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Banks get to invest in insurers

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CHINA will allow banks to invest in insurers for the first time in a trial program although they are limited to investing in one insurance firm to curb risks, the banking regulator said yesterday.

Lenders have to gain approval from the State Council, China's Cabinet, to invest in insurers in the trial, the China Banking Regulatory Commission said yesterday on its Website which posted new rules that took effect on November 5.

Banks should set separate the banking and insurance business. Banks are also banned from lending to the insurer or its affiliates to curb conflict of interest, the regulator said. Banks are also not allowed to lend to clients recommended by the insurers they hold stake in, it said.

Analysts said such curbs aim to minimize risks as the regulator wants the trial to operate smoothly.

The separation of banking and insurance operations seeks to lessen the impact to small and medium insurers, which have long relied on lenders as one channel to sell their insurance products.

The bancassurance business has been a key way for insurers to reach out to more clients. It doesn't come as a surprise to see banks focusing on selling insurers' products through their outlets.

In the trial, banks are also not allowed to sell subordinated bonds to insurers they invest in. Insurers are also banned from holding more than 10 percent in their banking affiliate.

Four banks - the Bank of Communications (BoCom), the Bank of Beijing, China Construction Bank and the Industrial and Commercial Bank of China - are the first to join the trial.

Shanghai-based BoCom won the nod to buy 51 percent of China Life-CMG Life Insurance in September. The Bank of Beijing said in September it won initial approval to buy up to 49 percent of Pacific Antai Life Insurance Co in Shanghai.