McKinsey & Company

Insurance Practice

Four executives on the future of insurance distribution

Four insurance executives from around the globe weigh in on how distribution is changing, both in the wake of the pandemic and more broadly as customer and agent needs and expectations evolve.

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Many prevalent trends in the global insurance industry, which wrote nearly €5 trillion in gross premiums in 2019,[1] accelerated during the COVID-19 pandemic—and there is little sign they will abate. Digital transactions are exploding. Customer expectations for speed and simplicity are rising at every stage of the insurance purchasing and claims journey. Data and analytics capabilities increasingly underpin top- and bottom-line growth and performance.

But the pandemic also gave rise to subtler shifts in customer considerations, laying bare their risks and increasing their interest in having protection plans in place. What's more, it threw into stark relief the interconnectedness of these risks—in particular, the cascading effects of mental health on physical health and financial security. Meanwhile, insurers are as committed as ever to helping their customers understand their risk tolerance, mitigate threats, and achieve their goals. The pandemic reinforced that they are, first and foremost, in the trust business.

Although insurers continue to rely on a combination of channels to distribute their products—and lead generation and conversion remain largely the name of the game (see sidebar, "Preparing for the future of insurance distribution")—the pandemic also served as a proving ground of sorts for evolving agent capabilities and distribution tactics. To gather cutting-edge, diverse insights from around the globe and across insurance, McKinsey spoke with four leaders in insurance distribution: Rowena Chan, senior vice president of distribution at Sun Life Canada; Binayak Dutta, managing director of emerging markets and group chief distribution officer at FWD; Bernd Heinemann, chief marketing officer at Allianz Germany; and John Vaccaro, head of MassMutual Financial Advisors. The following are edited excerpts of their conversations.

McKinsey: *Has the COVID-19 pandemic fundamentally upended insurance distribution?*

John Vaccaro: At the end of the day, we still do the same thing. We meet a client, we conduct a needs assessment, we develop a plan, we implement that plan, and we review and monitor. We're going to do the same thing tomorrow as we did yesterday, and the same thing we did 14 months ago. So the core mission of what we do has not changed. And it's still a people business—it's one person meeting another person and making a connection, and having that connection for the next 30, 40, or 50 years. Today we might have that meeting over Zoom, but the fundamentals haven't changed: we're helping people plan for their financial futures.

Rowena Chan: The pandemic has not fundamentally upended what we stand for. In fact, it has demonstrated that clients need us more than ever. In uncertain times, people want a trusted relationship. They want an adviser who really knows them and provides not just products but holistic advice on their health, wealth, and protection journeys. They want a firm that has a brand they can trust, that they can rely on. When you have a trusted adviser, when you have a living plan, that really helps mitigate your risk when life throws you a curveball. At the same time, it will help you have a much higher chance of achieving your goals and dreams along the journey.

Bernd Heinemann: Trust always was, and still is, a key ingredient for buying insurance and satisfaction with an insurance product. During the crisis, the importance of trust increased. People turned toward bigger brands for that matter. You want to rely on a company that will still be there in 20 years.

McKinsey: *So the core mission is still based on building trusting relationships, but the way you achieve that mission has clearly evolved—namely, through remote work and digitization. How have you seen that play out, and what changes are here to stay?*

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[1] Stephan Binder, Philipp Klais, and Jörg Mußhoff, *Global Insurance Pools statistics and trends: An overview of life, P&C, and health insurance*, April 29, 2021, McKinsey.com.

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—John Vaccaro

John Vaccaro: The biggest customer expectation change is ease of doing business. No one wants to look at a 45-page document and actually have to sign something. No client wants to go find their checkbook. It’s archaic. So commerce has got to be digital, and it has to be easy. It’s the death of paper. People also are looking for their insurance companies to aggregate their data, so they can easily see everything—how much insurance they have in force, how much cash value, and so forth.

Digitization has also changed how we approach enabling capabilities, such as agent training. Before the pandemic, for example, we planned to send four teams all around the country to host training meetings. Instead, we pivoted to remote digital sessions and trained 15,000 people in their home offices in just three weeks.

Bernd Heinemann: Digitization creates new opportunities; indeed, it creates a whole new playing field. These opportunities must be taken advantage of if we are to stay ahead of the competition. To this end, I would mention two topics in particular: the first is simplicity. You need to simplify so agents have more time for their customer interaction and spend less time on administration. If a customer wants to change their name, it should be easy. If a customer wants to meet with their adviser, it should be easy—especially now that you can hop on a videoconference for three minutes, then get back to whatever you were doing. The second is seamlessness. It’s a seamless switch between an online experience and speaking to an agent and back. We need to bring together all the channels for the customer to switch between them, from website to social media, and so forth—and it feels like they’re still dealing with one company. It’s one experience. You don’t lose your data. You don’t lose your knowledge. You are in the hands of one company.

Fortunately, before the pandemic we had prepared for the switch from physical interactions with customers to technology-driven interactions. We very quickly switched to video consultations, and our agents could move at full steam with their customers. There was an amazing flexibility in the organization to change the means of interaction but retain one important thing: a customer’s personal relationship with their adviser. Personal does not mean necessarily physical meetings. It means that I have a trusted relationship. And it’s exciting to have seen how even large organizations are adaptable and that change is possible.

Binayak Dutta: Our industry distribution models are definitely being pushed to evolve. We want to change the way people feel about insurance, and that means simplifying products and policies, and providing more clarity and transparency. We’ve also implemented various digital tools that provide more ease—for example, by allowing remote signatures.

Furthermore, as a company, we are channel agnostic. Whether it's agency, whether it's the direct-to-consumer channel, whether it's corporate care, whether it's the affiliates channels—all of these have their place in how we serve different markets and client segments. The next step is exploring synergies between each of these channels and using them to generate the right kind of prospects and then convert them, which is central to the success of our agents. One example is our affiliates program, which includes the capability to harness the social media presence of our salespeople. Almost everybody has a social media account of some kind, and we actively work with our teams to build up content and facilitate their sales outreach via social media. We've launched this project in a few markets, including Indonesia, Malaysia, and the Philippines.

McKinsey: *Have customer perceptions of top priority products shifted over the past year? How do you make sure your products continue to solve customers' core underlying needs?*

Bernd Heinemann: One thing that did change during the pandemic was that people became more aware of the importance of financial security for their family and well-being. That awareness is now translating into the products people are searching for and asking us about—stuff such as health insurance, long-term care insurance, even homeowner's insurance as people become more aware of the relevance of a secure home. People are looking more for protection.

Binayak Dutta: Across our ten markets in Asia, consumers are becoming more actively interested in life- and health-insurance propositions than ever before. In Hong Kong, we've seen that our customers' appetite for protection products has increased over the past 12 months. In Singapore, while some insurers have been pushing for complex critical-illness products, we have found simplified products resonate more with today's customers. We feel that this demand will sustain, especially as millennials are now more likely to see these products that meet their holistic requirements as better value for money and to enjoy ease of purchasing.

Rowena Chan: The pandemic brought mental health to top of mind. Sun Life surveys and research found a 14 percent drop in Canadians reporting having good or excellent mental health since the pandemic, and, in fact, 50 percent recorded some mental-health impacts from the pandemic. So we really want to create more safe spaces and platforms for mental-health conversations, information, and access to care. We want to enable

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—Bernd Heinemann

clients to access mental-health help in a way that is convenient, comfortable, and confidential. And mental health impacts physical health, so addressing mental-health needs correlates with efforts on core life, disability, critical illness, or other term life insurance products. It's very interconnected.

John Vaccaro: Coming out of the pandemic, clients are looking for five things. Three are similar to what they wanted coming out of the Great Recession: guarantees through market volatility, household names, and someone to talk to for advice. Those three things led to the past decade's growth. There are two additional factors this time around: first, taxes are on everybody's mind. And second, unfortunately, the pandemic has reminded all of us about our own mortality. Coming out of the Great Recession was not a tax event, and it was not a mortality event. So when I look at those five consumer factors—what's on their minds, what they're planning for—over the next decade we've got to make sure that the products we're manufacturing solve those five client needs.

McKinsey: *How do insurers and agents need to evolve or upskill to adapt to new ways of working?*

Binayak Dutta: The support framework that insurance companies provide has to change. In many places, advisers today still use a "friends and family" model in the early stages of building up their practice. But it takes time to build from there to a living wage, so insurance companies should be providing not just the products but also the processes, digital tools, and training that help them to get to a living-wage position as soon as possible. One example is a mobile technology platform that offers advisers a one-stop view of their customers and prospects to manage the pipeline, with built-in tools to help maximize productivity, track commissions and incentives, and access all their performance details to see if they're on track. Enhancing active leads expands the addressable customer base far beyond friends and family.

Furthermore, technology is offering customers more self-service capabilities so they can perform straightforward tasks themselves, which frees up salespeople to engage in more value-added conversations with the client. They have to spend less time on transaction steps, and as a result advisers are changing from being salespeople to being more holistic financial planners. You see this in places where customers are financially savvy, as in Hong Kong and Singapore, but this transition is also starting to happen in Southeast Asian markets such as Thailand, Vietnam, and the Philippines.

Rowena Chan: Last year our advisers hosted 174,000 Zoom client meetings alone. It went up 400 percent in usage. Advisers embraced the opportunity to leverage technology to make their operations faster and easier. Part of this is that it's coming from clients, not from carriers. When clients request more seamless interactions, easy interaction, advisers will adopt faster, as they experienced how digital adoption makes them more productive and available to their clients.

An important part of encouraging adoption is to demystify change management. It's not just about communications and training, and it's an ongoing journey. You never stop change management. It's incremental, and the sequence is important in demonstrating value at each step, because if everyone is looking for perfection, then change will take a long time. It's also important to cocreate the change with advisers who are at different stages of their careers because these opportunities need to appeal and apply to advisers' varying needs and segments.

McKinsey: *Finally, what role does a company's values play in winning and retaining customers?*

Bernd Heinemann: As I said before, people buy from companies that they trust. So having a set of values that the adviser and the customer share is important. You don't have to be the same age or the same background, and so on, but sharing values

Preparing for the future of insurance distribution

A few months into the pandemic, we offered insights into how insurers could prepare for both near- and long-term implications of its effect on insurance distribution. At that time, most insurers had already set up employees to work remotely and expanded online customer service channels. A year later, many of the anticipated challenges have borne out and continue to evolve. In this sidebar, we offer a brief synopsis of the many considerations that remain relevant. To read the full article, see "How insurance can prepare for the next distribution model."[1]

Near-term steps

To prepare in the near term for the acceleration of digital distribution, many insurers will need to dramatically simplify their products and simultaneously work to re-create the many benefits of the agent and customer relationship in a virtual environment. Lessons from telemedicine may be relevant here.

Meanwhile, they can also take steps to return the business to scale quickly. This may include launching a remote-only distribution force, which offers economic advantages to insurers and allows them to own their sales messages more directly, or expanding the digital capabilities of their hybrid sales force if they already have one in place.

Insurance companies can also emphasize to agents the merits of joining a team, which boosts productivity, helps sales forces better serve diverse customer needs by combining agent expertise, and—as the COVID-19 pandemic has shown—bolsters resilience. Insurance companies should ensure their commission system supports teaming and invest in virtual training on teaming best practices.

Now is also the time to invest in the enablers that support digital distribution. Agent appetite for digital tools has never been greater; our May 2020 survey of US agents found that 44 percent of agents rated either agent digital tools or customer tools as the number one capability insurers can invest in to support them right now.

Another important enabler in distribution is data. The faster insurers build out capabilities to mine their massive volumes of data so that they can identify and respond to customer trends, the more resilient their distribution mechanism will become.

Long-term steps

Fully embracing the shift to digital distribution will also call for action by insurers in three areas.

First, decide on the optimal go-forward channel mix. In-person agent forces will remain an important part of the distribution landscape in the years to come, especially in life and large commercial, but insurers need a setup that also includes digital and remote sales-force options.

Second, identify required modifications and new technologies needed to support all forms of distribution. Tools to increase digital prospecting and build trust in initial conversations are key to helping agents replace their typical in-person interactions. When developing the tech road map, work with agents to identify their biggest productivity blocks and respond to them quickly with minimum viable products. Our agent survey identified signatures, application and submission forms, and client onboarding as processes that agents most want to see digitized.

Third, prepare to make strategic M&A decisions to augment distribution. Identify gaps in distribution channels, and target companies that offer new customer types (such as digital natives), new product types (such as broader protection products), or new geographies. Fintechs and insurtechs are likely to be more open to conversations with insurers with large balance sheets because of the financial impact of the crisis.

[1] Simon Kaesler, Matt Leo, Shannon Varney, and Kaitlyn Young, "How insurance can prepare for the next distribution model," June 12, 2020, McKinsey.com.

helps develop that trust that is foundational to a true relationship. In addition to values, I believe it is important that in insurance we commit to true partnership: we are there whenever the customer needs us.

Rowena Chan: If you listen to the clients, they're asking about products and organizations that align with their values: sustainability, diversity, gender equity, representation of underrepresented groups. Whether it's about climate change, whether it's about talent—our values are tied to the long-term success of the organization, and also to the value and the difference it can make to the communities that we serve. And the commitment to these values needs to be set and demonstrated all the way at the top, from the board down. Leaders need to say, "This is how we're going to set our strategy. We'll differentiate ourselves in the eyes of our clients and the investment community."

John Vaccaro: Companies have to be relevant. If you do not have a culture of diversity, equity, and inclusion (DE&I), you are not going to be relevant. That's just table stakes, and we can go through all the business reasons, but if you're not relevant, you're done. DE&I has to be part of the DNA of corporate America going forward. A lot of progress has to be made, but it starts with identifying it and committing to it.

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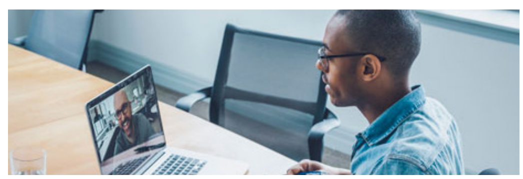

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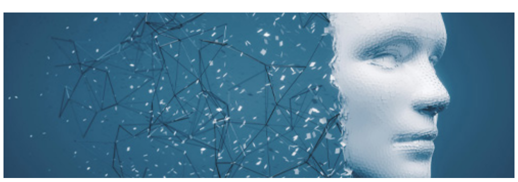

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