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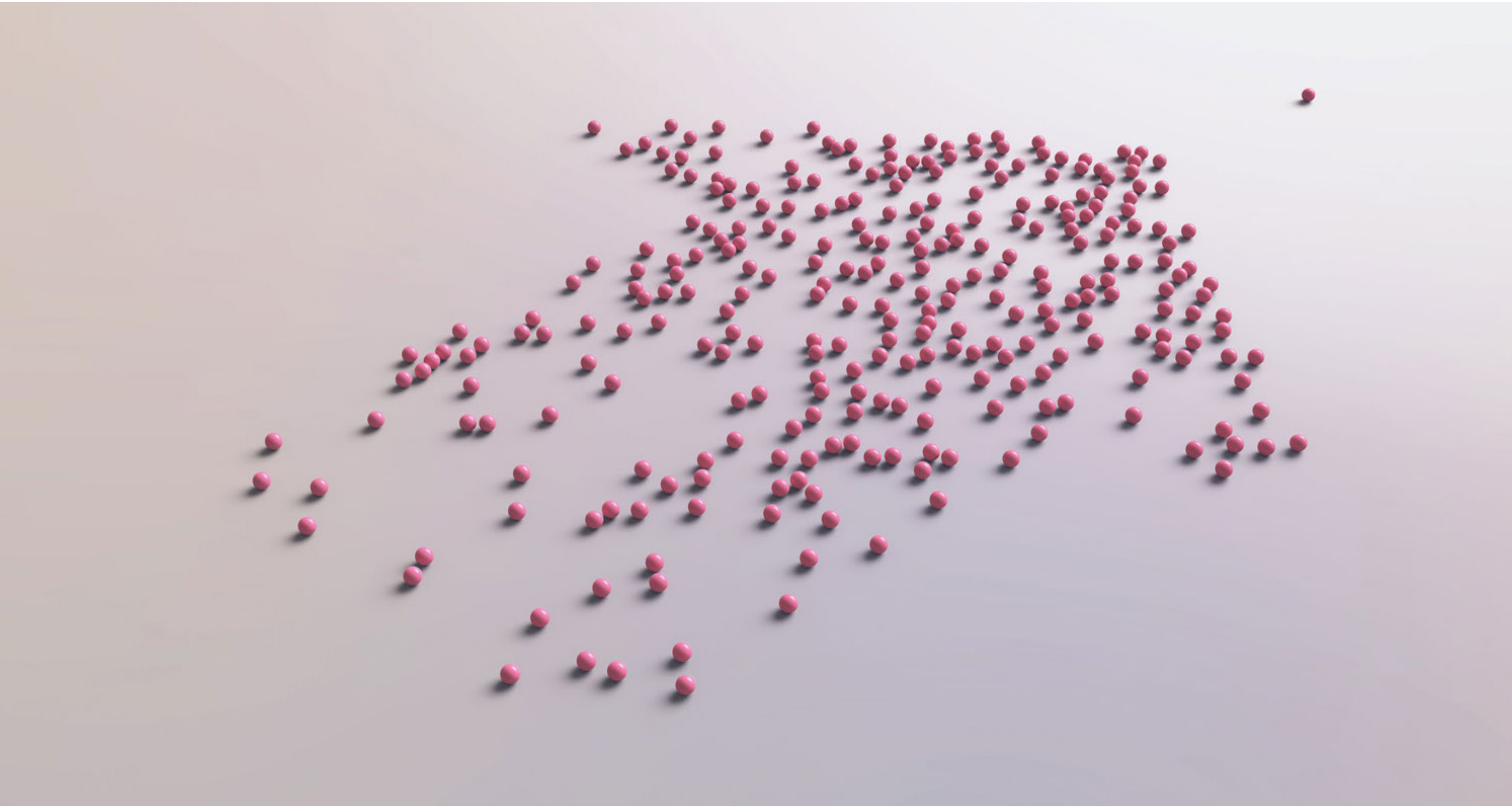
Insurance Practice

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

A recent McKinsey survey of Chinese agents offers insights into how COVID-19 has affected the Chinese insurance industry and what insurers can do moving forward.

by Arthur Bi, Angela Li, and David Schiff



June 2020

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.[1] McKinsey analysis of consumer spending data shows that China is approaching pre-COVID-19 levels of spending (in aggregate), and several leading macroeconomic indicators (such as daily car traffic) suggest the economy has started to rebound.[2]

While the broad economic view in China may be encouraging, the outlook for the insurance industry is complex—some lines fared well, while others suffered significant declines and are just now recovering. For example, awareness of health insurance increased, translating to a 17 percent growth in sales from first quarter 2019 to first quarter 2020, while life (or mortality) products were down 1 percent 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.[3]

How COVID-19 has affected agents

Even though the industry was hit hard, agents are optimistic about the future. Below are a few critical findings from our survey that paint a nuanced picture of changes in agent sentiment and the top challenges facing agents in distribution and beyond.

Greater decline in business among less-tenured agents: Two-thirds of agents experienced a decline in business performance during the COVID-19 pandemic, while around 20 percent of agents reported an improvement (Exhibit 1). Survey data show the decline is more pronounced for agents with one to two years' tenure—about 13 percent of those agents experienced a decline in business of 60 percent 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.

Increase in cancellations: More than 40 percent of agents saw an increase in policy cancellations; around 25 percent of those agents attributed the increase to customers allowing coverage to lapse. In addition, more than 60 percent of agents think that customers' insurance budgets are lower than they were before the crisis. Many agents view the current situation as unsustainable; nearly 50 percent 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.

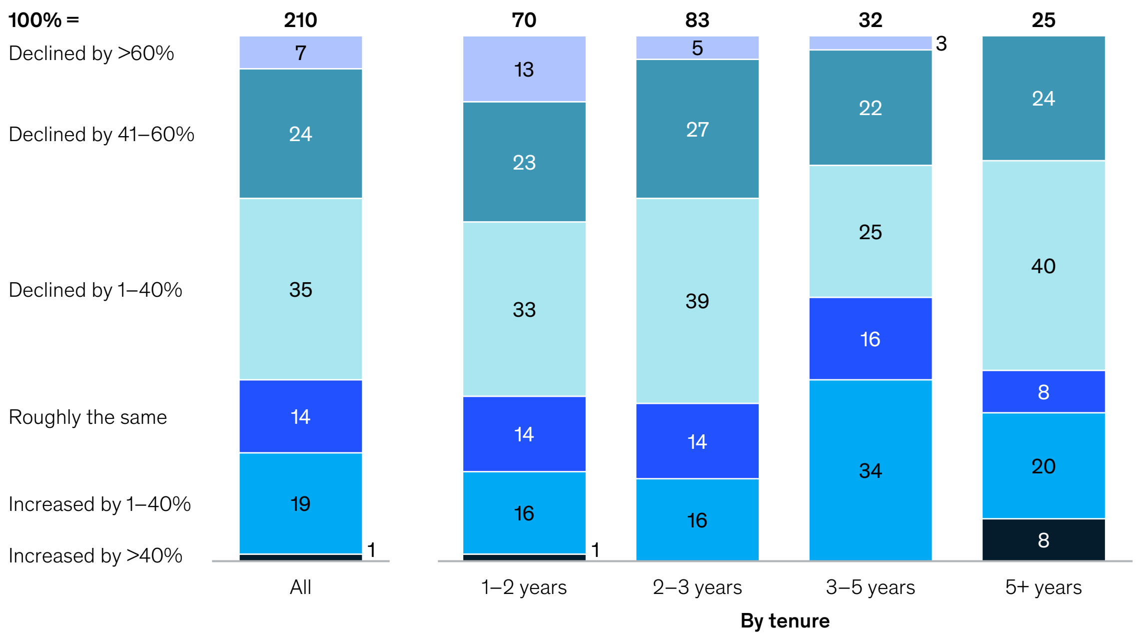
However, there is reason for optimism. Around 65 percent of agents said customers have become more proactive in inquiring about insurance products and shown stronger interest in health, accident, and

[1] "The coronavirus effect on global economic sentiment," May 2020, McKinsey.com.
[2] "The performance of national economy continued to improve with major indicators manifesting positive changes in April," National Bureau of Statistics of China, May 15, 2020, stats.gov.cn; and McKinsey Global Institute analysis.
[3] The survey was conducted online between April 27 and April 30, and the regions included in the survey were Beijing, Guangdong, Hebei, Henan, Hubei, Liaoning, Shandong, Shanghai, Shanxi, Tianjin, and Zhejiang.

Exhibit 1

The majority of agents experienced a decline in business during the COVID-19 crisis.

How does your current business compare to pre-COVID-19?
% of respondents



Note: Figures may not sum to 100 due to rounding.
Source: McKinsey China Agency Survey 2020 (n = 210)

It is no surprise that agents said their biggest challenge was achieving their KPIs.

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 percent in the first quarter of 2020 compared with the previous year (Exhibit 2). This trend is somewhat unsurprising as customers are likely more aware of their health and mortality amid a global pandemic.

When asked where insurers could provide more support, 74 percent of agents said they want help launching new products to meet customer needs.

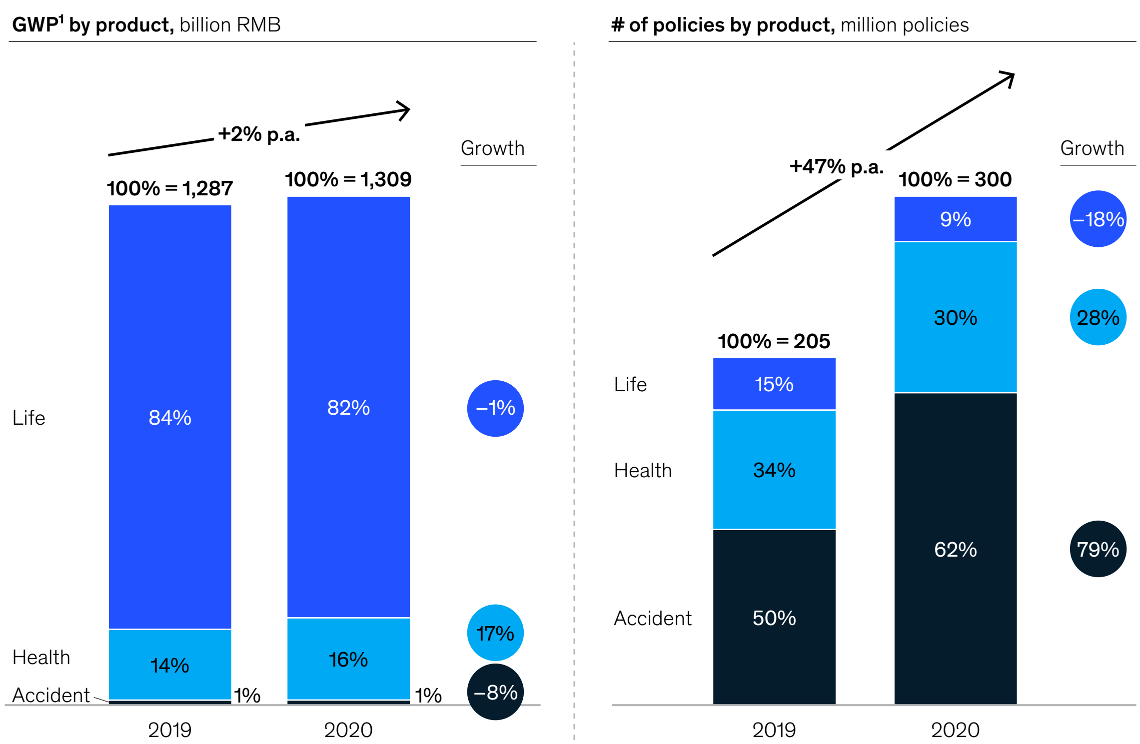
Achieving traditional key performance indicators (KPIs) is the biggest challenge: Given the increase in cancellations and the overall decline in business, agents are spending more time on activities such as trying to make sales and contacting customers. More than two-thirds of agents reported spending more time on sales, and 61 percent 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 (such as acquiring new business). In fact, 70 percent said they need adjusted KPIs and performance management that reflect the current situation.

Digital is on the rise: As interactions with insurers shift away from in-person meetings, more than

Exhibit 2

Despite the sluggish growth in life insurance, health and accident insurance gained traction.

Life (Q1 YoY comparison)



Note: Figures may not sum to 100 due to rounding.
[1] GWP = gross written premium.
Source: CBIRC; McKinsey analysis

60 percent of agents are interacting more with both prospective and existing customers over the phone. WeChat and video calls have also increased; 53 percent of agents reported using these tools more with existing customers, and 61 percent said they're using these tools more frequently to interact with prospective customers. Most agents view this digitization of communication favorably, with around 70 percent 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.[4] Unsurprisingly, 70 percent of agents surveyed said they want more digital tools to help them sell and engage with customers.

Most agents are confident of a recovery: 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 postpandemic, and an additional 69 percent are "quite confident"; just 6 percent professed to be "not confident."

The survey results uncovered some good news for insurers—almost 60 percent of agents said they would not consider switching to a different insurer or career in the next six months, and just 1 percent 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.

Developing the next generation of hybrid digital agencies. This new distribution model means agents could work with a full set of digital capabilities that enable seamless interactions with customers across channels.[5] Insurers could provide agents with enhanced remote-working capabilities so they can meet customer-protection needs virtually. For example, they could enhance dynamic digital tools with product illustrations (that is, illustrations or icons 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.

Continuing to invest in digital tools and advanced analytics. 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.

Exploring new products and services to meet a wide range of customer-protection needs. Consumers are proactively asking for help to bridge their protection gaps. Insurers need to embrace

4 Vincent Liu Liang, "Turning crisis into opportunity," *Asia Insurance Review*, April 2020, asiainsurancereview.com.
5 Enoch Chan and Bernhard Kotanko, "How Asian insurers can build a digitally enabled hybrid distribution model," June 2020, McKinsey.com.

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.

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The authors wish to thank Bernhard Kotanko, Andy Liu (an alumnus of the Beijing office), Brad Mendelson, Demi Wang, and Cherie Zhang for their contributions to this article.

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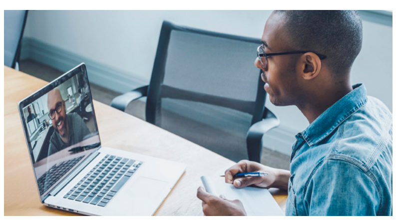

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