



PODCAST TRANSCRIPTION SESSION NO. 112-JEFFREY CHEN

Welcome to the Lend Academy podcast, Episode No. 112. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of Lendlt.

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Peter Renton: Today, I'm here in Shanghai for the Lang Di Fintech Conference and that is Lendlt's Chinese event, thought I'd take this opportunity to sit down with one of, I think, the most impressive fintech companies not just in China, but in all the world. They're based here in Shanghai and I'm delighted to have Jeffrey Chen, he is the CEO of ZhongAn Insurance.

This interview is a little bit different to what I typically do because we are working through an interpreter here. Whereas Jeffrey does understand English and he does speak it to some extent, he wanted to bring his interpreter along so we can get the accurate English answers here. So you'll find this presentation...you know, most of the conversation will not be Jeffrey's voice, it will be the voice of his interpreter, but it was still a fascinating interview and I hope you enjoy the show!

Welcome to the podcast, Jeff.

Jeffrey Chen: Thank you.

Peter: Okay, let's get started by giving the listeners a little bit of background about yourself and what you did before ZhongAn.

Jeffrey: For now, I'm responsible for the overall management of the company and oversees day-to-day operations at the company.

Before joining ZhongAn, I was president of the credit card center of Citibank from August 2006 to May 2014 and vice president from July 2005 to August 2006. Prior to that, I worked as a vice president in China Merchants Fund Management from 2003 to 2005 and as a vice president at China Merchants Securities from 2002 to 2003. I was also the head of the director's office at China Merchants Bank from 1999 to 2002.

Peter: Thank you. So then I want to talk about how ZhongAn Insurance was founded. What was the idea that led to the creation of ZhongAn?

Jeffrey: The main purpose of ZhongAn's creation is to protect and promote the development of the internet.



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In April 2013, Mr. Liu Shiyu, the Deputy Central Bank Governor, once put forward that internet insurance should be insurance based on the internet economy?

The internet has played an important role in the national economy in China since around 2013, and has changed people's lives in many aspects. However, the development of the internet is also faced with a series of risks and bottlenecks which are different from traditional industries. Based on the purpose of protecting and promoting the development of the internet, leading internet enterprises including Alibaba, Tencent have actively participated in the industry of insurance and have established a creative insurance company with Ping An, which gives full play to the irreplaceable risk protection and function of social management of insurance in the internet economy and ensures the healthy development of the internet.

Peter: Okay, so what was the first insurance product offered by ZhongAn? What did you launch with?

Jeffrey: Talking about our first insurance product, we launched our Merchant Performance Bond Insurance named Zhong Le Bao on Alibaba's Taobao marketplace in November 2013.

If a merchant purchases our Merchant Performance Bond Insurance, it will be eligible for consumer-related services without paying any deposit to Alibaba by paying a small amount of premium as low as 30 RMB annually. In addition, in the event that a merchant has to indemnify purchasers in a transaction, Merchant Performance Bond Insurance offers advance indemnification to the purchasers up to a certain amount. This was the first insurance solution designed specifically for merchants that participate in the deposit program on Alibaba's platforms.

Our Merchant Performance Bond Insurance has improved the merchants' liquidity by bypassing Alibaba's deposit requirements.

Peter: So I know that you have expanded beyond that first product into many other products so can you share with the listeners what products ZhongAn offers today?

Jeffrey: Leveraging our proprietary technologies, we developed innovative ecosystem-oriented insurance products and solutions through scenario-based settings to better serve our customers.

As of December 31, 2016, we have developed insurance products and solutions covering multiple platforms in five ecosystems, including lifestyle consumption ecosystem, consumer finance ecosystem, health ecosystem, auto ecosystem and travel ecosystem.

Peter: Okay, so you are very broad in your offerings today. I just want to focus in on the health insurance product. I was in your office...it was a bit over a year ago when I was talking with one of your colleagues who described your health insurance product. It was fascinating, it's obviously a hot topic in the United States, but can you explain your health insurance product and what you are offering exactly?

Jeffrey: Health insurance is a hot topic not only in the USA but also in China. Health is a timeless topic for everyone.

Due to the license restrictions, ZhongAn can predominantly sell short-term insurance policies. I'd like to present three points based on ZhongAn's exploration regarding health insurance.



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Firstly, we believe big data technology can make individualized health management service possible, including personalized pricing and service solutions.

Secondly, we believe we can provide management service with temperature through connection with the internet. It means, we cannot only offer insurance products to our customers, but also a close-loop health management service.

Third, we believe that the development of science technology will help improve human's capability to fight with diseases and control risks. After all, what's mostly needed is our active management capability of health.

Peter: Indeed. So I'd like to get an idea of the scale you guys are at today. I mean, I know that you guys have only been around for a few years, but you've already reached a pretty large scale. Can you give the listeners a little bit of an idea of how many customers you have, how many insurance policies you've issued?

Jeffrey: From our inception in October 2013 to December 31, 2016, we sold over 7.2 billion insurance policies and served over 492 million customers, which include the policyholders and the insured, ranking us the largest insurer in China as measured by number of customers served and policies sold during this period according to the report. In addition, we are the largest online insurance company in China with GWP of RMB 3,408 million in 2016.

Peter: Wow, 492 million customers, that is amazing! Not only are you the largest insurer in China, I am pretty confident to say that no other insurance company on the planet has that many customers.

Jeffrey: Thank you, thank you.

Peter: So I want to talk a little bit about regulation. How are you guys regulated, what kind of licenses do you guys have?

Jeffrey: The insurance industry is still under strong regulation in China. As an insurance company, we are subject to CII's regulations on the types of products that we are allowed to invest in.

ZhongAn was the first internet company to obtain an insurance institution permit and one of the four online only insurance companies holding such an insurance permit. ZhongAn obtained its online insurance license in 2013, more than two years earlier than any of the other three companies, according to the report. ZhongAn is also the clear leader among these four companies in terms of GWP.

We have obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China. ZhongAn holds a P&C license, and obtained approval for short-time health insurance and accident insurance in March 2014, then was permitted for auto insurance in 2015. In addition, we are currently in the process of applying for a license to offer life insurance products.

Peter: Okay, so you mentioned earlier that you started with Alibaba, but I know that you have lots of other partnerships and you're very integrated into China's internet economy. Besides Alibaba,



what are some of the most significant partnerships you have?

Jeffrey: As of December 31, 2016, we have created a positive network effect with comprehensive coverage of the leading players in each ecosystem, evidenced by our four partnerships with more than 180 ecosystem partners. We have established partnerships with leading companies in China's internet economy, such as Alibaba, Ctrip, Didi Chuxing. We established a mature cooperation with the leading ecosystem partners, we build on the successful experience and extend our cooperation with other ecosystem partners along the ecosystem value chain, including those long-tail, vertical and offline partners in five ecosystems.

Peter: So when I was at your office last year, I think the most impressive thing that came out of that conversation for me was your use of data and I've just been extremely impressed with the kinds of data you're using. Can you tell us a little bit about that, your approach to risk and how you are using the massive amounts of data that you collect?

Jeffrey: Yes, when was the last time you visited ZhongAn?

Peter: In May of last year.

Jeffrey: Data is one of the most important assets for insurance companies. In every step of the insurance value chain, insurance companies face decisions that rely on the analysis of financial, actuarial, claims, risk, consumer, producer and other types of data. New analytical methods allow insurance companies to process these huge amounts of so far untapped data. Predictive, statistical modeling allows insurance companies to predict what may happen in the future by measuring and understanding past behaviors and patterns.

Through our business in various ecosystems, we have accumulated big data from data authorized and released by an expanded large customer base. Our extensive user data originates from our large and expanding customer base and third-party data providers. We are also granted access to the database of the PBOC Credit Reference Center, which provides us with access to customers' official credit record.

Given our ecosystem-oriented innovation and scenario-based settings, we have access to valuable data of customers' behaviors and consumption patterns in their everyday lives. Leveraging the unique and large amount of data we have gathered, combined with our internally developed machine learning engine and analytical models, we are able to effectively and accurately collect and analyze large amounts of user data in insurance related profiles.

Peter: Okay, so let's just talk a little bit more about that. I've read that you're using artificial intelligence a lot so can you explain how are you using AI to measure risk?

Jeffrey: Yes, risk management is very important for insurance companies.

We integrated our artificial intelligence capabilities extensively to support risk management. For example, we are able to achieve automation in real-time risk control and dynamic underwriting systems to achieve more accurate pricing which specifically addresses risks we face. Our user profiling through graph mining enables us to provide accurate predictive recommendations to our customers. We are able to build a customer whitelist based on the analysis. Our advanced image recognition technology enables us fast and effective measure, anti-fraud measures provides us



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with a unique competitive advantage in optimizing our claims process for our innovative products such as the phone screen crack policy. Our technology increases the accuracy of verifying the phone in the photos sent by the users is the same phone to be insured, and increases the accuracy of the check for the screen of the phone. Our real-time risk management system enabled by artificial intelligence technology makes it possible for us to obtain holistic understanding of customers and address fraud and default risks through the product lifecycle, from product design, underwriting, monitoring and claim settlement.

Peter: Okay, I've seen you guys listed on the KPMG...they have a list of the most innovative fintech companies on the planet and you're always very high on that list. What has been the secret to your rapid success?

Jeffrey: Right.

We believe our proprietary infrastructure and technologies are critical to our success. The main secret maybe is our persistence in the mission with fintech. Our mission is to make insurance with temperature through connecting with the internet.

We operate our core insurance systems on our proprietary cloud-based platform called Wujieshan. We have also developed advanced artificial intelligence capabilities to optimize product features quickly to enhance customer experience and strengthen risk management. We have accumulated extensive user data originating from our large and expanding customer base and third-party data providers. Our business model is also based on the ecosystem, which is unique and our talent is also quite important for us.

Peter: So I have to ask this question about your IPO that was just announced recently in Hong Kong, you're potentially raising \$1.5 billion, why are you doing an IPO now?

Jeffrey: I only can say no comment.

Peter: Okay, understood, understood, no problem. So then final question, what is your vision for the future of ZhongAn? It feels like you have created such a big and expansive insurance company very quickly, but I'm curious, where are you taking this, what is your vision for the future?

Jeffrey: We already have a mission for the future. Our mission is to redefine insurance technology, connectivity, ecosystems and applying new technology. Specifically, we plan to implement the following strategies:

1. Further grow our customer base and GWP.
2. Maximize our profitability through expanding and optimizing the product mix.
3. Strengthen our technology leadership and big data analytics capabilities.
4. Further drive operating efficiency.
5. Foster and grow sustainable and connective ecosystems.

Peter: Okay, well I appreciate you coming on the show today. Thank you very much everybody.



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Jeffrey: Thank you very much, thank you.

Peter: It's truly staggering when you think about it. ZhongAn have been able to build up a business with 492 million customers, that's through the end of last year so I'm sure it's significantly more than that now. And, obviously, they're selling insurance online and it's very deeply integrated into these platforms where you can just click a button and take out these insurance policies and it's all very much integrated. They've been able to do this and what is, I think, the most interesting thing is their data repository, they have so much data and the fact that they can use this to price risk and underwrite these customers in a very accurate way. I think the scale they are at, the product offerings and how deeply integrated they are with so many different partners...to me it's really the....I look at them as the future of the insurance industry.

Anyway on that note, I will sign off. I very much appreciate you listening and I will catch you next time. Bye.

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