

# China Insurance

## Overhang removed: Regulation on sales activities nearly finalized

On 19 July, the CBIRC circulated a consultation paper of the “Measures for the Management of Insurance Sales Activities”, while the Insurance Association of China (IAC) formulated the “Guidance of Hierarchical Management of Insurance Sales Personnel”. Following the draft regulations on life insurance sales and products in Nov 2021 and April 2022, the regulators are now close to finalize the new regulations on sales activities. The consultation period will end on 19 Aug. And we think the regulators aim at a formal launch in 4Q22. We believe the new rules will have limited impact on the total scale of agency force, given that 1) the total number of agents has fallen 35% from the peak in 2019; and 2) the average premium income per agent metric has risen to a similar level to that before the regulators scrapped agent qualification test in 2015. We think the launch of the new regulation will remove the overhang on life insurance companies, and restore market confidence for quality growth. Insurers with better agency quality and leading agency reform, i.e. Ping An, CPIC and AIA, will benefit, in our view.

- **Re-introducing sales personnel qualification test.** Compared to the previous CBIRC consultation paper in Nov 2021 and April 2022, the IAC document gives more details on the hierarchical management system of insurance sales, aiming to re-introduce qualification tests for insurance sales personnel with a newly constructed hierarchical management system and question banks. To recap, in June 2015, the regulators scrapped the agent qualification test, which led to a huge expansion of agency scale in the following five years. The total number of agents in the insurance industry was more than doubled from 3.25mn in end-2014 to 9.12mn in end-2019, with a CAGR of 23%. That said, we think the implementation of the new rules is unlikely to cause a substantial decline of the total scale of agency force, because 1) after the total number of agents peaked at 9.1mn in 2019, the agency scale shrank to 5.9mn in end-2021, down 35% from the peak; 2) We note that the average premium income per agent per month in 1Q22 rose around 70% from the bottom and was 16% higher than that of 1Q15 when agency qualification test was still valid, signaling most low-quality sales force have already been screened out within the industry.
- **We expect insurers with better agency quality to benefit from the new rules.** To promote quality growth, the new qualification system will grade agents into four degrees, based on their integrity evaluation, testing status of profession knowledge and sales capability, with the first degree being the least capable. 1<sup>st</sup> degree agents are authorized with only simple products, while the 3<sup>rd</sup> degree agents or higher are authorized with all insurance products, and 4<sup>th</sup> degree agents are even permitted for cross-selling non-insurance financial products. We think insurers which have high-quality agency forces and already proactively transformed from short-term scale expansion to a more sustainable high-quality business operating model, i.e. Ping An, CPIC and AIA, will benefit from the new system.
- **The new consultation from the CBIRC covers both life business and non-life segment,** meaning there will be a consultation paper on the regulation on P&C sales activities in the coming months. We think the new regulation on P&C sales will post much smaller impact than the life insurance one, as the majority of P&C products are by far easier for agents or sales to understand and explain than those of life insurance. Only 17% of consumer complaints on sales front came from P&C business in 2021, while the rest were from life insurance sales.

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601628CH	SELL	18.10	-37%
2601 HK	BUY	30.49	75%
601601CH	BUY	30.37	45%
1336 HK	BUY	32.35	72%
601336CH	SELL	26.85	-10%
966 HK	BUY	11.48	36%
1339 HK	BUY	3.58	51%
601319CH	SELL	3.72	-25%
2328 HK	BUY	11.64	40%
6060 HK	BUY	33.20	48%

Source: Company data, CMBIS estimates

### Recent Reports:

- China Financials Weekly – Exposure to mortgage boycotts manageable at current stage, waiting for top-down solution ([link](#))
- Expect higher NPL in 2Q & 2H; P&C loss ratio improved during COVID lockdowns ([link](#))
- ST loan and special bond drive TSF beat; P&C momentum rebounded ([link](#))
- Manageable impact of Henan village banks' incident ([link](#))
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