The experience of Chinese agents can offer a glimpse into the short to medium-term outlook of the industry.

What insurers can learn from China's continuing COVID-19 recovery

Insurers should invest in new digital tools and agencies, according to McKinsey & Co.

COVID-19 presents unprecedented challenges for the global economy. China was the first country to shut down in response to the pandemic, and it was the first to reopen. Today, many industries, insurance included, are watching closely to see what happens as China progresses through recovery.

According to McKinsey consumer surveys, overall economic sentiment in China is positive. McKinsey analysis of consumer spending data shows that China is approaching pre-COVID-19 levels of spending in aggregate, and several leading macroeconomic indicators suggest the economy has started to rebound.

Whilst the broad economic view in China may be encouraging, the outlook for the insurance industry is complex. For example, awareness of health insurance increased, translating to a 17% growth in sales from Q1 2019 to Q1 2020, whilst life products were down 1% over the same period. Meanwhile, demand for auto and liabilities policies slowed dramatically, affecting property and casualty lines.

As insurers outside China weather the COVID-19 crisis and prepare for a possible second wave of infections, China can serve as a preview. Specifically, the experience of insurance agents is generally a good indicator of the short- to medium-term outlook for the industry. We surveyed 210 agents in China across all lines of insurance in late April, examining how COVID-19 has affected their sentiment and performance, their interactions with customers via distribution, their view of insurers, and their outlook for the future.

How COVID-19 has affected agents

Two-thirds of agents experienced a decline in business performance during the COVID-19 pandemic, while around 20% reported an improvement. Survey data show the decline is more pronounced for agents with one to two years' tenure; about 13% of those agents experienced a decline in business of 60% or more. In contrast, none of the agents with five years' tenure or more experienced a 60 percent decline or more. This varied impact on business performance may be partly due to experience but could also reflect the fact that attrition rates are likely to be higher among low performers.

Two-thirds of agents saw a decline in business performance, with the decline being more pronounced for those with one to two years' tenure

More than 40% of agents saw an increase in policy cancellations; around 25% of those agents attributed the increase to customers allowing coverage to lapse. In addition, more than 60% think that customers' insurance budgets are lower than they were before the crisis. Many agents view the current situation as unsustainable; nearly 50% believe that they would not be able to sustain their business for more than six months if new business and renewals remain at current levels.

However, there is reason for optimism. Around 65% said customers have become more proactive in inquiring about insurance products and shown stronger interest in health, accident, and critical-illness products as well as online medical services. And as previously mentioned, health insurance gained traction, with the number of new health policies by product up 28% in Q1 2020 compared with the previous year. When asked where insurers could provide more support, 74% said they want help launching new products to meet customer needs.

Given the increase in cancellations and the overall decline in business, agents are spending more time on activities such as trying to make sales and contacting customers. More than two-thirds of agents reported spending more time on sales, and 61% said they are devoting more time to contacting customers and to learning and training. In light of this, it is no surprise that agents said their biggest challenge was achieving their KPIs , with 70% saying they need adjusted KPIs and performance management that reflect the current situation.

As interactions with insurers shift away from in-person meetings, more than 60% are interacting more with both prospective and existing customers over the phone. WeChat and video calls have also increased; 53% reported using these tools more with existing customers, and 61% said they're using these tools more frequently to interact with prospective customers. Most agents view this digitization of communication favorably, with around 70% reporting that their interactions have become more efficient.

The importance of digital is also clear at the industry level, where digital players were less affected by the crisis overall than traditional insurers. Some digital platforms recorded huge increases: WeSure, for example, added 25 million active users during the pandemic. Unsurprisingly, 70% of agents surveyed said they want more digital tools to help them sell and engage with customers.

Despite the challenges facing them, most agents are confident of a recovery and seem optimistic about the insurance industry's prospects. One-quarter are "very confident" in the recovery of their business post-pandemic, and an additional 69% are "quite confident"; just 6% professed to be "not confident."

The survey results uncovered some good news for insurers—almost 60% said they would not consider switching to a different insurer or career in the next six months, and just 1% said they were actively considering a move. This optimism may seem surprising given the business declines many are experiencing.

How insurers can support agents going forward

Agents increasingly find digital platforms an effective medium for communicating and doing business with customers. And customers are becoming more comfortable with using digital channels. As such, we anticipate permanent change in this direction. Based on the findings from the survey as well as our own observations, we see three areas worth pursuing for insurers that want to help agents navigate the next normal.

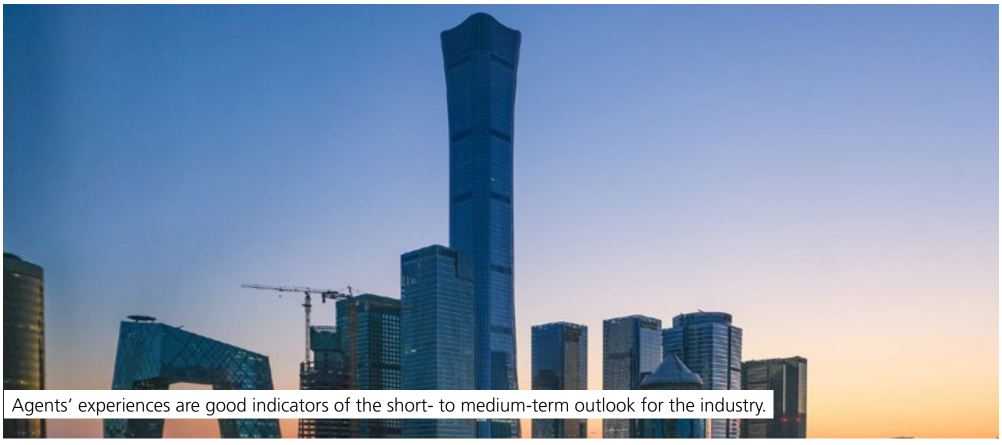
This new distribution model means agents could work with a full set of digital capabilities that enable seamless interactions with customers across channels. Insurers could provide agents with enhanced remote-working capabilities so they can meet customer-protection needs virtually. They could enhance dynamic digital tools with product illustrations (that is, illustrations that help users navigate a product and tap into its full value) as well as screen-sharing and videoconferencing to foster better communication between agents and customers. Insurers will also need to meet all regulatory requirements, including identity verification and signature collection.

Developing the next set of hybrid digital agencies will allow agents to have seamless interactions with clients across channels

The COVID-19 crisis has accelerated insurers' investments in digital capabilities at an unprecedented scale. These investments will help agents prepare for a possible second wave of infections and potentially reduce business disruption. Further, we have observed that these tools result in large efficiency gains for insurers (that is, a reduction in overall costs for the organization) by allowing agents to spend more time with customers and less time completing administrative tasks. Insurers should continue to check in with agents and monitor their use of digital tools and advanced analytics models so they can meet evolving needs.

Consumers are proactively asking for help to bridge their protection gaps. Insurers need to embrace agile product development and ensure they are addressing the broadest range of consumer needs while arming their agents with tools to provide those products via digital channels. Value-added and nonpolicy services, such as remote health advisory and diagnosis, could be powerful new offerings for agents to have in their arsenal.

The COVID-19 pandemic has been a catalyst for insurers to accelerate digital transformations and improve customer centricity. As insurers and agents around the world navigate the crisis and move into recovery, they can turn to China for insights. One thing is clear: insurers will need to change how they support agents to help them become more resilient in the face of the pandemic and prepare to thrive in the next normal. *By Arthur Bi, Angela Li and David Schiff.*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