

Life insurance in China

Four priorities to transform the agency channel





Life insurance in China : Four priorities to transform the agency channel

Chinese insurers can take four strategic actions to boost agency productivity and professionalize their core distribution channel.

By Arthur Bi, Brad Mendelson, David Schiff, and Raymond Woo

China is home to a dynamic and fast-growing life insurance market. The mass-affluent segment¹—which the McKinsey Global Institute forecasts will represent 55 percent of urban households by 2020—will fuel the growth. This segment will increasingly demand more sophisticated financial products, consultation with trained experts, and higher service standards.

We believe the best way to spur sustained growth in the near term is by transforming the life insurance agency channel. In 2017, the agent workforce in China contributed about 50 percent of life insurance gross written premiums (GWP). (For a description of the other primary channels, see sidebar, “Other insurance distribution channels in China.”) However, average productivity per agent has remained stagnant. One reason for this might be that nearly half of China’s eight million life insurance agents started

in their roles after 2015. And while leading insurers have made strides in recent years, much more can be done to improve agent productivity and professionalism.

Insurers that move quickly to transform their agency forces will position themselves for accelerated growth. The transformation will require four strategic shifts: from the model of senior agent to professional manager, from mass recruiting to strategic talent sourcing, from part-time capacity to full-time career-focused agents, and from disjointed processes to an integrated, end-to-end digital platform. While this article focuses on China, these approaches could be applied in other markets with underdeveloped life insurance agency channels. Insurers that get these shifts right will see a marked bottom-line improvement. In fact, we estimate that a more professional workforce will increase productivity three to five times over 2017 levels.

¹ Annual disposable income per urban household between ¥103,000 and ¥222,000 (\$14,600 and \$31,500).

Other insurance distribution channels in China

In this article, we focus on the agency channel because we believe it has the most potential for near-term profitable growth of life insurance in China.

Bancassurance has been growing in China,¹ but it is overwhelmingly dominated by short-term, value-destroying guaranteed investment products. This channel contributed 41 percent of gross written premiums (GWP) in 2017, and it is expected to face significant challenges as regulations continue to shift focus from investment- to protection-based products.

Direct represented about 8 percent of GWP in 2017, of which 50 percent came through digital channels. Regulators have been urging insurers to go online to reach more customers, and digital will likely remain the primary go-to for marketing but not as an end-to-end sales channel. In other words, insurance sales still benefit from some level of face-to-face interaction.

Brokers accounted for a mere 1 percent of GWP in 2017. However, as brokers typically carry products from multiple companies, the channel is expected to grow as the market demands increasingly independent, more professional intermediaries.

¹ João Bueno, Bruno Dinis, Bernhard Kotanko, Dario Maggiora, and Rui Neves, "Bancassurance: It's time to go digital," March 2019, McKinsey.com.

1. From senior agent to professional manager

Today, agent managers in China are more like senior agents than true professional leaders. They spend much of their time on personal sales because that is how their performance is primarily measured. In addition, they lack awareness of the professional manager role and the skill sets it requires. Insurers must realize that professionalizing the agent workforce begins with agent managers. Enabling full-time agent managers to spend most of their time on field management and agent development is a step in the right direction (Exhibit 1). Insurers can start by redefining the role of agent managers as leaders, promoting the science of coaching and development, and rethinking management team structure and incentives.

Redefine agent managers as leaders

To redefine the role of the agent manager, insurers should carry out a change-management program to help managers become inspirational field leaders and entrepreneurial partners who work to enable the success of others.

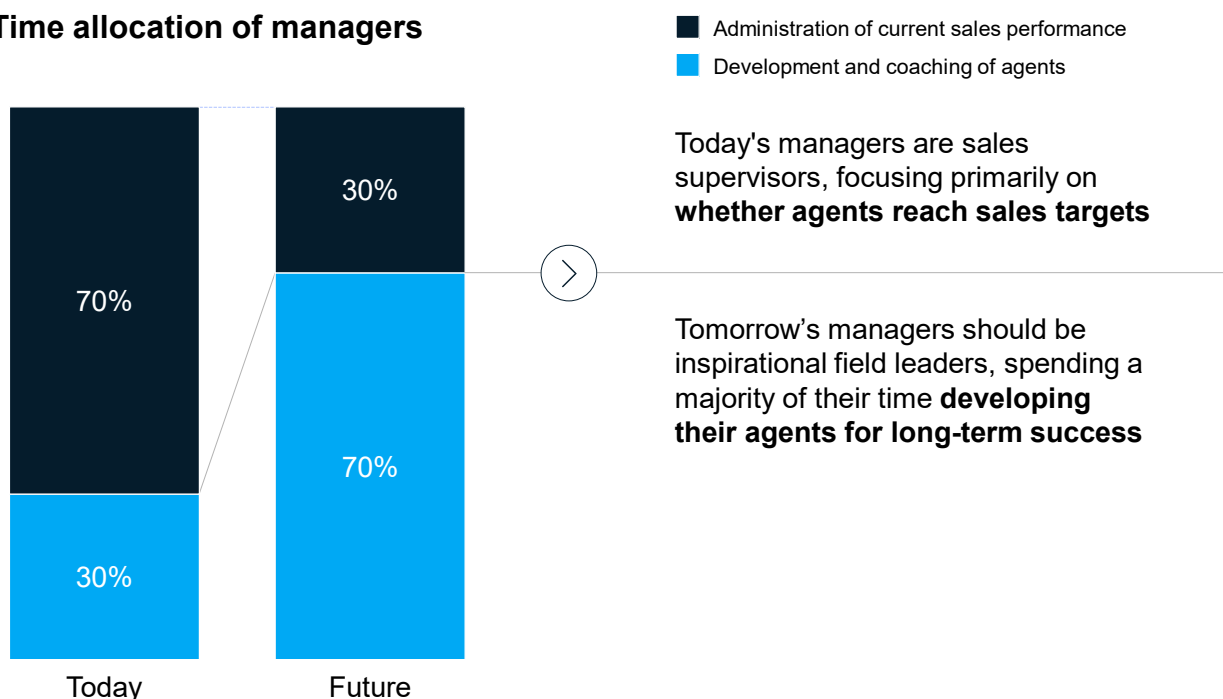
As field leaders, agent managers should set demanding yet achievable targets for their agents. Insurers can provide necessary information for agent managers to derive a competitive growth plan and suggest different dimensions to measure success. For example, agents who currently focus on deepening existing relationships can look to new customer acquisition, while agents who concentrate on single-product sales can work on portfolio diversification for their customers. Inspiring leaders also support agents in their quest for continuous professional growth. Insurers can design learning and development plans for agents of different tenure and provide agent managers with appropriate resources, such as budgets for external training or conferences.

As entrepreneurial partners, agent managers should actively conduct fieldwork with agents to demonstrate best practices in sales and business development. Insurers can facilitate these opportunities by not only adding monetary incentives, such as bonuses for successful team efforts, but also establishing a feedback mechanism to ensure that agents' voices are part of the evaluation for agent managers.

Exhibit 1

Insurers should redefine the role of agent managers, shifting responsibilities toward coaching and development.

Time allocation of managers



Promote the science of coaching and development

Insurers should foster an apprenticeship culture by establishing the expectation that agent managers will dedicate time to conduct coaching sessions. These sessions are meant to provide continuous coaching for agents to outline the next steps for development, with real-time productivity analysis to guide the conversations.

Today, agent managers are lacking up-to-date information on key indicators measuring overall agency and individual agent performance. Insurers should make this information easily accessible, preferably at the fingertips of agent managers and accompanied by built-in analytics capabilities that can produce an interactive performance and health dashboard. This dashboard

should go beyond top-line sales data to break down agent performance in terms of production, portfolio of products sold, customer mix, and so forth. In addition to these lagging indicators, agent managers benefit from predictive analytics that provide leading indicators to help manage the unexpected. For example, agents who continuously miss training sessions or have low activity levels may serve as early signals for attrition, sparking management attention and intervention.

Frequent one-on-one coaching sessions between managers and agents are key. Such sessions, coupled with performance analytics, can encourage open communication, uncover any limiting mind-sets or behaviors, and allow managers to provide real-time, actionable feedback.

Case study:

One Asian life insurer experienced higher-than-average attrition of new agents compared with its industry peers. Furthermore, its agent managers were primarily focused on their own sales performance instead of actively managing the overall productivity of the team. To increase retention and expand its salesforce, the insurer built a comprehensive training program dedicated to improving agent managers' capabilities in coaching and development. The program was piloted with a select group of managers identified as "high-potential coaches" who could act as change agents to influence and teach others. In the pilot agencies, the insurer succeeded in implementing a strong culture and habit of coaching. Surveys found that average agent job satisfaction improved by 40 percent, while more than 75 percent of agents found the coaching sessions helpful to their ongoing development.

Rethink management team structure and incentives

Developing field managers of the future requires fundamentally rethinking agency team structure and incentive models. In mature markets such as Japan and the United States, the role of field managers is increasingly designed with limited or no sales responsibilities. As such, they are expected to spend 100 percent of their time recruiting, coaching, and developing agents. They receive a fixed salary, with a bonus linked to team production and development. In addition to compensation and incentives, insurers should enforce a low ratio of no more than one manager for every 20 to 30 agents. Some insurers also equip agent managers with a small administrative team to assist with overall team management and development. This team is staffed with agents who aspire to switch to a management track, thus paving the way for the development of future agent managers.

2. From mass recruiting to strategic talent sourcing

Today, agent recruiting falls under the responsibility of individual agents who want to build their own teams, and success ultimately lies in finding suitable candidates. A series of in-person evaluations, workshops, and initial training can also help develop those candidates to become qualified agents. Balancing the time investment between recruiting and sales activities,

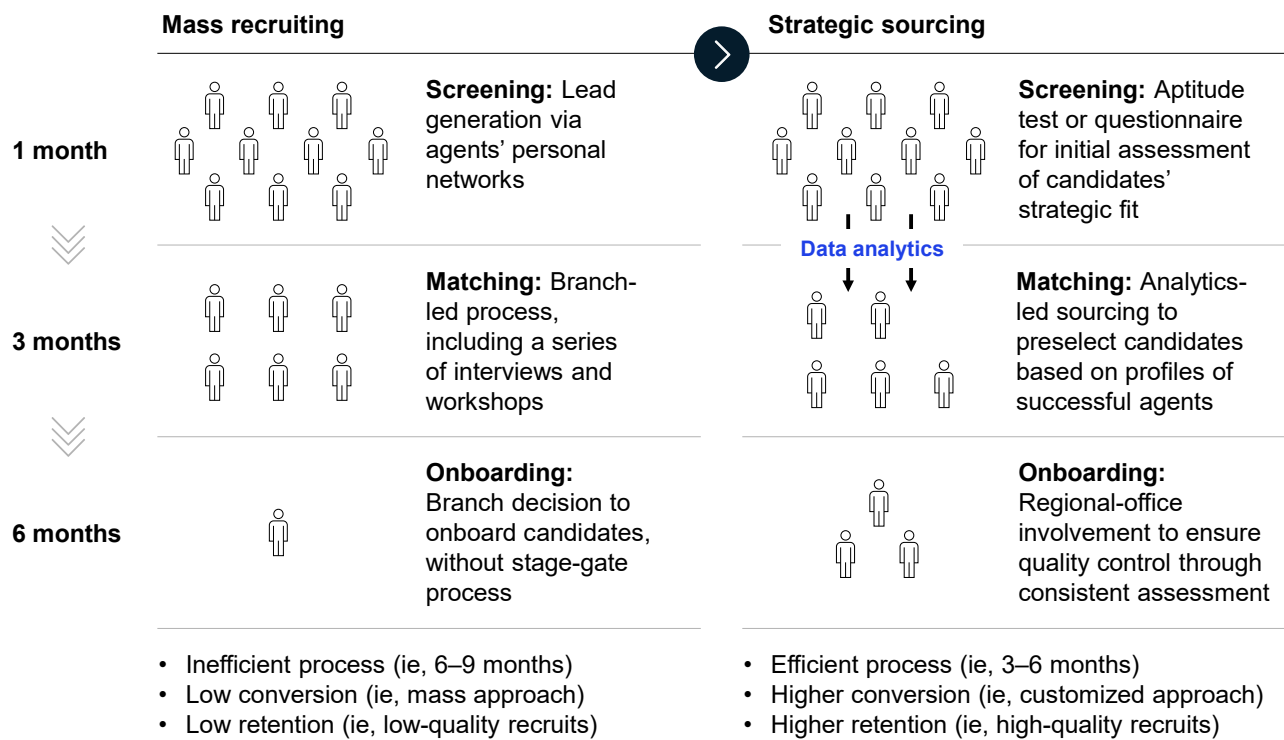
agents often prioritize the latter because it can lead to income from commissions. Recruitment activities, however, are carried out sparingly and there is usually mass intake toward the end of the year, when agents need to meet recruiting targets. Instead, insurers should treat recruiting as a strategic process (Exhibit 2). This involvement should include enabling analytics-driven agent assessments, gaining control of the recruitment process, and centralizing recruiting efforts in a regional office.

Enable analytics-driven agent assessments

Screening, matching, and onboarding a qualified agent can take six to nine months. Most insurers have a standard procedure to guide agents along this mass-recruiting process—but it's usually inefficient, with leads generated through existing agents' personal networks and multiple rounds of time-intensive interviews and assessments. As such, this process often results in low conversion and retention. Insurers want to ensure that candidates aspire to be agents not only because they are in transition but also because they aspire to build a career. Therefore, to avoid being trapped in a "garbage in, garbage out" cycle, insurers must ensure that only relevant and qualified candidates are considered. This can be done by employing a more strategic, efficient approach that is supported by data and analytics. Insurers could build an

Exhibit 2

Analytics-led recruiting leads to a more effective process, with higher conversion and retention.



understanding of the traits tied to success by evaluating past and existing agent profiles.

For example, analytics results might indicate that proactiveness, diligence, confidence, and humility are common traits of successful agents. Insurers can then design a questionnaire to assess candidates against these traits to suggest the likelihood

of success in conversion and retention. Such insights allow insurers to quickly prioritize high-potential candidates who can then be matched with recruiting agents with similar behavior traits. Some leading insurers are already using analytics-driven agent assessments to help improve the quality of the talent pipeline.

Case study:

One Chinese insurer wanted to deploy analytics to improve efficiency and effectiveness in recruiting. Through predictive modeling based on historic recruitment data, the insurer identified a list of personal attributes indicative of successful agents. Based on the results, the insurer designed an aptitude test for potential candidates with the objective of identifying people with high potential. Within the first six months of the pilot program, this insurer doubled its number of high-potential candidates—resulting in a 50 to 60 percent higher conversion rate, as measured by the percentage of candidates who successfully completed onboarding training.

Gain control of the recruitment process

Once high-potential talent sources are identified, insurers should incorporate a sequence of stage gates into the recruitment process. Stage gates are certain qualitative or quantitative assessments that candidates are required to take throughout the recruitment process to advance to the next stage—for example, only those who pass are invited to career workshops where they then receive dedicated attention from recruiters. Stage gates also help insurers identify where they should focus resources to maximize conversion and retention. We suggest that insurers aim beyond traditional assessment tools, such as paper-based tests, and deploy more innovative methods, such as gamification and role play.

Centralize recruiting efforts in a regional office

While agents are the front line in conducting recruiting activities, insurers can also consider creating central recruiting hubs at the regional level to promote and support recruiting efforts at scale. A regional office team, equipped with adequate management and support resources, can administer agent assessment and stage-gate processes, ensuring consistency and effectiveness in the recruitment process. It can also continue to improve the recruiting process through the testing of new recruiting initiatives or methods, as well as help coordinate resources for the organization of marketing events and career workshops.

3. From part-time capacity to full-time, career-focused agents

The current part-time nature of Chinese life insurance agents is evident. A recent industry survey indicated that most agents do not work full time. In fact, only 39 percent of Chinese life insurance agents worked at least six hours a day. The activity rate is low, with 70 percent of agents making only one to three customer visits a day,² while

full-time capacity agents make an average of three to five visits a day. Maintaining a large, part-time, and unproductive workforce is costly and unsustainable. Insurers must transform their agents to be more productive. One way to do that is by shifting agents to full-time capacity. Furthermore, we believe that insurers should create a premium career track for top-performing agents, offer robust professional development, and develop compensation and incentives geared toward full-time agents.

Create a premium career track for top-performing agents

Building a sustainable professional agent force requires attracting first-rate talent. To do so, insurers must have strong value propositions aligned with the career interests of potential recruits. Offering attractive compensation is just one element of the package. Other elements include a clear path for career progression, such as a fast track from agent to advisor and to a managerial role; first-class support infrastructure, such as professional underwriting and claims operations; and a quality sales infrastructure, such as attractive offices for customer meetings.

Creating a separate, premium career track from within presents a challenge because insurers must manage and maintain two different groups of agents. This can add to cost and strain management's capacity. Insurers must realize that transforming the legacy workforce—given its sheer size—is a long journey. Yet investing in a new premium career track can facilitate the migration of quality agents and attract new career-minded talents, both of which fuel productivity and professionalism.

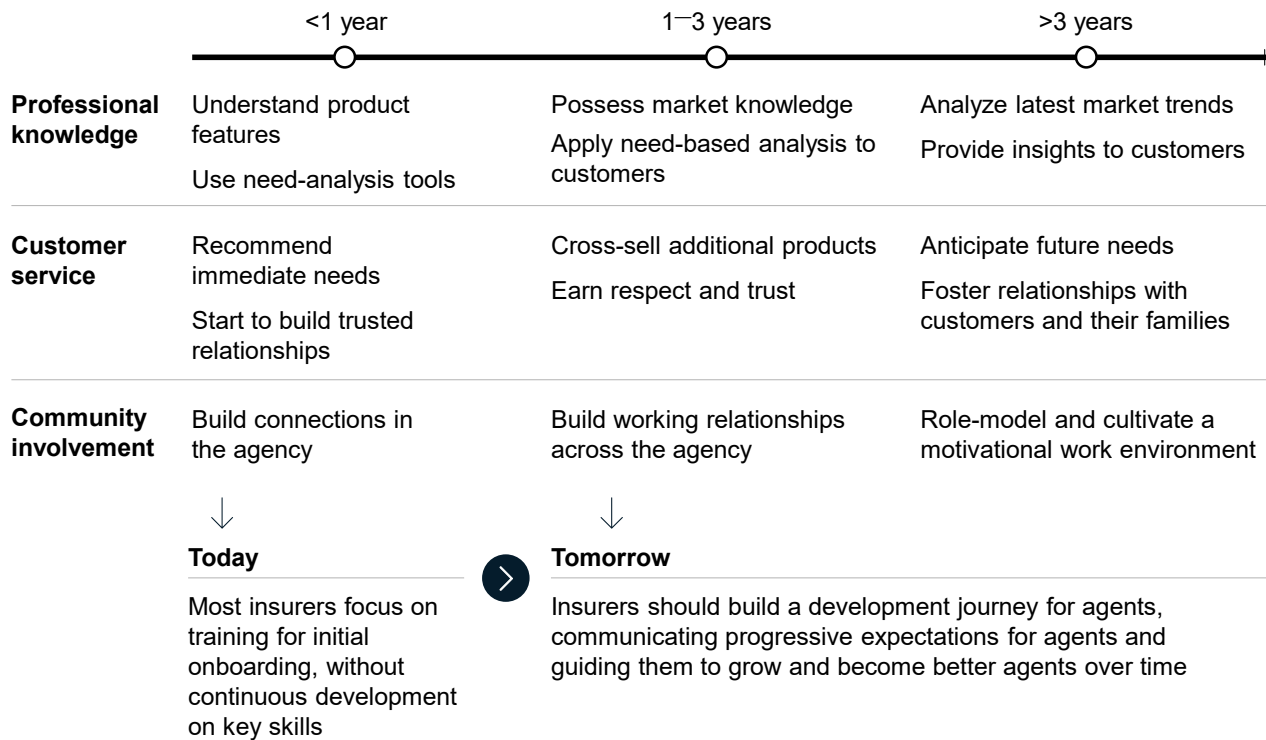
Offer robust professional development

Leading insurers can also specify what is expected of agents and managers—both in terms of skills and behaviors—along the arc of their careers. The development journey

² “中国保险市场生态白皮书” (“2018 China insurance intermediary market ecology white paper and insurance salesperson survey report”), Peking University HSBC Business School Risk Management and Research Center and Insurance Information Research and Development Center, August 2018.

Exhibit 3

A progressive development journey provides concrete guidance to define career and growth paths.



should then be mapped to a comprehensive training agenda, providing guidance to agents and managers as they complete learning curricula at their own pace. (For an example of a typical development journey, see Exhibit 3.) Quality field training resources are often scarce for agency forces that are geographically dispersed. For this reason, among others, at-scale field training is simply not enough. Today, in fact, it is seen as ineffective in meeting the ongoing training needs of agents.

To be most effective, training must be customized for individual development progress and delivered through a

combination of learning for both individuals and groups. As such, modern adult training emphasizes participation and continuous learning. Insurers should therefore implement a “field and forum” training approach in which classroom and individual training sessions are spread out over a series of learning forums with fieldwork assigned between them. Managers should also participate in training, both as faculty and participants. Doing so not only demonstrates a commitment to the development of agents but also allows managers to stay close to agents’ progress and needs, enabling them to provide input to future training curricula.

Develop compensation and incentives geared toward full-time agents

Insurers typically do not offer base salaries to new agents, and they set key performance indicators (KPIs) that are strictly tied to productivity, as measured by commissions earned and policy renewal rates. Such a system is biased toward agents with prior experience, discouraging those who have the potential to become high-performing agents but need time to ramp up.

Insurers should revamp the compensation model to reward agents not only on productivity but also professional growth. For agents, this entails setting KPIs related to attendance (for example, in morning meetings and trainings) and activity rate (for example, number of customer visits per week and number of new customer leads acquired). KPIs should be tracked and evaluated rigorously (on a semi-annual basis), and if certain KPIs are not achieved there should be a demotion or turnaround plan put in place. Moreover, KPIs should be directly linked with compensation structure. For example, agents who do not meet minimum attendance requirements should have their commission bonuses withheld until they demonstrate improvement in the next evaluation cycle.

4. From disjointed processes to an integrated, end-to-end digital platform

Many Chinese insurers have developed different digital solutions intended to help agents with management tasks—for example,

customer relationship management software for easier administration of customer contacts and sales management tools for activity management. The adoption rate of such solutions is usually low because these isolated solutions help agents become more efficient administratively but not more productive in sales. To address this challenge, insurers should develop a one-stop-shop digital platform that is designed around and backed by customer analytics from one end to the other (Exhibit 4). The end-to-end design should enable agents to acquire, onboard, and service customers as well as provide customers with multiple options for digital engagement, research, and outreach. Indeed, customers' increasing preferences for digital channels are well documented: the average Chinese adult spends three hours a day accessing the internet from their mobile device.³

To build this end-to-end digital platform, insurers must consider each step along the way, from customer lead generation and management to sales to onboarding and through servicing. Insurers should focus on three areas: generating leads and maintaining customer relationships through social media; enabling a dynamic, engaging sales and onboarding journey; and reimagining digital service offerings.

Generate leads and maintain customer relationships through social media

Social media apps such as WeChat have become an important channel for marketing and advertising. As a component of building

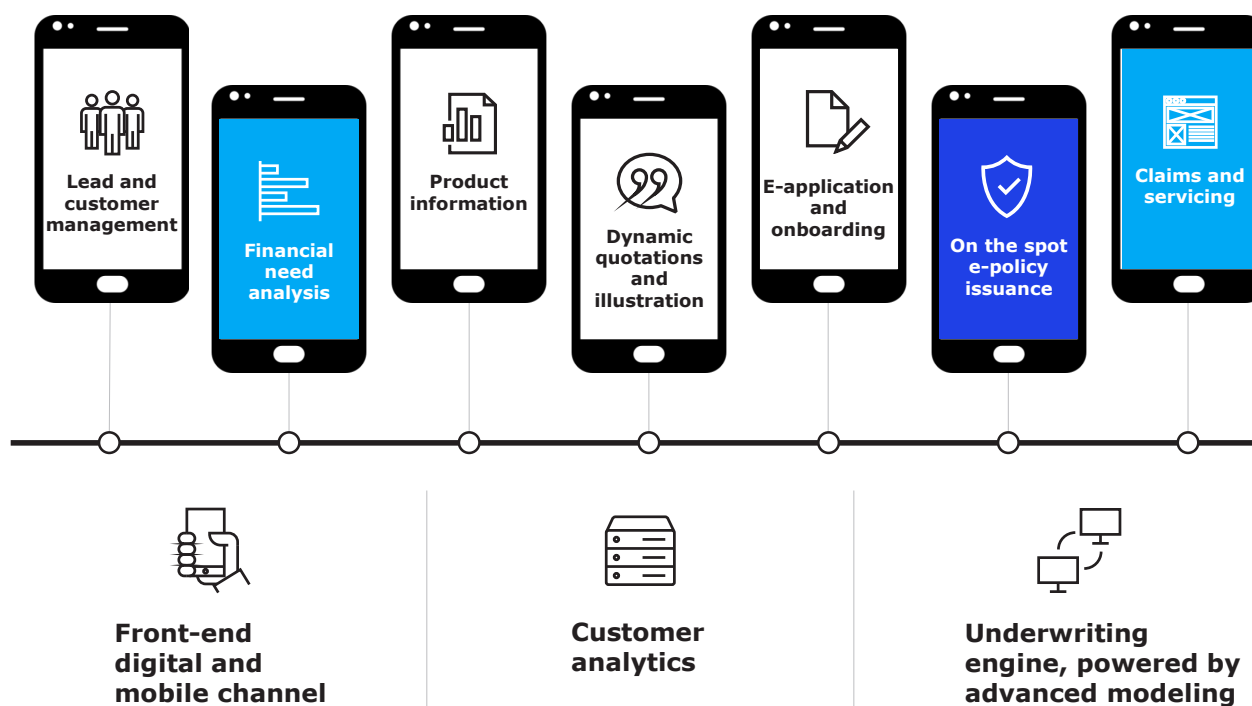
³ eMarketer, April 2018.

Case study:

A Chinese insurer was experiencing a decline in sales performance for midtenured agents. Essentially, agents lacked the capability and skills to engage with affluent customers. As a result, the insurer conducted a comprehensive diagnostic to identify specific skills gaps. The insights generated were then used as inputs to design a structured frontline program that consisted of a series of training sessions and workshops with field commitments in between. More than 10,000 sales representatives registered for the nine-month program, and those who completed it generated 1.5 times higher earnings than those who did not. Better yet, around 10 percent of those participants were qualified as master field trainers to help with continuous program delivery.

Exhibit 4

Insurers should develop a one-stop-shop digital platform, designed around and backed by data and analytics.



digital touch points for lead generation and customer management, some insurers have already created their own public accounts where they post marketing content, such as short videos and articles, to attract traffic. Interested potential customers can leave comments, like, or share the content, marking the initial customer engagement. The initial contact provides information for insurers to get to know the customers. Based on customers' needs and their preference of contact, insurers can then match customers to suitable agents for offline follow-up and interactions.

Agents need to become more digitally savvy and learn how to use social media not just as a means of communication but also for opportunities creation. Some insurers are providing agents with social media training

as a result, both to generate leads and to maintain existing customer relationships with frequent touchpoints. These insurers offer guidance on social media best practices and support agents with account set up, content dissemination, and customer analytics.

Enable a dynamic, engaging sales and onboarding journey

The customer sales and onboarding journey involves several standard, repeatable steps: analyzing a potential customer's financial needs, providing product information, offering a quote, processing an application, and onboarding the customer. These steps have traditionally been time-consuming and opaque, especially for the purchase of sophisticated products for which the application is often manually reviewed.

Case study:

A regional insurer was seeking to improve digital engagement with customers by developing an integrated sales platform. Through design-thinking workshops, customer interviews, and focus groups, the insurer developed two primary products: digital advisory and onboarding. The digital advisory helps customers better understand their financial and protection needs through analytics, while the onboarding application enables a hassle-free, real-time experience. Agent adoption of these two products reached 70 percent after just six months. Agents were highly appreciative of the end-to-end product design that was closely integrated with the customer sales journey, allowing easy interaction and increased opportunities for sales conversion.

For example, financial planning used to be a paper-based experience. Agents needed to collect information for back-end analysis before coming up with a proper financial proposal. In many instances, this proposal process is long and tedious as every change in the customer's position needed an update of analysis and hence, a refreshed proposal process. As a result, the customer experience is suboptimal: customers are asked for a lot of information without knowing why it is needed, they have to spend a lot of time filling out paperwork, and they are often disappointed with pricing because there is little transparency during underwriting.

A digital-led experience allows insurers to use data to enrich offline interactions between agents and customers. Insurers can prepopulate customers' needs based on similar profiles, thereby giving them a scenario-based assessment. Quotes and proposals can be a dynamic, interactive experience in which customers are presented with compelling visual demonstrations of product features. Furthermore, leading insurers have started using technology to process applications and complete underwriting in real time, where possible, by combining underwriting with dynamic data modelling based on internal and external

data. The application and onboarding process can thus be significantly shortened, yet more engaging. And for insurers with advanced data analytics capabilities, the process can even be tailored to individual customers based on their profile and needs.

Reimagine digital service offerings

Servicing—which includes customer inquiries, investment redirection, and claim checks—used to consist of manual processes handled by agents. Now, many of these interactions begin as requests made online or on mobile devices, and some may even be completed without human interaction. While insurers should continue to push servicing as a customer-led journey, they should also allow agents to have visibility over major events along the way. In fact, agents should be kept informed throughout these interactions and intervene when appropriate, such as when a claim is overdue. The moment of truth is when agents can follow up with customers immediately for appropriate recovery actions, thereby building the customer's trust in the agent. In addition, online interactions will also allow insurers to harness new insights for continued sales and servicing opportunities. For example, an investment redirection may indicate a change of wealth position and result in new financial and protection needs.

Next steps

Chinese agency distribution will be one of the primary forces of value growth for life insurance. To take advantage, insurers must start making the strategic shifts discussed above. Such shifts do not require years of planning. Rather, insurers can get started right away to better address customer needs and improve the productivity of their agents. First steps could include the following:

- Rapidly design a new sales manager role and get a small group of managers to trial it in a key sales territory.
- A/B test recruiting and candidate

performance, and assess historical methods against new analytically driven approaches.

- Build the development journey for agents, and select existing medium and high performers to begin field and forum training.
- Develop and roll out the initial versions of customer analytics models to help agents target their behaviors.

We firmly believe Chinese insurers can become the role models of highly productive insurance agencies across the globe. While these shifts might seem daunting, carriers can get started right away and use their success to drive even larger changes.

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