[LU] Lufax Holding
Q1 2022 Earnings Conference Call
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Executives
Guangheng Ji, Chairman of the Board
Y. S. Cho, Co-Chief Executive Officer
Gregory Gibb, Co-Chief Executive Officer
James Zheng, Chief Financial Officer
David Choy, Chief Financial Officer of Puhui
Chen Yu, Head of Board Office and Capital Markets

Analysts
Winnie Wu, BofA Securities
Thomas Chong, Jefferies LLC
Hans Fan, CLSA Ltd.

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Lufax Holding Limited First Quarter 2022 Earnings Call. (Operator Instructions). After the management's prepared remarks, we will have a Q&A session. Please note this event is being recorded.

Now, I would now like to hand the conference over to your speaker host today, Mr. Yu Chen, the company's Head of Board Office and Capital Markets. Please go ahead, sir.

Chen Yu: Thank you, operator. Hello, everyone, and welcome to our first quarter 2022 earnings conference call. Our quarterly financial and operating results were released by our Newswire services earlier today and are currently available online.

Today, you will hear from our Chairman, Mr. Ji Guangheng, who will start the call with some general updates of our key achievements, then address some focal issues for investors. Our Co-CEO, Mr. Greg Gibb, will then provide a review of our progress and details of our development strategies in the quarter. Afterwards, our CFO, Mr. James Zheng, will offer a closer look into our financials before we open up the call for questions. In addition, Mr. Y.S. Cho, our Co-CEO, and Mr. David Choy, CFO of Puhui, will also be available during the question-and-answer session.

Before we continue, I would like to refer you to our safe harbor statement in our earnings press release, which also applies to this call as we will be making forward-looking statements.

Please also note that we will discuss non-IFRS measures today, which are more thoroughly explained and reconciled to the most comparable measures reported under the International Financial Reporting Standards in our earnings release and filings with the SEC.

With that, I'm now pleased to turn over the call to Mr. Ji Guangheng, Chairman of Lufax.

Guangheng Ji: (Speaking foreign language).

(Translated). Hello, everyone, and thank you for joining our first quarter 2022 earnings conference call. I will start today's call with an update of our key achievements for the quarter, and then share our views on those focal issues for investors.

Due to the Covid-19 situation in Shanghai, my colleagues and I are dialing in separately from home. Please bear with us should we encounter technical difficulties during the call.

Key achievements: Despite Covid-19 resurgence and macroeconomic slowdown, we achieved steady growth during the first quarter. During the first quarter, our total income grew by 13.5% year-over-year to RMB17.3 billion and net profit increased by 6.5% year-over-year to RMB5.3 billion.

Our basic earnings per ADS for the quarter reached RMB2.31. In April, we paid a dividend of US$0.34 per ADS for the first time since we went public. We plan to return value to our shareholders in a variety of ways going forward.

Second, key investor concerns: We maintained open dialogs with the market and hosted over 60 investor events during the first quarter. Based on our data, roughly 60% of the investor questions were about macro environment and business operations; 30% were about regulatory trends; and the remainder were related to capital market developments.

In general, investors are concerned about Chinese ADRs. Many think that the panic selling has caused ADRs' valuations to decouple from their fundamentals. Although recent public statements from Chinese regulators have instilled some confidence into the market, most investors are still taking a wait-and-see approach. Presently, investors' key concern rests on our growth prospects in the current macroeconomic environment.

In March, China escalated its countermeasures to contain the coronavirus. Shanghai, for example, has experienced lockdowns under the nationwide Covid-zero policy. Impacted by pandemic induced economic slowdown, the financial services industry as a whole unavoidably suffered deceleration in growth and deterioration in asset quality. Our own business was also impacted.

Our analysis indicates that the impact from this year's pandemic is higher than that of 2020. In preparation for the challenge, our management has preemptively implemented a series of initiatives, including tightening our credit policy, enacting prudent cost control measures, shoring up cash flow management, and many more. Greg will elaborate further on those details later.

Many investors have expressed concerns about the April 29 rectification progress and the ADR delisting risk. Having completed the vast majority of our rectification-related initiatives, we have also devised detailed action plans for the remaining issues that require prolonged efforts.

At the Financial Stability and Development Committee meeting on March 16, the Vice Premier of the State Council, Mr. Liu He, made a call to press ahead with the rectifications of large platform companies and to finish this task as soon as possible. On April 29, the Political Bureau of the Communist Party of China's Central Committee also stated in a meeting that efforts should be made to advance the rectification of platform companies and promote the regulated and sound development of the platform economy. Judging from this information and insights, we believe that the regulatory rectification process is at the point of entering its final phase.

Regarding the delisting risk, the U.S. Securities and Exchange Commission provisionally identified Lufax as a Commission-Identified Issuer under the Holding Foreign Company Accountable Act on May 9, 2022. Over 100 Chinese ADRs have been included on the SEC's provisional list. More importantly, we have been delighted by the positive market signals indicating that the PRC and U.S. authorities are moving closer towards an agreement.

During the recent 2022 Boao Forum for Asia Annual Conference, vice-chairman of the China Securities Regulatory Commission, Mr. Fang Xinghai, stated that negotiations between Chinese and American regulators over audit issues involving U.S.-listed Chinese companies have proceeded smoothly so far, and that a cooperation agreement appears possible. We are confident that the delisting risk will likely diminish further.

Third, Lufax mid-to-long-term development: Despite the short-term challenges caused by Covid-19, what I would like to reiterate here are the four key competitive advantages that we possess, namely alignment with policy direction, tremendous market potential, unique business model, and abundant capital reserves. These advantages have given us confidence that we should be able to navigate through the current economic cycles.

Alignment with policy directions: Because small-and micro-businesses are part of the core engine powering China's economy, they garner thorough and comprehensive policy support and thus, enjoy enormous growth potential. At the same time, they often encounter three hurdles when trying to get funding. We characterize those hurdles as three excesses, three deficiencies, and three difficulties.

The three excesses refers to the excessively high cost, high pricing, and high risk that small-and micro-businesses face when they apply for loans. The three deficiencies are the lack of financial statements, credit scores, and collateral that these businesses typically face. The three difficulties represent the difficulties in unification, standardization, and promotion of financial services to small-and micro-businesses.

As a result, it is difficult and costly for small-and micro-businesses to borrow from traditional banks. As the leading financial services provider for small-and micro-businesses, we will continue to align with regulatory directions, remain true to our mission of offering inclusive financing services, and deliver solutions to solve small-and micro-businesses' financing difficulties.

Enormous market opportunities: Domestic financial services targeting small-and micro-businesses can be characterized as high growth and low penetration. According to statistics from the People's Bank of China, the balance of inclusive loans to small-and micro-businesses grew at 29% CAGR from 2019 to 2021 and constitute roughly 10% of total loans. Although the industry is growing rapidly, it still has a long way to go to catch up with its peers in developed countries, where 30% of total loans are lent to small-and micro-businesses. Such a gap presents an enticing opportunity for the industry to develop under a variety of supportive policies.

Unique business model: Over the past 18 years, we have been providing integrated online-to-offline financing services to satisfy small-and micro-businesses' needs. Our technology, combined with our online operational experience, have equipped us with an effective mechanism to reach borrowers and manage risks. Led by a team of seasoned executives with extensive expertise in technology and finance, rich experience in operational management, and global vision in corporate development, we have broken down barriers and achieved important breakthroughs.

We believe that our unique business model will support and continue to serve as a solid foundation for our steady growth and steer us through market fluctuations.

Abundant capital reserves: As of March 31, 2022, we had ample capital reserves of roughly RMB100 billion in net assets and over RMB40 billion in cash, thus ensuring our smooth navigation through economic cycles and consistent returns to our shareholders. Despite the challenges brought by Covid-19 this year, we will maintain our per-ADS dividend amount at the same level or above as that in 2021.

In summary, despite this year's challenging macro environment, our advantages in regulatory compliance, market potential, business models, and capital reverses have positioned us well to navigate through the current economic cycle while executing our mission of serving small-and micro-business owners.

Going forward, we will remain fully in sync with China's national policy directive of supporting the growth and development of small-and micro-businesses and the real economy at large.

With that, I will turn the call over to Greg, who will share our business updates in detail.

Gregory Gibb: Thank you, Chairman Ji. In the first quarter, we built on the solid foundations of 2021 to deliver stable operational results in an increasingly challenging environment. Cognizant of the negative impact brought by Covid's resurgence, we have recently launched critical actions for the more difficult market conditions ahead.

Before turning to our Covid response, let me highlight a few key figures for the first quarter. Please note that all numbers are in RMB terms unless otherwise stated.

In the first quarter, we generated 17.3 billion of total income and 5.3 billion of net profit, both figures exceeding our prior guidance. The take rate in our retail credit facilitation business remained steady at 9.7% this quarter, versus 10% a year ago.

By the end of the first quarter, the wealth management business saw stable client assets of 433 billion despite volatile markets, and the revenue take rate in this business reached 53.9 basis points in March.

Operational costs were held steady while we continued with technology investment to empower our direct sales productivity and loan facilitation, and to optimize on-line customer management in wealth. In the first quarter, about 40% of our new direct sales hires for lending facilitation met our upgraded target profile for the ongoing channel transformation. First quarter direct sales productivity for lending increased by 4.8% versus a year ago.

Now, turning to the resurgence of Covid. We believe the multi-city lockdowns that started in March will likely have a deeper impact on the economy and our operations than seen prior in 2020. Our 18 years of credit experience has taught us that rapid changes in the environment requires decisive, pre-emptive steps to both minimize downside risks and to be best positioned for growth when the environment recovers.

Under the current zero-Covid policy, we believe that simultaneous rolling lockdowns across multiple cities will likely remain rooted in the landscape through most of the remainder of 2022. We enter this landscape facing a weaker macro economy than in 2020. The 2 months-plus long lockdown of Shanghai, its intra-provincial highways, its supply chains, is creating much larger ripple effects than those seen in Wuhan during 2020.

Through the lens of our data and experience, we can now roughly profile the impact of Shanghai's lockdown on our lending facilitation business. We forecast that C-M3 flow rates will triple during the lockdown period, gradually returning to pre-lockdown levels 6 months after the lockdown ends. However, as zero-Covid policies and restrictions are constantly evolving, it is difficult to predict their impact on other cities.

Furthermore, we think it is only prudent to assume that during the second half of the year, more cities could be placed under varying degrees of lockdown. From our vantage point, we are unable to estimate the exact number of cities that could be affected, and thus the overall impact is extremely difficult to assess at this point.

While there remain uncertainties ahead, we are nonetheless confident that the array of measures we have implemented nationwide will mitigate the challenges posed by this operating environment. These measures include targeting higher-quality customers, providing more customized products, and improving our risk management efficiency.

First, we are continuing to target higher-quality customers and tightening our credit policy by utilizing a differentiated approach. On the one hand, we are gradually ceasing serving high-risk-profile customers. For non-small-business owners, or industries that are likely to be hardest hit by Covid, for example, travel-related, we have tightened our credit policies nationwide.

On the other hand, we have adopted a differentiated approach based on risk performance. For geographies and channels with stronger credit performance entering this landscape, we have made smaller adjustments. And for geographies with below average C-M3 flow rates, we only target new business and loan top-ups for the highest-quality customer segments.

Second, we are providing a greater number of customized products to mitigate any potential sales losses created by our adoption of higher-quality standards. For those customers who represent too high of a credit risk for us to provide with unsecured loans, we encourage them to pledge collateral and apply for secured loans. For those small business owners who have higher-quality risk profiles, we provide them with lower APRs, longer-tenor-period products, and more flexible payment schedules to relieve their financial burden and help them overcome their current difficulties.

Finally, we are improving our risk management efficiency. Our collections team are equipped with our risk management system, remote working platforms, technology tools, and the deep experience they gained in 2020 to their work. By leveraging these tools and abilities, they can work remotely to monitor the status of borrowers, proactively identify potential loans at risk, and take immediate action on loan collection.

Our proprietary, data-driven collection force of 10,000 agents is deployed across 10 cities. This team, together with our more than 57,000 direct sales agents, is fully deployed to help manage and mitigate any and all risks.

It is also important to note, as Chairman Ji just did now, that our strong balance sheet and cash position provide us with resilient ability to overcome challenges. As of the end of the first quarter, our net assets stood at 98.3 billion and our leverage ratio for our guarantee company stood at less than 2X, positioning us well to handle risk fluctuations.

Our credit insurance partners are also in a strong capital position to handle associated risks, although they will certainly re-price credit insurance fees as we move through this cycle. The financial strength of the underlying credit enhancement and risk sharing that we have with our funding partners, provides them with little burden in the ongoing loan servicing to small business owners.

We believe this notable strength will enable stable funding availability through this challenging time, and further distinguish Lufax versus other platforms who may now charge higher prices, encounter higher risks, and have less capital resources to protect operational resilience. Being in a relatively stronger position, with strong partners, will enable faster resumption of growth when the macro environment stabilizes.

While we are selectively putting on the brakes on new loan growth to be prudent near term, we also remain focused on executing our longer-term strategic priorities. The channel transformation has continued at pace in the first quarter, with our direct sales making up 57% of new sales in the first quarter versus 49% a year ago, underpinning the improved productivity.

Also, within the direct sales team, we recruited more high-quality talents and dismissed below-average performing ones. As a result, high-quality talents accounted for 40% of new hires in the first quarter and we believe this proportion will continue to grow.

More broadly, we sense the regulatory environment is placing increased focus on funding availability for the small business sector, indicating likely greater stability in regulatory requirements this year versus the past year.

Taking all these points together does lead us to revised guidance for the first half of 2022. And we will provide full year guidance when we get more clarity. Our renewed guidance in this very dynamic environment is based on the principle that it is better to be conservative early, rather than sorry later.

Hence, we are revising our new loan sales growth for the first half of 2022 to decrease between 7% and 10%.

For our wealth business forecast, we remain largely unchanged, though we will continue to monitor domestic capital performance which impacts investor CA and overall investment sentiment.

We expect our first-half revenue growth to be 8% to 10% year-on-year.

We believe the impact of the lockdown of multiple cities and the volatility we see in foreign exchange rates, and our increase in credit losses where we bear risk, will be higher than previous guidance, and thus our net profit for the first half is likely to decrease between 11% and 13% year-on-year.

If non-cash foreign exchange losses were excluded from the calculation of net profit, then the Company's expectation for the first half profit would be a decrease of 3% to 4%.

As Chairman Ji just said, we are confident that we will successfully navigate through the current cycle, and are committed to maintaining our 2022 per ADS dividend amount at or above the level in 2021.

Last, but not least, our CFO James has decided to take an early retirement. James has been with the company for 8 years, and we really want to thank him for his great contribution to the company. The company has started the search for a new CFO, and during the interim period, Mr. David Choy will assume the finance function of the company.

With that, I will turn the call over to James Zheng, our CFO, to go over the financial details.

James Zheng: Thank you, Greg. I will now provide a closer look into our first quarter results. Please note that all numbers are in RMB terms, and all comparisons are on a year-over-year basis unless otherwise stated.

We achieved solid financial results in the first quarter, as we continued to drive growth in both the top line and the bottom line. During the quarter, our total income was 17.3 billion, up 13.5% year-over-year, and our net profit increased by 6.5% to 5.3 billion year-over-year.

Let’s have a closer look at our operating numbers. First, we maintained stable unit economics for our retail credit facilitation business, while further reducing our APR.

Our loan balance APR was 21.8% in the first quarter of 2022, a 3-percentage-point decline from 24.8% in the first quarter of 2021. In comparison, our loan balance take rate was 9.7% in the first quarter of 2022, only a 0.3-percentage-point decline from 10% in the first quarter of 2021.

Our continued efforts to diversify funding sources, engage with more banking partners, reduce credit insurance premiums on our loan portfolio, and improve customer charging mechanisms to diminish the impact from the early loan repayments enabled us to maintain stable unit economics and drive further enhancements for our sales and operating efficiency despite APR declines.

Second, we continued to penetrate our core and targeted customer segments. On the retail credit side, we continued focusing on serving small business owners. During the first quarter, excluding our consumer finance subsidiary, 83.5% of new loans facilitated were disbursed to small business owners, up from 75.7 % in the same period of 2021.

On the wealth management side, despite the negative impact of our P2P and online deposit products run-off, we managed to grow our total client assets by 2.7% to 432.6 billion as of March 31, 2022. Client asset contributions from mass affluent customers investing more than 300,000, increased to 81.3% as of March 31, 2022, up from 76.3% as of March 31, 2021.

Third, we continued to drive forth the evolution of our risk-sharing business while maintaining vigilant on asset quality changes. In line with prevailing regulatory requirements, we bore credit risks for 20.4% of the new loans we facilitated in the first quarter of 2022, up from 12.5% in the first quarter last year.

All of the aforementioned operating metrics exclude those of our consumer finance subsidiary.

Due to the slowdown of macro-economic growth and the Covid-19 pandemic, we saw some deteriorations of overall asset quality. However, thanks to our risk management system, the negative impact on our risk indicators are limited.

Excluding consumer finance subsidiary, our DPD 30+ and DPD 90+ delinquency rates were 2.6% and 1.4% for the total loans we facilitated as of March 31, 2022, compared to 2.2% and 1.2% as of December 31, 2021. We will remain vigilant and be prudent on our borrower acquisition and risk management strategy.

Now let's take a closer look at our first quarter financial numbers. At the highest level, our total income in the first quarter grew by 2.1 billion, or 13.5% year-over year growth, while total expense increased by 1.6 billion, or 19.1% year-over-year growth.

Net income grew by 6.5% year-over-year to reach 5.3 billion. If non-cash foreign exchange losses were excluded from the calculations of the net profit, then the year-over-year net profit change would be 2.1%.

While operating-related costs continue to remain flat due to efficiencies, total expense increase is primarily driven by credit impairment cost due to higher risk-taking, and increased risk and impairment provision rate related to loans.

Next, let's go through the financial numbers line by line. As the total income mix of our retail credit facilitation business continued to change, thanks to the evolution of our business and risk-sharing model, total income increased by 2.1 billion or 13.5% year-over-year.

During the quarter, while platform service fees decreased by 9.7% to 9.3 billion, our net interest income grew 71.2% to 5 billion, and our guarantee income grew by 245% to 1.9 billion.

Other income decreased to 704 million in the first quarter from 1 billion in the same period of last year. As a result, our retail credit facilitation platform service fees, as a percentage of total income, decreased to 50.2% from 63.4%.

Because consolidated trust plans provide lower funding costs, we continued to utilize them in our funding operations, enabling our net interest income, as a percentage of total income, to increase to 28.8% from 19.1% a year ago.

Moreover, as we continued to bear more credit risk, we generated more guarantee income, reaching 11% of total income, compared to 3.6% a year ago.

Our investment income decreased by 11.2% to 435 million in the first quarter from 490 million in the same period of last year, mainly due to the decrease of investment assets, partially as a result of share buyback.

In terms of wealth management, our platform transaction and service fees decreased by 5.3% to 592 million in the first quarter from 625 million in the same period of 2021. This decrease was mainly driven by the run-off of legacy products, which was partially offset by the increase in fees generated from our current products and services.

Turning to our expenses, in the first quarter, our total expenses grew by 1.6 billion or 19.1% to 10.2 billion from 8.5 billion in the same period of 2021, primarily driven by the increase of credit impairment cost. Total expenses, excluding credit and asset impairment losses, finance costs and other losses increased by 2.7% to 7.2 billion in the first quarter of 2022 from 7.1 billion in the same period of 2021, remain almost the same, as we further improved operating efficiency.

Our total sales and marketing expenses, which include expenses for borrowers and investor acquisition, as well as general sales and marketing expenses, increased by 5.9% to 4.5 billion in the first quarter.

Our general and administrative expenses decreased by 15% to 726 million in the first quarter from 854 million in the same period of 2021. This decrease was mainly due to our expense control measures.

Our operation and servicing expenses increased by 4.5% to 1.6 billion in the first quarter from 1.5 billion a year ago, primarily due to the increase of trust plan management expenses, which resulted from the increase in consolidated trust plans.

Our technology and analytics expenses increased by 0.2% to 448 million in the first quarter of 2022, from 447 million in the same period of 2021, mainly due to the Company's ongoing investments in technology research and development.

Our credit impairment losses increased by 168.2% to 2.8 billion in the first quarter from 1.1 billion a year ago. This was mainly driven by two factors: One, increase of provision and indemnity loss driven by increased risk exposure. As a reference, including the consumer finance subsidiary, the company bore risk on 19.4% of its outstanding balance, from 8.7% as of March 31, 2021. Two, change in credit performance due to the impact of the Covid-19 outbreak.

Our finance cost decreased by 25.7% to 211 million in the first quarter from 284 million a year ago, mainly due to the increase in interest income resulting from the increase in deposits. Additionally, our effective tax rate was 26% during the first quarter of 2022, remained the same as the same period of 2021.

Other gains were RMB118 million in the first quarter of 2022 compared to other losses of RMB138 million in the same period of 2021, mainly due to the foreign exchange gain in the first quarter of 2022. We have noticed that the volatility of foreign exchange rate between RMB and the U.S. dollar has increased, and such volatility could have both positive and negative impact on our quarterly net profit in the future.

As a consequence of the aforementioned factors, our net income increased by 6.5% to 5.3 billion during the first quarter from 5 billion in the same quarter of 2021. Meanwhile, our basic and diluted earnings per ADS during the first quarter were RMB2.31 and RMB2.14 respectively.

As of March 31, 2022, we had a cash balance of RMB40.6 billion in cash at bank, as compared to RMB34.7billion as of December 31, 2021. In addition, liquid assets maturing in 90 days or less amount to RMB52.1 billion as of March 31, 2022.

During the first quarter of 2022, the overall economics in China was impacted by the regional lockdowns. Under the current zero Covid policy, we believe that rolling lockdowns, simultaneously across multiple cities, will likely remain rooted in the landscape throughout most of 2022, thus exerting severe negative influences towards the entire economy and the credit business. As the overall impact is extremely difficult to assess, we would like to provide our revised first half guidance to account for the near-term macro headwinds. And we will provide full year guidance when we get more clarity.

For the first half of 2022, as we become more prudent in underwriting, we expect new loans facilitated to decrease between 7% to 10% year-over-year to the range of RMB294 billion to RMB301 billion; client assets to grow by 1% to 3% year-over-year to the range of RMB425 billion to RMB434 billion; total income to grow by 8% to 10% year-over-year to the range of RMB32.5 billion to RMB33.1 billion. Credit-related provision will increase, given the deterioration of asset quality driven by the Covid impact and higher risk exposure. Other losses will increase due to foreign exchange volatility.

Operation-related costs will decrease as we continue to improve our efficiency. As a result, we expect net profit to decrease between 11% to 13% year-over-year to the range of RMB8.5 billion to RMB8.6 billion. If non-cash foreign exchange losses were excluded from the calculation of the profit, then the company's expectation would be for a decrease in the net profit for the first half of 2022 of between 3% to 4%. The profit growth rate will pick up once the channel optimization impact starts to come through, and the credit costs are normalized on annual basis.

This forecast reflects our current and preliminary views on the market and operational conditions, which are subject to change.

That concludes our prepared remarks for today. Operator, we are now ready to take questions.

Questions and Answers

Operator: Thank you. (Operator Instructions). Winnie Wu from Bank of America.

Winnie Wu: Thank you management for giving me the opportunity to ask the question. So my question is regarding the Covid lockdown. Apparently, management is being very prudent in terms of adjusting the growth target and lifting the lending standard. But just want to ask is the impact on loan demand temporary, or could this lockdown is leading to more prolonged damage to the demand from the SME sector that the growth outlook for even 2023, 2024 might be impaired?

And related to that, the second question is in terms of the impact on asset quality and impairment, assuming the Covid situation can get under control by, say, end of June, when do you think is the peak in terms of risk indicators or impairment? (Speaking foreign language).

Guangheng Ji: (Speaking foreign language).

Y. S. Cho: Thanks, people, and then Winnie. This time Covid impact is quite different from 2020. This time, it seems a lot wider and longer. In 2020, it was quite limited to certain area, and therefore, a relatively short period of time. Our credit indicators also fully recovered back to pre-pandemic level only in 3 months' time in 2020. And the overall economy was in better shape back then, like no supply chain issue, no import export issue, not a big issue in real estate sector, for example.

So I think we all believe that even after this pandemic control comes to end, the market environment will not be as good as pre-pandemic period at this time. So with the concern on economy downturn, which was shown from many indicators from second half last year, we started taking pre-emptive actions from fourth quarter last year. And that as a whole, cutoff more than 20% of our target segment and made the biggest impact on our life channel new sales. It dropped almost 40% from the same period last year as a result.

But looking back, we believe we made a right decision. And it is not the right time, we think, to pursue only volume growth goals. Instead, we'll be more prudent in new customer quality and our asset quality. There are still quite much uncertainties to how this pandemic will play out, and its final impact. That's why we only provide the first half guidance.

Nonetheless, that we have more than 15 years' experience in consumer credit risk management. And we have more than -- as Greg said, we have more than 10,000 collectors nationwide who have remote working experience during lockdown situation with a best-in-market system support. Also we can have more than 50,000 offline direct sales engage in offline collection and support our collection team.

On the demand side, although recently, demand on this operation loan is weakening, that's true. But we do not worry about the demand side because the markets is huge and then we only take about 1% market share. And in the long run, we know that this sector will surely grow in line with the government's support and policies.

And then good news is we saw our risk indicator peaked in April, and then when we will recover, but how long it will take is still uncertain. But the good news is the peak time is already over here. Risk indicators make a clear progress, clear improvement, starting from May. So I believe so now we are in the process of recovering already, including Shanghai.

Operator: Thomas Chong from Jefferies.

Thomas Chong: Basically, I ask a question with regards to our wealth management strategy, as well as how the consumer sentiment impacts the business trends?

Guangheng Ji: (Speaking foreign language).

(Cross-Talk).

Gregory Gibb: Okay. On the wealth management side, we really continue to do three things. So one is continue to deepen our focus on the affluent and upper-affluent customers, and providing them with more content and service around the new product set, which is now that all products in China have moved away from fixed income into NAV-based mutual funds, private placement funds, that have more volatility than fixed income, providing with more content, more upfront information, more post-investment services, and really combining our relative expertise through online, as well as through telecom services, where needed, for these higher-end customers to really help them navigate this new environment.

So even though the markets have been in the A market, the A-share market, and China has been down 20% to 30% really through May now, we've seen quite good stability in the customer base and quite good stability in the CA overall. So we will continue to provide those services, continue to refine them, give customers more real-time input other portfolios, helping them drive diversification, help improve their overall customer mix, so they can generate a steady return in a difficult environment. We do have hope that, now that the markets have come up quite a bit in the first half, that we may have a chance for some recovery for customers in the second half, which would be very helpful, as we continue to change this product mix to this target segment.

The other thing that we are doing as well is increasing our focus. This has been something we've been working on for more than a year now. The insurance product set, as well, can certainly, as China goes through its overall changes, given our average customer age is about 39 years old on the wealth side. Pension-related issues or pension reform is advancing, insurance and pension services are becoming increasingly important. And that's an interesting area because it is a nice margin business to have.

So overall, we continue to drive it online; we continue to drive new customer growth. We continue to focus on the upper end and change the product mix to continue to drive up the overall debt margin of the business. If you look, as we stated, at the end of March, we're at about 53 basis points, 54 basis points income over CA, which is up quite a bit from a year ago. So this is an area that we continue to drive, and over the longer-term, we hope it'll become a larger contribution to the holding as a whole.

Operator: Thank you. Hans Fan from CLSA. (Operator Instructions).

Hans Fan: My question is mainly about the direct sales reform progress. As we know that since end of last year, Lufax has launched the progress to reform the direct sales team. Just wondering what's the progress now, and how long should we expect this reform to be largely completed?

And also just to follow up a question regarding the breakdown of the customer acquisition, can you share the percentage in terms of coming from the direct sales team, coming from the insurance team of Ping An, and also from the telephone sales?

Guangheng Ji: (Speaking foreign language).

Y. S. Cho: Thanks, Hans. Let me first share the life channel. Life channel, the first quarter new loan sales dropped by almost 40% from the same period last year; and now it takes about 20% while new loan sales contribution. In direct sales, the first quarter new loan sales increased by about -- roughly about 10% from the same period last year, and accounts for 57% of new loan sales.

So regarding the channel mix, life is contributing 20% and then direct sales almost 60% now. And the rest 20% are from telemarketing, especially for our existing customers re-borrowing, so it's a mix.

Before I get into the DS channel reform, I would like to share the quality about life channel, we took a series of risk mitigation actions from first quarter 2020. And now if you look at the life channel new customer quality in first quarter 2020 after we took all those actions, we measure new customer quality by like DPD1, or DPD 30+, it is now even slightly better than direct sales channel, it's very promising.

And total number of life agents, now you see that it gets stabilized; it does not decrease further in March. So we believe life channel contribution through new phase, which it already reached the bottom; it cannot be lower than this. And we believe this will rebound slowly going forward. So this is an update about life channel action, and then I want to say that we have a hope that this will contribute more new loan sales going forward.

And then coming to direct sales reform, this is ongoing reform, it takes time. As of March end, total number of direct sales we have is about 57,000. That includes team leaders and other supporting staffs. It was 57,000, exactly the same number, in a year ago, so number of direct sales did not increase as all for a year. Yet, DS channel sales volume increased by almost 10%, that will indicate our DS channel productivity improves, continuously improves, although we tighten -- we continuously tighten on credit policy and reduce target market to achieve a better asset quality.

We will continue to focus on optimizing DS mix with prior quality we said we do not pursue rapid sales growth or balance growth. But taking this opportunity, we focus more on how we can optimize our sales mix. We try to get more high-quality talents, whose retention rate is 2x higher than other sales.

And, of course, productivity is normally more than 20% higher than other sales. So we focus on how we can get more high-quality talents, and then change the mix of direct sales. As Greg mentioned, the high-quality talents takes up to more than 40% out of total new hire; it was just one visit last year. So we are making progress.

And also we are providing a lot more tech enablement to our sales and upgrades to enhance their sales efficiency. And also we are now trying to gradually removing to middle layer, which takes about 10% of total sales headcount. So then naturally, we further improve our sales productivity. So this year, we focus on building stronger direct sales team for DS reform. And then this will lay a solid foundation, for our rapidly growth probably next year after we get through this difficult time.

Operator: Thank you. I'll now hand over to the management team for closing remarks.

Chen Yu: Thank you, everyone, for joining the conference call. If you have more questions, please do not hesitate to contact the company's team offline. Thanks again. Bye-bye.

Operator: Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect the line.