The Distribution Side of Insurance Markets

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Summary

- Test whether sales channel affects the *type* of financial products investors buy
- In 2014, Chinese regulators introduced a new rule, requiring at least 20% of insurance products sold through banks must be long-term products. The 20% minimum applies at the bank-province-quarter level.
- Get data from a major insurer: includes buyer traits, policy terms, etc.

Summary

- Impute bank branch-quarter quotas using historical sales at the bank-city level
- Identify branches that are behind the imputed quota after two months of the current quarter. Test sales composition in the third month of the quarter.
- Show that branches below imputed quota increase the fraction of new sales that are in long-term annuity products
- No change in pricing nor in demographics of clients
- Effect not seen in sales by independent agents, who were not affected by the regulatory change

Contribution

- Surprisingly little work on distribution side of insurance markets
- Literature shows that financial advisors affect product selection by clients (insurance contract selection, mutual fund fees, home bias, share of equity vs. bond funds)
    - Show advisor fixed effects matter
    - Show commissions matter a lot
- Change in *type* of product sold instead of which variant of similar products sold – short-term life insurance versus long-term annuity
    - Stronger evidence about agent's ability to affect clients' choices
    - Potentially larger welfare consequences from switching clients to a new product type
- No change in commissions paid to bank

Imputed Branch Sales Quota

- The main empirical tests are based on sales relative to imputed quota (average for all branches in city). Many good placebo tests for the validity of the imputed quota
  - Placebo test using non-quarter end months as if they were quarter end months
  - Same tests but for independent agents (who are not subject to the rule change)

Imputed Branch Sales Quota

- Show how stable the imputed quota is over time at the branch or city level
  - How confident should we be in the imputed quota for the first four quarters after the rule change given the lagged sales are from before the rule changed?
- Show there is sensible cross-sectional variation in branch imputed quotas. E.g., should vary with local demographics related to age.
- There is an adding up constraint for the imputed quotas – have to get to at least 20% for each bank-province-quarter. If aggregate within bank-province-quarter across the bank-city-quarters, weighting by relative size, how close are the aggregated imputed quotas to 20%?
  - Table 1 shows fraction of premiums from annuities goes from 8.75% in 2013 to 64.90% in 2016

Background on the Rule Change

- More on why government implemented this quota (and only for bank agents but not non-bank agents)
- What are the consequences if the bank misses the quota?
- How often do bank-province-quarters miss the quota?

Customer Welfare

- The paper shows that the rule change altered the *types* of products sold to customers
- Is there a way to quantify or do some type of back-of-the-envelope calculation of the likely welfare effects for customers?

Mechanism

- Consider three mechanisms: (1) change relative pricing of product types; (2) change the composition of clients towards people who want annuities; (3) persuade existing client base to shift purchases
- Evidence does not support the first two possibilities. No direct evidence of third.
- There is no change in the commissions paid to the banks around the time of the rule change
- How did the banks push the rule change down to individual salespeople? Were there changes in the commissions the banks paid to salespeople?

Overall

- Interesting paper – very little work on insurance sales, especially relative to size of the market
- Show that sales channel can affect type of product selected, not only which product within a type
  - Expands the range of what we know about how financial salespeople can steer clients' choices
- Evidence most consistent with persuasion channel