

## CASH BEFORE COVER

### PREMIUM PAID BEFORE POLICY INCEPTION

Many provinces and cities of China are starting to enforce a rule of “Premium Paid before Policy Inception.” Depending on the province or municipality, the local office of the regulator, the Chinese Insurance Regulatory Commission, may require that a policy cannot be incepted until premium payment is received by the insurer(s). This means, of course, that insurers **will not** guarantee any commitment to insurance cover. Nor can coverage be confirmed until the relevant insurers receive all related premium payments from the insured. In the jurisdictions involved, premiums must thus be paid for renewal *before* the policy expiry date.

### WHICH PROVINCES AND CITIES ARE INVOLVED?

To date, this provision, also known elsewhere as “cash before cover,” applies in Guangdong, Liaoning, Zhejiang, Sichuan, Hubei, Hunan, Jiangsu, Shandong Province and the Municipality of Nanjing and Shenzhen. We anticipate that many other Chinese provinces and/or cities will follow suit during this year.

### WHAT PROCESS SHOULD BE IN PLACE TO ENSURE THAT PREMIUMS ARE PAID IN TIME?

According to the current regulations, insurance coverage will not be in effect unless the premium payment is confirmed by the insurer. Considering premium remittance usually takes 1-3 days in China, we recommend that the insured wire the insurance premium at least one week in advance of policy inception and provide a copy of the remittance slip immediately after the payment to enable a check of the confirmation. For premium wired from outside of China, allow two weeks or more.



If the client has settled the premium but the insurer has neither issued the policy nor confirmed any cover before inception, the broker should follow up to obtain the confirmation of both receipt and coverage.

### HOW ARE BILLINGS STRUCTURED - DIRECTLY OR VIA THE BROKER?

In China, premium payment usually goes from the insured directly to the insurer. However, that is not a rule, and on lines of insurance such as Marine Hull and Protection & Indemnity, brokers have traditionally collected the premium.

## OTHER FACTORS TO KEEP IN MIND

Remember that in China, non-admitted coverage is not permitted, except for Import/Export Marine Cargo, Personal Accident/Travel, Foreign Expatriates Medical Insurance and Products Liability for overseas sales. Chinese law states that fines and penalties may be imposed on all parties who violate the non-admitted regulations. As a result, most of the principal coverages taken out by Chinese operations are subject to the advance payment requirement in the jurisdictions involved.

## CONTACT

For more information contact your Willis Client Advocate® or:

**Peter Zhang**  
Network Country Manager  
Willis China  
+86 (0) 21 3887 9988 x 285  
[peter.zhang@willis.com](mailto:peter.zhang@willis.com)

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