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Insurance Practice

How insurance can prepare for the next distribution model

As the COVID-19 crisis evolves, it will continue to affect insurance distribution around the world. Insurers can prepare by building a strategy focused on near- and long-term implications.

The COVID-19 pandemic is profoundly affecting how people engage with one another across industries and geographies. Physical distancing and other quarantine measures have shifted activities once considered critical to have in person to digital and remote channels. This change will affect insurance distribution—both in the near term, as physical distancing measures continue, and in the longer term. Indeed, society's relationship with technology and remote interactions is continuously evolving and accelerating as we move toward the "next normal."[1]

Many insurance companies have likely already taken steps to address short-term or immediate impacts of COVID-19—moving employees to a remote setup and expanding online customer service channels. Now, insurers are focused on the next set of challenges, including how to reimagine distribution in a more remote world. An April 2020 survey of German insurance agents (conducted four weeks into lockdown) found that about half of the agents saw a more than 40 percent decrease in new business.[2] And a May 2020 survey of US agents found a similar effect: almost 50 percent of agents cited remotely building new customer relationships as the biggest challenge during COVID-19.[3] Meanwhile, online insurance aggregators and direct channels are reporting similar, if not greater, volume.[4]

To address these challenges, insurers will need to rethink their distribution model across three dimensions: customers, sales force, and enablers (such as investment in data and digital tools). Doing so will empower them to prepare for the unpredictable.

How distribution is changing

Physical sales forces and intermediaries are responsible for the majority of insurance distribution across geographies and lines of business. While the share of business conducted via these channels has been shifting during the past decade as some customers migrate online, they remain the primary channels across life, commercial, and personal lines property and casualty.

But continued physical distancing is having dramatic and immediate impacts on insurance distribution.

Shifting to digital tools. Agents accustomed to in-person interactions are rapidly recalibrating to provide uninterrupted service to clients who may be facing severe health or economic challenges. These agents are also rethinking how they build relationships with prospective clients as most rely on in-person meetings. In our January 2020 US agent survey, about 90 percent of life insurance agents' sales conversations and nearly 70 percent of their ongoing client conversations were conducted in person.[5] In a follow-up survey in May, less than 5 percent of agents had any in-person conversations. A late-April 2020 survey of European insurance executives found that some 89 percent of respondents expect significant acceleration in digitization, and most also anticipate further shift in channel mix. The COVID-19 pandemic has increased customers', agents', and insurers' desire for comfort around digital- and remote- interaction models and tools.

Moving toward self-service. Client demand for self-service in the current environment has only accelerated the importance of digital. A recent consumer survey in Spain found digital access in insurance has increased almost 30 percent since the pandemic began. But the same survey also found the level of customer satisfaction with digital delivery in insurance was the lowest compared with all other sectors. The number one reason for dissatisfaction was "hard-to-use tools."[6] Thus,

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insurers will need to invest in expanding and improving self-service tools to better support customer and agent satisfaction.

Transitioning offline processes online. Agents are currently navigating legacy products that sometimes require offline execution, such as physical signatures and medical underwriting. Our January 2020 US agent survey results show that almost 50 percent of agents were dissatisfied with the level and function of signature capabilities at their primary carrier. Many customers, meanwhile, currently do not want to engage in a physical medical-underwriting process for fear of contagion. Insurers must then rapidly find ways of digitally underwriting the business—such as making better use of external data, relying on statements of good health, and adjusting fluidless thresholds to expand the number of customers who can forgo a physical medical exam—or risk losing it.

Changing distribution strategy in the near term

By now most insurance companies are thinking about how they should prepare during the near term to be ready for the next normal; many of these steps toward digital distribution are unprecedented. Their focus is mostly on digitally enabling sales forces and enhancing the use of data and analytics—especially for lead generation—to support customers.

Insurers can differentiate themselves in the evolving distribution landscape during the next several months by moving quickly to pilot, test, and learn rather than focus on multimonth strategy efforts; getting started is better than waiting for perfection. The goal is to return the business to scale fast, especially as knock-on effects of the virus become clear. Insurers should focus actions across three areas: customers, sales force, and enablers.

Take care of your customers

To understand how customer preferences have changed, insurers can use zero-based design to rethink existing processes, experiences, and products to be more appropriate for the next normal.[7] This may mean simplifying products for remote sales; for example, our research has found that many traditional insurance products are too complex for digital sales (even with instructions). More broadly, understanding how to re-create the effectiveness of an in-person, advice-based relationship between successful agents and their customers in a virtual environment will be key. Insurers can look to advances in telemedicine—which have seen a dramatic uptick in recent weeks—with roughly half of their customers intending to continue using the service after the crisis subsides.[8] Telemedicine tools (such as video for conducting appointments and photo- or screen-sharing) can help re-create complex, advice-based conversations virtually while also protecting consumer privacy and security.

Take care of your sales force

To prepare the sales force for the next phase, insurance companies can focus on three imperatives.

Launch a remote-only distribution force. Interest in remote distribution forces has increased in recent years and is even more relevant now. Remote sales forces have economic advantages from an insurance perspective: they generally allow agents to serve significantly more customers than traditional agents, resulting in lower commission costs per sale. Further, remote forces also allow insurance companies to own their sales messages more directly, enhancing their ability to respond cohesively in a crisis. Indeed, insurers can quickly update relevant scripts and talking points and more closely manage performance to ensure compliance. Insurance companies that have effective hybrid distribution forces may not need to worry about investing in a stand-alone remote sales force in
the long term. By using internal sales desks and hybrid agents (that use both in-person and digital channels) or wholesalers, insurers that do not yet have remote or hybrid sales forces can transition remote capabilities to their skilled field sales teams that are likely more experienced in closing deals and building relationships.

Emphasize joining a team. While there is much discussion about teaming between insurers and agents, our January 2020 US agent survey found about 20 percent of life agents have never worked with any team, despite evidence that agents in teams are significantly more productive. COVID-19 has showed the value of some system redundancy (that is, multiple agents able to access information on one client) to ensure continued operations should agents become sick. Furthermore, teaming brings together agents with different product expertise, which helps sales forces better serve diverse customer needs.

Insurance companies should ensure their commission system supports teaming by allowing split-commission payment or other incentives for joint work. Insurers also need to make sure different agents can access the same customer data and collaborate through customer-information-sharing tools. Finally, investing in virtual training on teaming best practices, sharing the findings with agents, or asking top agents who already work in teams to share their insights with others in their network can also help support this endeavor.

Expand distribution partnerships. As the current environment places an even greater pressure on making sales, now could be a good time to think about insurance marketing organizations or affinity relationships. Expanding distribution partnerships could help the sales force provide products to more customers in need while maintaining sales volume in a time of crisis. This approach becomes increasingly important as a virtual-agent model increases the pressure on agents to add value.

Invest in enablers

Investing in digital distribution now will have several important benefits for insurers, including increasing resilience through a potentially prolonged or multiwave crisis, responding quickly to current and future customer and agent demand, and increasing agent productivity. Agent appetite for digital tools has never been greater; our May survey on US agents during the crisis 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. Insurance companies can support agents in this area.

Before investing in digital, insurers should assess and identify gaps in the ideal customer and agent journey for their specific business. The findings will help them develop an agile road map tailored to their strengths and vulnerabilities so they can begin closing those gaps.

Another important enabler in distribution is data. Insurance companies typically have massive amounts of data locked in legacy systems or in paper file cabinets. The faster insurers build out capabilities to mine data so that they can identify and respond to customer trends, the more resilient their distribution mechanism will become. The value of data-driven lead generation has become increasingly clear in recent weeks as the typical in-person lead generation approaches (including in-person networking events and community events) of many agents are no longer an option. To tap into the value of their data, insurers can build advanced analytics models to identify lifetime value-based customer segments within their current portfolio. They can then build additional models for each segment to identify customers at risk of churning or lapsing as well as customers who might be candidates for cross-selling or upselling opportunities. The data can then be integrated into call lists to help agents (local or remote) focus their attention on the highest value leads. Insurers should also build a feedback mechanism to further refine the model building via qualitative input from agents as well as conversion data.

Our January 2020 survey also revealed almost 30 percent of agents said their biggest challenge right now was lead generation, with just under 60 percent of agents willing to pay between 0.5 and 2.0 percent of their gross income for quality leads. Only 20 percent of agents have seen an increase in leads coming from their insurance companies in April, suggesting an opportunity for insurers to invest in data and proactively fill that need for agents.

Planning for the longer term

Beyond the shorter term, insurance companies must consider three actions as they reevaluate their longer-term distribution strategy and lock in distribution shifts toward digital.

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 includes digital- and remote-sales-force options to serve customers who prefer digital or remote interactions. Having this flexible workforce increases resilience in the face of an unknown future. Setting up a remote agency can be done quickly through a pilot-test-and-learn approach, getting remote agents to interact with customers, and refining process based on feedback.

Identify required modifications and new technologies to support the next normal. Leading captive-distribution insurers that see tech and digital as core differentiators or the essence of their value proposition should clarify their desired adjustments to their existing tech setup. These modifications are especially important when enabling the agent channel to operate in a more digital postpandemic world. Tools to increase digital prospecting and build trust in initial conversations are key to helping agents replace their typical offline interactions. To develop the tech road map to the next normal, insurers should work with agents to identify the biggest obstacles that currently impede productivity and rapidly develop the most viable product solutions to close those gaps. Our agent survey identified signatures, application and submission forms, and client onboarding as processes that agents most want to see digitized.

Be ready to make strategic M&A decisions to augment distribution. 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. Insurance companies should proactively identify gaps in their distribution ecosystem as well as potential partnerships and acquisitions that could offer avenues to new customer types (such as digital natives), new product types (such as broader protection products), or new geographies.

Changing the distribution operating model will take time to implement, since it not only means employing new tools and assets but also requires substantial capability building that affects other parts of the value chain, such as products and claims. The distribution leaders that will lead in the next normal will be the ones beginning work on the longer-term imperatives today.