



China Insurance Regulatory Commission (CIRC) “Cash Before Cover” Regulation

June 2011

The Concept

“Cash before cover” means that an insurance company is barred from issuing any policy document until either the full premium or the first instalment of the premium has been received. It applies not only to new and renewed business, but also to mid-term alterations of risk for which an additional premium is required.

Background

Since 1 January 2008, the CIRC’s Beijing office implemented a local requirement that “cash before cover” should be adopted for motor insurance business. The CIRC, on 30 June 2008, promulgated the Notice on the Matters regarding Strengthening the Management of Premiums Receivable of Insurance Companies (关于加强保险公司应收保费管理有关事项的通知), encouraging insurance companies to adopt the “cash before cover” mechanism to control risks in relation to premium receivables. Between the years 2008 - 2009, all the local offices of the CIRC required insurance companies to adopt “cash before cover” for motor insurance.

On 22 March 2011, the CIRC issued Key Issues of Supervision and Management Work of Property Insurance 2011 (2011年财产保险监管工作要点). This latest promulgation however does not put in a place a set of rules on “cash before cover” that can be uniformly applied nationwide but only requests the local CIRC offices to extend the application of “cash before cover” mechanism to non-motor insurance (e.g. enterprise property and agriculture insurance etc). In fact, most local CIRC offices have already broadened its scope to cover other types of property insurance.

As the local CIRC offices have the liberty to design their own set of rules, which is only applicable to the province/city concerned, the local “cash before cover” rules differ in respect to the applicable types of insurance, exemptions and effective date etc.

“Cash before cover” regulation in Shanghai

The CIRC’s Shanghai office formally introduced “cash before cover” rules for motor insurance business since 1 November 2008. The relevant “cash before cover” rules for non-motor property insurance was recently promulgated on 25 March 2011 and came into effect on 1 June 2011. The Shanghai Insurance Association is responsible for the implementation of the same.

Pursuant to the new rules, “cash before cover” further applies to enterprise property insurance, engineering insurance, guarantee insurance, liability insurance, hull insurance, family and other property insurance, accident insurance, health insurance and agriculture insurance. The two lines of insurance business that have been explicitly excluded from the application are transport insurance and export credit insurance. Any insurance product where the premium is payable in foreign currency is also excluded.

Under the new rules, “cash before cover” applies to all insurance purchased by individual policyholder notwithstanding the amount of the premium. However, it applies to insurance purchased by non-individual policyholder only when the premium is RMB50,000 or less under a single policy for one type of insurance. The new rules permit payment to be made in instalments where the premium exceeds RMB50,000 under a single policy, in which case, the premium should in principle be paid in three instalments with the first instalment not lower than 40% of the total premium. The final instalment should be paid three months before the expiry of the insured period. The insurance company shall print and deliver the policy only after the first instalment of premium has been duly received.

Last but not least, in situations where it is a coinsurance business, only the leading insurer is subject to the new rules.

The Impact

The “cash before cover” requirements may impact an insurance company’s business in various ways. For example, some insurers already found it very difficult for their agents to collect and hold insurance premium on their behalf. Some common extension in relation to automatic coverage (such as automatic coverage for new locations) may also no longer be applicable under the new rules.

Further information

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