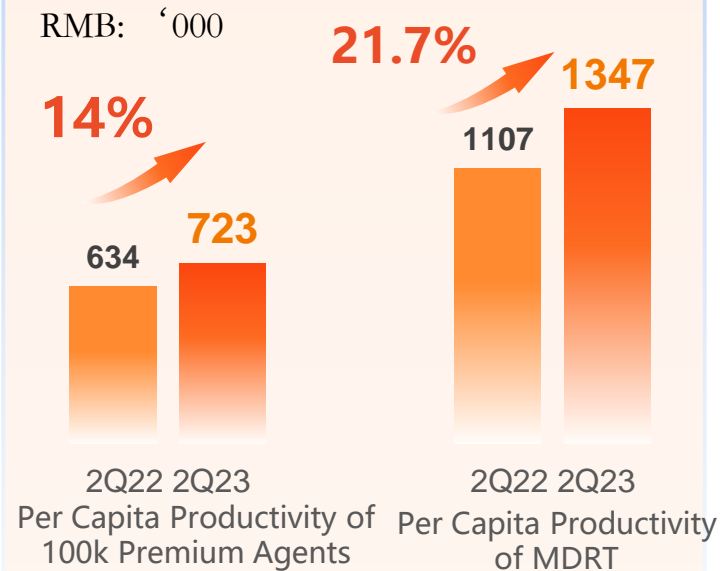
1



**TOP AGENT**

## Improvement in Top Agent Productivity

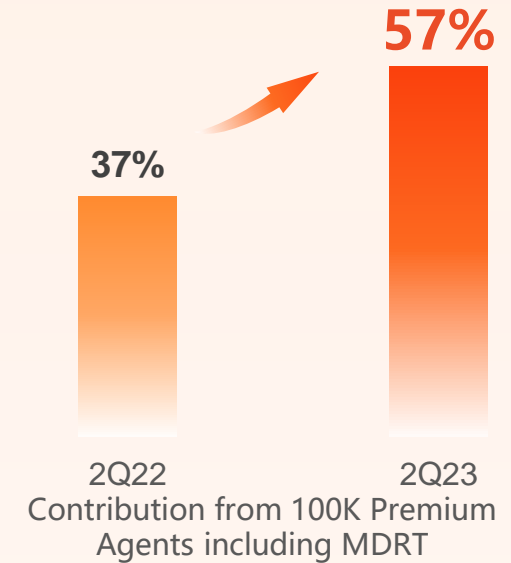
2



**PRODUCTIVITY**

## Increased Contribution from Top Agents

3



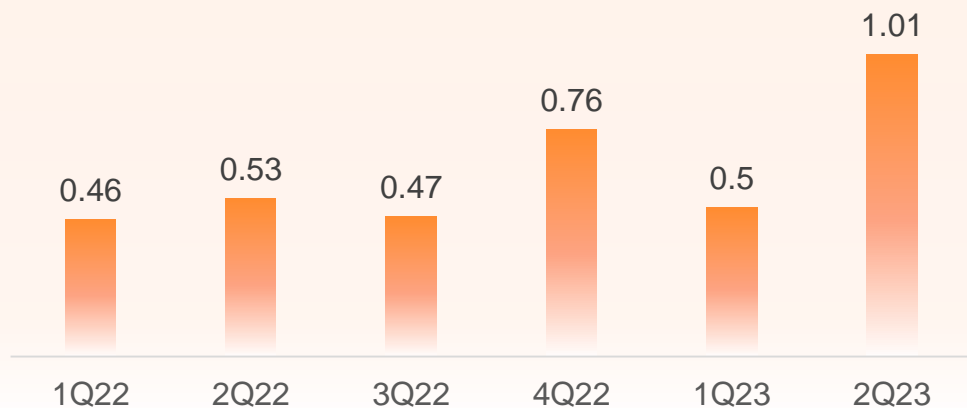
**CONTRIBUTION**

# Growing Contribution from Open Platform Strategy

Organic FYP\*

Q2 YoY Growth: 90.6%

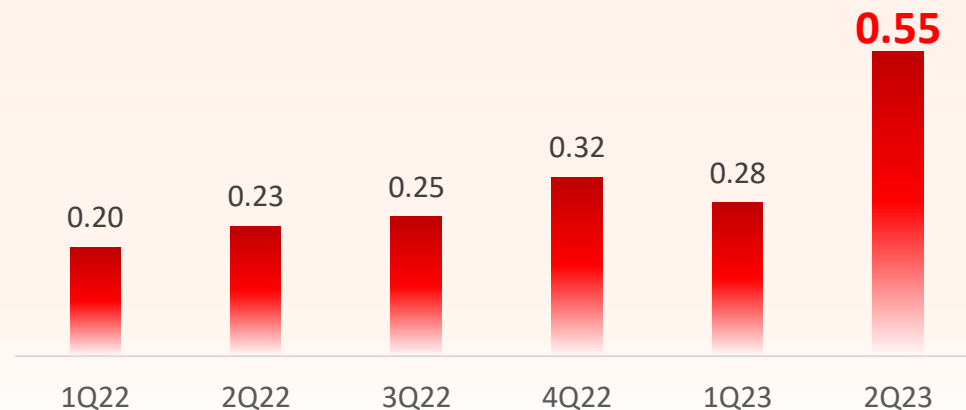
RMB: bn



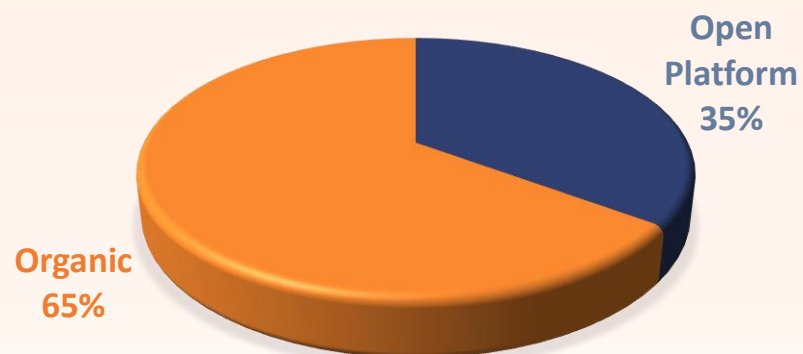
Open Platform FYP\*\*

Q2 YoY Growth: 135%

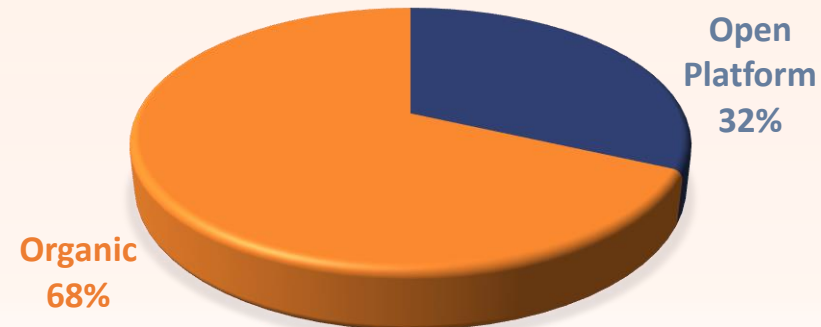
RMB: bn



Total Life FYP Mix\* (%)



Revenue Mix\* (%)



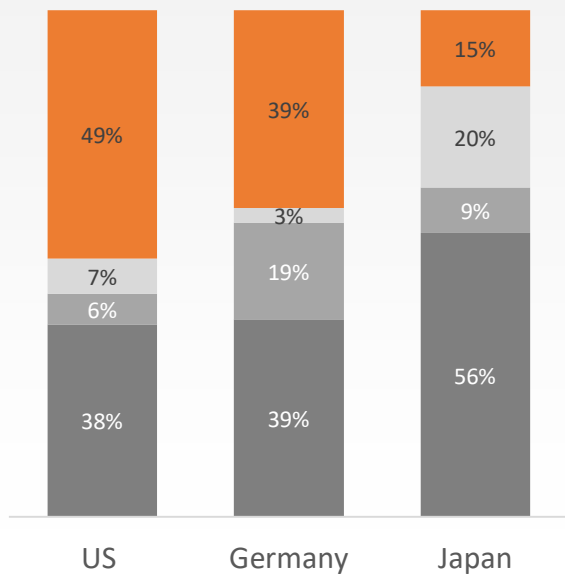
\*Organic FYP refers to FYP contributed by our existing agencies excluding short term premiums generated by Baowang

\*\*Open Platform FYP refers to FYP contributed by three newly acquired entities and third party entities using our platform

# Significant Growth Potential for Independent Advisors in China

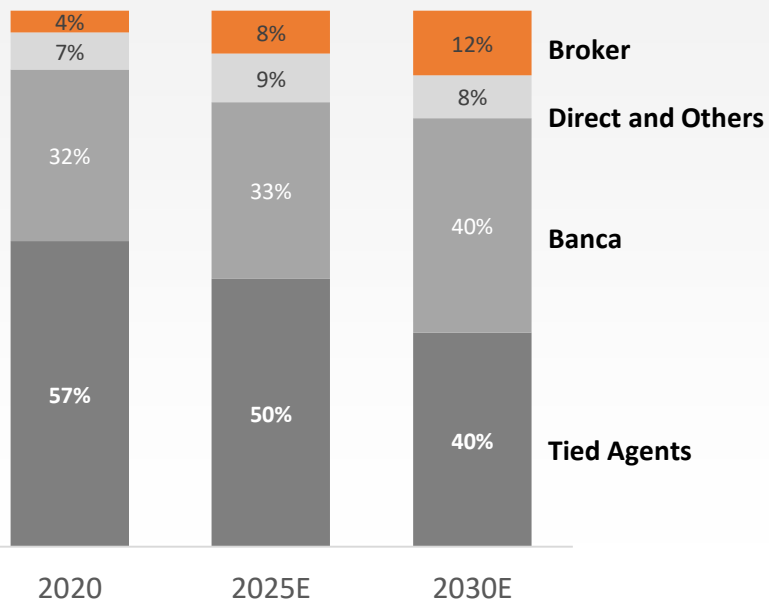
Brokers/agencies taking up substantial market share in developed markets

Premium Mix By Distribution Channel, 2020



Expected continued rapid growth of independent insurance intermediaries in China, with market share rising from 4% to 12%

Premium Mix by Distribution Channel, 2020-2030E, China



## Rapid growth driven by strong demand and supply

### Demand Side

- Increasingly sophisticated customers
  - Accumulation of private wealth
  - Rising insurance penetration
  - More complex and diversified insurance needs
  - Awareness to seek professional 3<sup>rd</sup> party advice
  - Calling for cost-effective solutions
- Small and medium insurers' increasing reliance on brokerage
  - Homogenous product offerings, limited resources and weak sales capabilities leading to increasing reliance on independent intermediary channel

### Supply Side

- Expanding talent pool:
  - Highly productive agents and professionals from FIs or other industries seek diverse career development opportunities, independent business models and higher compensation

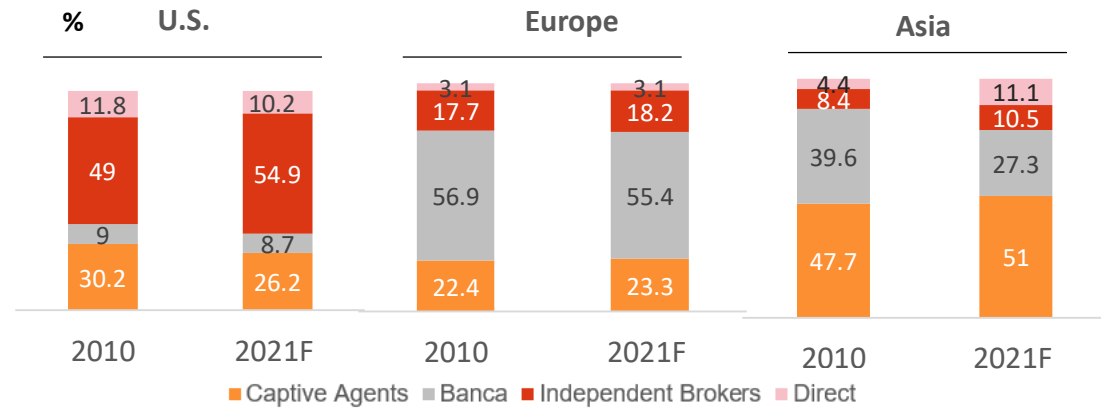
# Huge Market Potential Overseas

## Opportunity for Expansion in to Hong Kong and South East Asia Markets

### Growth Opportunities + Replicable Platform Model

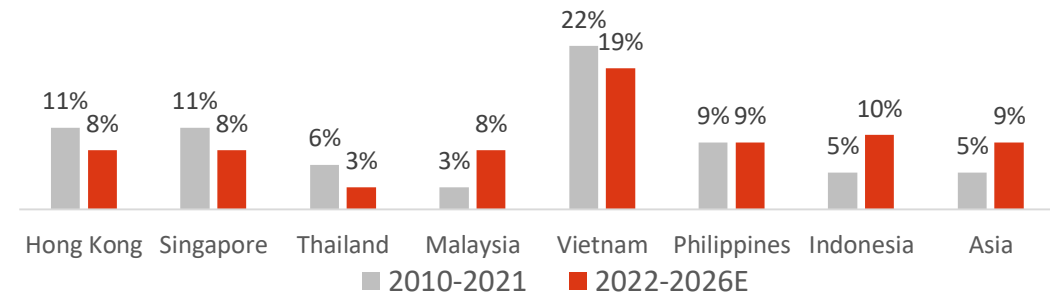
- Hong Kong's insurance market reaching **HKD600B by GWP**, making it one of the most important insurance markets in Asia-Pacific. **with amiable size and huge potential**
- Enormous potential in life insurance in Southeast Asian market, with markets like Singapore having sales models similar to China.
- Market share shifting from direct to independent insurance intermediary channel, driven by technological development, tightening regulation, and consumers' demand for more choices

### Independent Brokerage Channel Gaining Shares in Life Insurance Markets in U.S, Europe, and Asia over the Past Decade



Data source: McKinsey's global insurance report (2023)

### Southeast Asian Life Insurance Market Expected to Maintain Steady Growth over 2022-2026 (by GWP)



Data source: JP Morgan Research: Asian Market Strategies 2023



# Thank You

Email us if you would like a copy of this presentation or our annual household wealth survey.

**[ir@fanhgroup.com](mailto:ir@fanhgroup.com)**