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Further regulations and risk controls for bancassurance business in China

Over recent years, bancassurance has become an increasingly significant distribution channel within the life insurance industry in China. It represents a substantial proportion of sales for many life insurers, and a growing source of fee income for many banks. A recent circular issued by the Chinese Banking Regulation Commission (CBRC), however, could have important consequences for the development of the channel.

Against a backdrop of apparent concerns over insurance sales practices within bank branches, the CBRC circulated a "Notice Concerning Further Strengthening Legal Sales and Risk Management for Sales of Insurance Products by Commercial Banks" to its local branches and commercial banks. The Notice was issued under a "Special Urgent" cover in early November.

Key points

The key aspects of the Notice are set out below:

- Commercial banks cannot allow insurance company personnel to sell insurance products at bank outlets. Only bank personnel qualified as insurance agents may engage in such sales.
- The head offices of commercial banks are required to formulate rules regarding insurance company entry, exit and cooperation with the bank outlets, and to conduct periodic assessments on insurance companies' business compliance and after-sales service.
- No bank outlet is allowed, in principle, to cooperate with more than three insurers without approval by CBRC's local branch.
- Commercial banks are not permitted to combine insurance products with bank deposits, investment funds and bank financial products in sales, or make simplistic comparisons of such products.
- Disclosure of exaggerated investment returns and use of "misleading sales methods" such as lotteries or gifts are prohibited.
- Complex products including investment-linked insurance products may only be sold in special financial products areas; direct over-the-counter sales of such products is prohibited.

Ramifications and industry reaction

- Some insurers have reacted rather passively to the Notice in the belief that, after an initial flurry of activity, status quo will be largely resumed. However, many other insurers believe that if the measures are implemented in full, they could have a dramatic impact on bancassurance business across the market.
- Sales compliance may well be strengthened if the measures are implemented but the restriction on not allowing insurance staff to sell in bank outlets is likely to lead to a significant drop in new business premium for some bancassurers and a fall in fee income for some banks. The current proportion of bancassurance business sold by representatives of insurance companies is significant. Some analysts estimate that sales by insurance representatives make us over 60% of regular premium, and between 30% and 50% of single premium, bancassurance policies.

- If insurers decide to go down the route of enhancing sales training to bank staff, this will increase their training costs, potentially substantially, which will squeeze margins further or be passed on to customers in higher premiums and charges.

- We are likely to sell a two-tier system developing, with simple regular premium products being sold over the counter and more complicated savings products sold through specialists. This has implications for product development and training.

- The limit of banks using no more than three insurers per bank outlet (unless otherwise approved by the local CBRB branch) is likely to lead to a significant reduction in the number of insurance partners, and intensify the fight for bank shelf space. One insurer has already been contacted by one of their key bank partners to advise them that they are removing more than 30 insurers from their panel.

- For those insurers who manage to be selected on the panels of larger banks, the changes could obviously be very beneficial.

- Smaller insurers who are heavily dependent on the bancassurance channel, especially those with partners without strong bank connections, may lose out and will need to re-evaluate their strategy.

Conclusion

Banks and life insurers in China have formed increasingly closer ties in recent years through distribution agreements and more recently the entry, or planned entry, of banks into insurance manufacturing through joint ventures including ICBC and Axa-Minmetals, Bank of Communications and Commonwealth Bank of Australia, Bank of Beijing and ING, Bank of China and Heng An Standard Life and China Construction Bank and Pacific Antai Life. Banc assurance has become a very important revenue generator for many insurers and banks. If implemented, the measures announced in the recent CBRC Notice may have a significant impact on the development of bancassurance in China including the number and nature of partnerships, sales training, compliance and monitoring procedures, operating costs, product design and profitability. It will be interesting to watch how the landscape pans out in the coming months.

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