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European bancassurance: Impact of COVID-19 and the next normal

As customers and banks accelerate their digital transformation, bancassurers need to move digital to the core.

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Bancassurance is an increasingly important distribution channel for a wide variety of insurance products across many countries in Europe.

Of course, the humanitarian tragedy caused by the COVID-19 pandemic has changed almost every aspect of life and business, and bancassurance is no exception. Lockdowns to limit the spread of the pandemic have led banks to reduce hours and close branches in many European countries, with some only seeing customers by appointment.[1] As customers migrated to digital and remote service channels, contact centers saw a huge spike in inbound call volume that peaked in April, with almost triple the average wait time compared with December 2019.[2] These effects were more pronounced in countries, such as Italy and Spain, that experienced high infection rates and thus more severe lockdowns.

The impact on bancassurance was immediate and will continue to redefine the way insurers and banks partner going forward. In this article, we outline the effect of COVID-19 on the growth trajectory of bancassurance, the accelerated effect of customer preferences for digital channels, and the potential responses for bancassurers as we enter the next normal.

Bancassurance in Europe: Before COVID-19 and now

Bancassurance premium growth in Europe during the past decade outpaced that of other insurance channels. According to our analysis, between 2012 and 2019, premiums for life products grew by 3.6 percent per year in bancassurance (versus 3.1 percent in other channels). In that same time, premiums for nonlife products grew at an even stronger rate of 5.3 percent per year (versus 2.0 percent in other channels). There is still plenty of room to grow, namely in nonlife products, given the bancassurance channel represents only 9 percent of premiums.

A survey by Finalta, a McKinsey company, conducted before the COVID-19 pandemic found that 75 percent of bancassurance nonlife sales were distributed via branches, setting the stage for the first-order effect of COVID-19 on bancassurance. According to interviews with European insurance executives, closures and lockdown precautions contributed to a drop of between 20 and 50 percent in new bancassurance business sales, depending on product and geography, during lockdown compared with same period the previous year.

But it was more than closed branches that caused the drop: a reduction in new lending underwriting affected credit-related insurance lines, as a result of lower demand from customers as well as reduction of bank services and risk appetite because of uncertainty. New life insurance sales, which account for the lion's share of bancassurance new premiums in Europe, were down, and sales also dropped in property and casualty (P&C) products (both motor and nonmotor).

The good news is that bancassurance proved its resilience in collecting existing premiums and sustaining renewals, with European bancassurers primarily relying on direct debit for these activities. The in-force life product portfolio also proved resilient compared with other savings products, without a significant increase in lapses despite some customer anxiety related to stock market volatility.

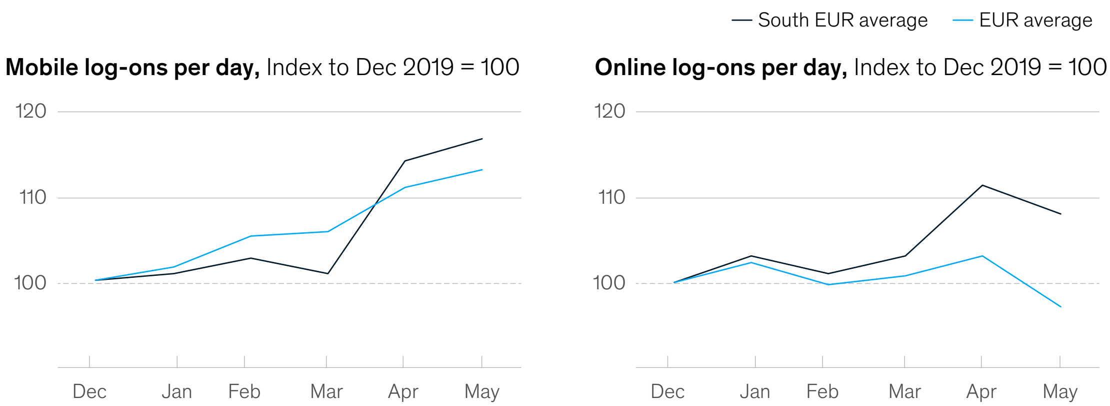
Acceleration in customer preference for digital and remote options

Even before COVID-19, customer preferences for remote and digital capabilities were growing—but it's clear the pandemic and related lockdowns have accelerated these trends. Between December 2019 and May 2020, Finalta data show that mobile customer engagement with Southern European banks grew faster than pre-COVID-19 years because of a spike between March and May (Exhibit 1). Overall European banks, however, had

[1] Data from the Remote Banking Pulse Check by Finalta, a McKinsey company, indicate that in March 2020 more than 20 percent of European banks decreased open branches by at least 20 percent compared with December 2019.
[2] Finalta Remote Banking Pulse Check Benchmark 2020 includes more than 120 banks, with more than 400 million active customers across more than 40 countries. Results as of May 27, 2020.

Exhibit 1

Digital customer engagement with European banks spiked following lockdowns because of COVID-19.



Source: McKinsey Financial Insights Pulse Survey 2020 of consumers in France, Germany, Italy, Spain, and United Kingdom; n = ~1,000 per country, sampled to match countries' general population aged 18 years and older; survey performed May 15, 2020

comparable growth rates similar to previous years. Online engagement briefly peaked in April before declining in May.

Customer research suggests that this uptick in digital adoption is far from temporary. A McKinsey survey in May 2020 found that up to 14 percent of European customers believe they will increase usage of online and mobile banking even as pandemic-related lockdowns and distancing abate (Exhibit 2). The same interviewees expect to visit their bank branch for transaction needs less often. In response, some banks have initiated efforts to accelerate their adoption of digital tools and channels to serve their customers.[3]

Insurers, too, are facing customer expectations of more and better digital and remote channel distribution. In a McKinsey survey conducted in April 2020 of 125 insurance executives in Europe, 57 percent of respondents expressed an expectation of a post-COVID-19 distribution landscape characterized by "acceleration of digitization and significant shift in channel mix." Bancassurance may feel this shift quicker than more traditional insurers, especially as not just customers but also banks themselves may demand more sophisticated and integrated digital capabilities from their insurance partners than in the past.

Bancassurance in the next normal

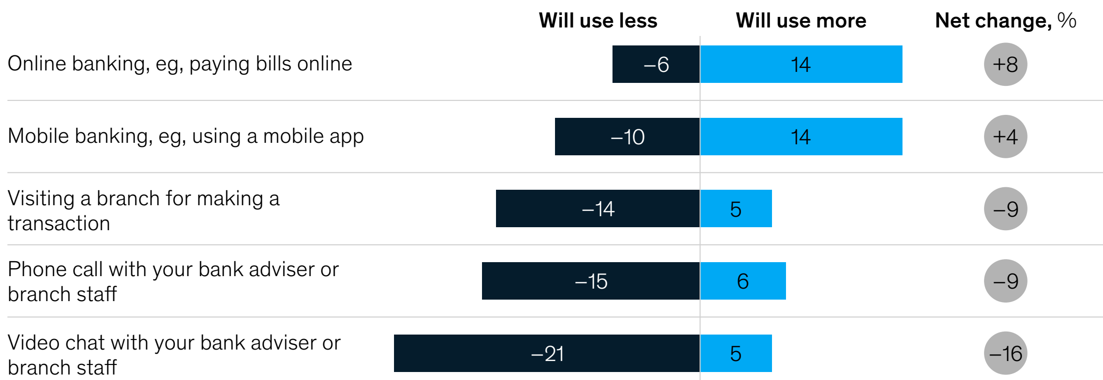
To move forward, bancassurers will need to ensure alignment with evolving customer needs (for example, greater need for protection) and partner banks' priorities (for example, revisited lending appetite in the current context). At the same time, they must actively act upon implications for new business sales in insurance—namely, the need to accelerate digitization and remote service offerings. While readiness to address this transition differs, bancassurers will be well served by shifting their focus from bundled sales to stand-alone efforts—that is, providing the right insurance product to the right customer not attached to banking products' sales. Thanks to their access to banks' customer information and multitude of customer touchpoints,

[3] Eleanor Bensley, Shital Chheda, Robert Schiff, Daniel Stephens, and Nicole Zhou, "Remaking banking customer experience in response to coronavirus," April 2020, McKinsey.com.

Exhibit 2

Customer surveys suggest the uptick in digital adoption during COVID-19 lockdown is far from temporary.

Once "normal life" resumes after COVID-19…[1]
Percent of respondents



[1]Q: Once "normal life" resumes after the coronavirus/COVID-19 crisis, do you expect to use the following bank services more often, less often, or the same as you were using before the crisis? Please check one answer for each channel.

Source: McKinsey Financial Insights Pulse Survey 2020 of consumers in France, Germany, Italy, Spain, and United Kingdom; n = ~1,000 per country, sampled to match countries' general population aged 18 years or older; survey performed May 15, 2020; margin of error for wave-over-wave changes is +/- 3 percentage points for all financial decision makers, and larger for subaudiences

bancassurance has an advantage in achieving this goal and serving segments across all insurance lines. However, retention will require special consideration as deteriorating economic conditions and unemployment may lead customers to consider switching providers or reducing coverage.

Bancassurance will benefit from synchronizing with customer concerns and accelerating efforts on business lines for which there will be higher risk awareness. Health solutions and accident coverage, for instance, remain particularly relevant for customers' well-being and lifestyle, and term life or funeral insurance may also be relevant to address this increased need for protection.

In other life products, bancassurers will want to protect their in-force portfolio against volatile markets through intense communication with clients (via relationship managers as well as other channels), as well as increase efforts to attract affluent customers who may preserve more savings capacity in a recessionary environment. There is also an opportunity to further enhance the life insurance offering by providing for a more comprehensive set of needs, for example, by taking part in the adjacent ecosystems of health and retirement.

For their part, segments such as small and midsize enterprises, which are being challenged by the adverse economic environment, may be more interested than before in addressing new or revamped insurance needs. These could include, for example, upstream disruption, given greater attention to protection against risk of value chain disruption, and cyberrisk, given the greater use of remote-working operating models.

Five strategic responses for bancassurers

It is clear that digital and remote enablement will be essential to building high-performing bancassurance in the next normal—and that bancassurers need to increase their ambitions in this domain. Five strategic capabilities will represent the core of high-performing bancassurance in the next normal (Exhibit 3).

Advanced analytics–powered digital marketing and lead generation. The most efficient route to maximizing stand-alone sales will be harnessing advanced analytics to identify the right customers at the right time in their journey. The enabling factor of this transformation will be to develop a data-driven approach using granular bank data, including transactions, channel usage, and other customer behaviors.

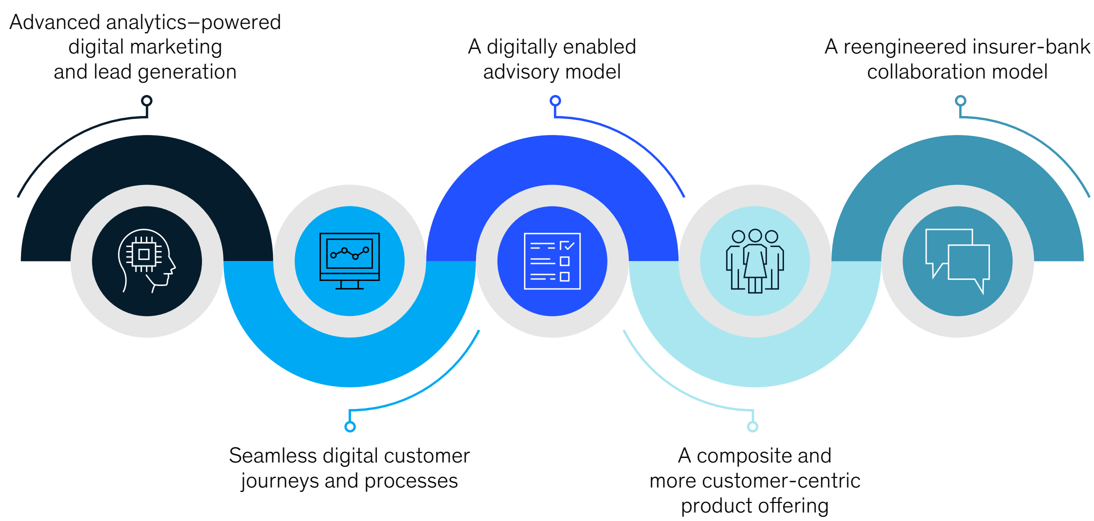
There are three primary steps for bancassurers to ensure efficient, scaled digital marketing and lead generation. First, they can complement propensity models with flags of specific customer triggers, such as product renewals or life events, drawn from appropriate digital channels both within and outside banks' and insurers' own media. For example, banks can already identify existing customers executing insurance-related searches or browsing for specific categories, such as used cars or real estate, and then target these customers with their own and paid media. Then, bancassurers can personalize sales prompts and quotations, offering a simplified path to subscribe to the product based on what they know about the customer. Finally, bancassurers can sequence leads across a combination of automated and human channels (including digital, branches, and contact centers) to maximize receptiveness of the customer, incorporating a feedback loop between messages.

For example, one bancassurer in Central and Eastern Europe used events, such as information collected in transfers or card transactions, to develop a targeted campaign, based on the fact that 55 percent of its sales are driven by proactive messages.

Seamless digital customer journeys and processes. Given customers' shifting preferences for interactions with their bank and insurance providers, bancassurers should develop an integrated, omnichannel customer experience

Exhibit 3

Bancassurers need to build five strategic capabilities to thrive in the next normal.



that incorporates the best of face-to-face and digital touchpoints. Digital contracting could offer application forms prefilled with bank and appropriate external data, with the option to e-sign, via web and mobile apps using behavioral nudges. Advanced remote servicing capabilities will soon become table stakes, including platforms enabling digital claims management and self-service. And a two-sided, digital application programming interface (API)–based architecture between the insurer and the bank can help enable a seamless customer experience in digital channels.

For example, a Southern European bank launched a paperless term life product attached to consumer lending contracts, with a simplified and dynamic health questionnaire.

A digitally enabled advisory model. Bancassurers will need to empower employees, particularly relationship managers and contact-center agents, with the digital tools and capabilities to institutionalize a new, higher standard of needs assessment to comprehensively serve customers. Technology-enabled insurance advisory capabilities (especially for savings products) and umbrella solutions (which include multiple types of coverage) can unlock new bancassurance product sales models. This would link insurance needs of customers directly to personalized sales propositions. In more complex products, such as life insurance, which remains the largest profit pool, these solutions can facilitate the discovery of offerings that better suit customer needs in a more engaging way, probing into life goals and risk tolerance.

For example, a Southern European bank achieved an increase of more than 50 percent in nonmotor stand-alone sales via a digitally enabled P&C wallet—that is, an overview of their insurance contracts. The interface also offers customers an analysis of their current versus optimal coverage along clearly stated key need areas (for example, family, health, assets).

A composite and more customer-centric product offering. Bancassurance products must shift to meet new needs in terms of coverage scope and protection time windows. To this end, bancassurers could develop digitally enabled insurance solutions with a more modular structure. By designing products as modules that can be bundled into a single contract, they could be more intuitive on the front end for customers and easier for insurers to automate on the back end. Customers can also benefit from offering products with simplified underwriting processes, for example, by offering multiyear P&C policies or preapproved quotes for existing bank customers. And bancassurers can also consider extending their offering via inclusion of parametric insurance coverages, including geo-referenced or event-driven products as well as Internet of Things–related insurance coverages.

For example, a bank in Western Europe started to offer phone insurance with the activation of a new device or offer travel insurance when noticing travel patterns.

A reengineered insurer-bank collaboration model. As we enter the next normal, bancassurers will need to reexamine their collaboration model with banks, putting digital capabilities at the core of joint bank-insurer teams' focus. Doing so will be necessary to respond rapidly to an evolving environment. The reengineered collaboration model will be a key enabler to jointly mobilize resources and take advantage of the higher degree of freedom experienced during lockdown to adjust organizational setups and working patterns.

For example, in a new partnership between a European bank and a European insurer, both partners agreed to set up a joint factory for product

In surveying these five capabilities, bancassurers will want to start by prioritizing initiatives that can maximize the potential of solutions already in place.

and customer journey development that is costaffed to ensure much closer collaboration and a smooth integration process.

In surveying these five capabilities, bancassurers will want to start by prioritizing initiatives that can maximize the potential of solutions already in place—for instance, advanced analytics–driven lead generation—while reinforcing or building new digital customer journeys to further enable business opportunities with the highest potential. Subsequently, they can invest further in reinventing the delivery model and creating new solutions fully adapted to the digital context.

It will be crucial to develop a joint aspiration within the bancassurance unit, making bancassurance a priority and aligning on the key plays (for example, initiatives, business lines, channel mix) and the economic ambition to be pursued to enter the next normal. The starting position of each institution will be an important consideration—acknowledging that banks and insurers may be at different stages and have to marry interests beyond the bancassurance scope.

The urgency for change also brings an opportunity for acceleration—and bancassurers that tap into that opportunity will be positioned as front-runners in the path of change many banks were already addressing. Doing this requires striking the right balance between delivering structural change and beginning to capture benefits that build on the starting position.

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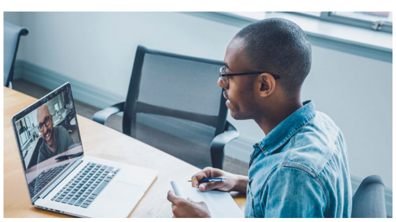

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