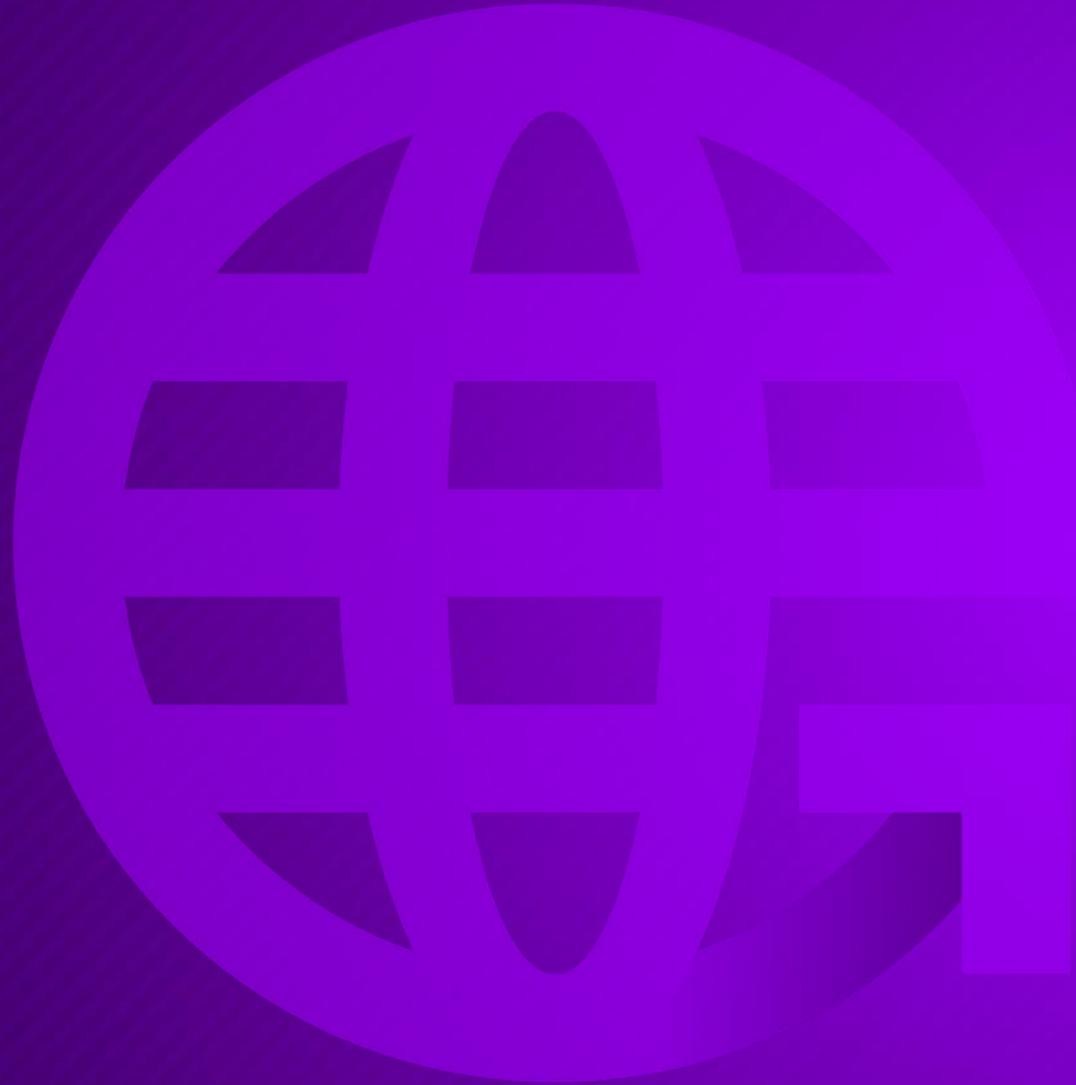




How the insurance industry in Greater China can react post-pandemic

April 2020



COVID-19 has turned into a global crisis, evolving at unprecedented speed and scale. It is creating a universal imperative for governments and organizations to take immediate action to protect their people.

The virus continues to rapidly spread, to every continent and nearly every country with tens of thousands of new cases reported daily.

The Secretary-General of the United Nations has warned that the global economy is likely to decline more than usual.

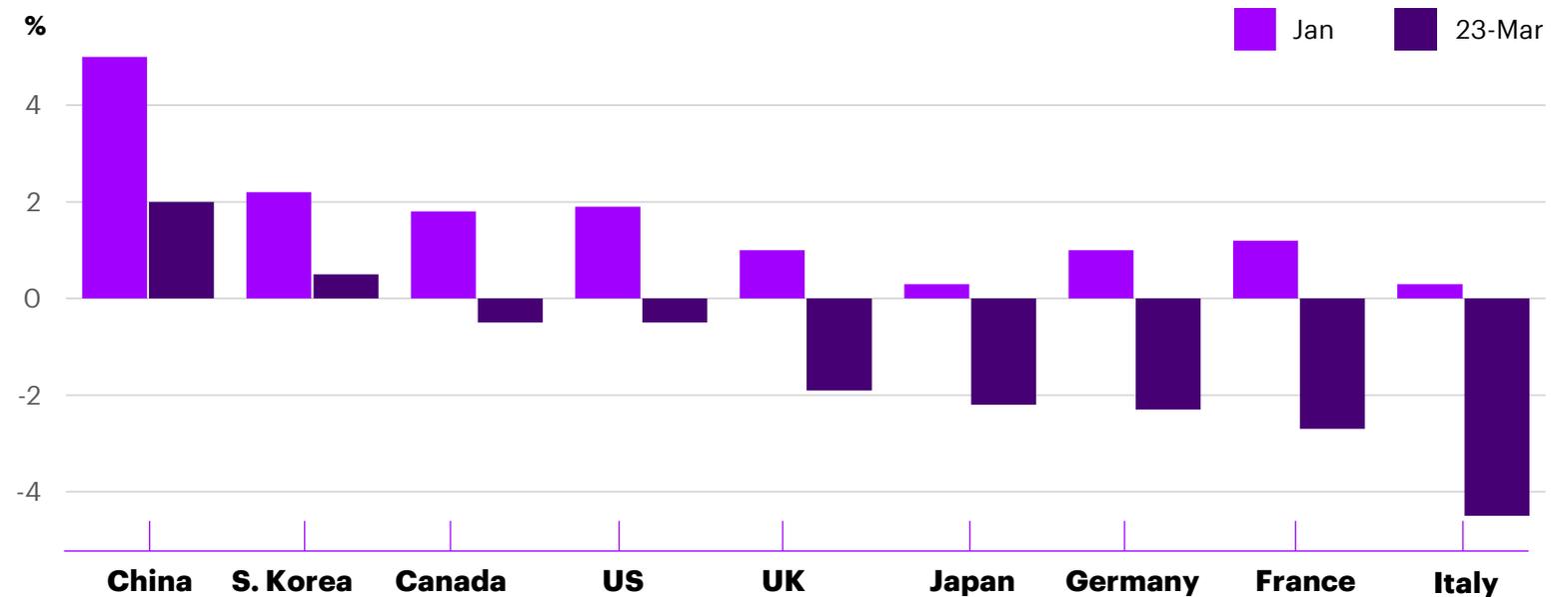
The International Monetary Fund (IMF) managing director, Kristalina Georgieva, said regarding the outlook for global growth: For 2020 it is negative—a recession at least as bad as during the global financial crisis or worse.

But the IMF expects recovery in 2021. To get there, it is paramount to prioritize containment and strengthen health systems everywhere.

Since February 2020, several major global stock markets have seen their worst performance since the 2008 financial crisis.

There is a high probability of a global economic recession in 2020. The impact may reach the level of the financial crisis in 2008.

Economists have revised down growth forecast for 2020



Source: Consensus Economics
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The short-term impact on Greater China's economy is obvious.

But there are also challenges on the medium- and long-term horizons.

Short-term impact (Q1 2020)

- 6.8%** GDP Growth
- 8.4%** Industrial added value above the scale
- 19%** Total retail sales of consumer goods
- 16.1%** Fixed assets investment
- 6.4%** Total volume of imports and exports

Medium- and long-term challenges

Economic growth 2.1% in 2020.

PMI continue to fall

Direct impact on economic transformation and upgrading

Direct decline in exports of more than 20%

The decline of related industries/markets will also have a substantial knock-on effect on the insurance industry

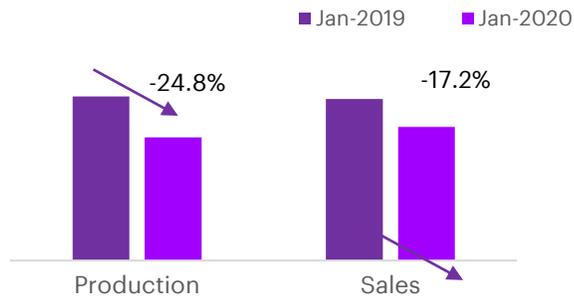
Automotive



The demand for cars has declined as result of the economic slowdown and spending power has been hurt.

In January 2020, China's auto sales volume was 1.927 million units, down 27.5 percent from the previous month and 18.7 percent from the previous year. Production for FAW, Dongfeng, Saic, Changan and Baic declined by 24.8 percent and sales by 17.2 percent in January.

Sales and production volumes of five auto groups



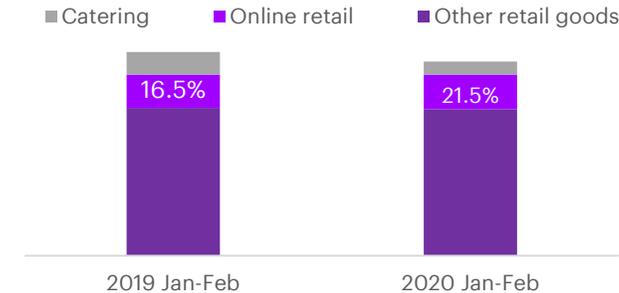
Retail



Residents have been less likely to go out shopping, significantly impacting the sales of non-essential goods and the catering industry.

From January to February in 2020, the total retail sales of consumer goods decreased by 20.5 percent, and the revenue of the catering industry was 419.4 billion yuan, down 43.1 percent year on year. Retail sales of goods reached 4793.6 billion yuan, down 17.6 percent.

Total retail sales of consumer goods



Source: National Bureau of Statistics of China

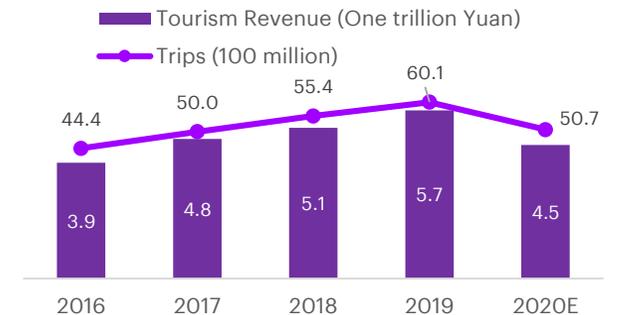
Travel



With several countries on lockdown globally, and personal and corporate travel restricted, the travel industry has been severely impacted.

In the first quarter of 2020, the number of domestic tourists has decreased by 56 percent and the revenue by 69 percent. For the whole year of 2020, the number of domestic tourists has decreased by 15.5 and the revenue by 20.6 percent.

Domestic tourism revenue and trips



Source: Minister of Culture and Tourism of China

As a result of the outbreak, insurance premiums have **fallen sharply**

Life insurance premiums have declined significantly:

Weakened demand: The volume of new personal life insurance orders through traditional offline channels has declined, and the acceptance of older customers for online direct-to-consumer channels is low. Therefore, during this period, the demand for new life insurance orders has been dampened.

Limited sales channels of bancassurance:

During the first two months of this year, the premiums of new orders in the bancassurance market of the life insurance industry have decreased by more than 40 percent, of which, the premiums of new orders dropped by 69 percent in February, the lowest number in seven years since 2014.

Auto insurance business growth has declined:

Offline insurance marketing activities were blocked in February, and the visiting frequency and activity rate of personal insurance channel agents has been frozen. In terms of auto insurance, the continued sluggish sales of new cars with the double impact of pandemic factors has led to a sharp decline in the growth of the auto insurance business.

Insurance premiums of the five A-shares listed insurance companies



Source: listed Companies, Wind, Accenture Research

Challenge

The existing operational models and product strategies of insurance companies are being challenged

Constraints in the manual operations model



CBIRC: The CBIRC has issued the notice on strengthening the financial services of the banking industry to cooperate with the prevention of pneumonia, requiring banks and insurance institutions to strengthen online business services.

Physical examination verification: Medical resources are limited, and a large number of life insurance products are insured with physical examination requirements.

Claim processing: Claim management and processing, which relies on manual operation, has become a bottleneck of the insurance company's business development under the influence of COVID-19.

Limitations in product strategies



Product response speed becomes a challenge: By February 24, P&L insurance companies expanded 1,810 product liabilities to cover the outbreak response. The ability of product research and development to deal with emergencies has become a key factor in the scramble for market opportunities.

Less innovation, more gimmicks: Major insurance companies have launched a lot of gimmicky products. This has been suspended by the bank insurance regulatory commission.

Product homogeneity: Product homogeneity results in a situation where all insurance companies are faced with the same product sales difficulties because of COVID-19.

Challenge

The emergence of COVID-19 pandemic also puts forward new transformational requirements for insurance companies

1.



Optimize online and offline channel integration

The traditional offline channels (e.g. agency, bancassurance and contact centers) have struggled to service and support customers during this period. Therefore, insurers must look towards providing flexibility and choice to consumers through digital channels and seamless online/offline integration in order to thrive.

2.



Improve operation process automation and intelligence

Due to travel and social distancing constraints, insurers need to rethink their manual operation processes (e.g. underwriting, claims settlement, damage detection and loss determination, etc.), to be more straight-through or automated. How can insurers harness intelligent automation such as image recognition, big data and analytics, and RPA across their insurance processes?

3.



Accelerate product innovation to meet new market demands

Fostering a purposeful and engaging culture, the backbone for success in any organization. Effective remote teams require more intentional practices to drive alignment and program execution. For instance, a comprehensive and well-articulated “definition of done” is a crucial for driving consistency across teams.

Next steps

With the current challenges, insurance companies need to be flexible to seize opportunities

Holistic digital strategy

Digital+Agile, “Change” Applied Now

Phygital—online/offline integration physical and digital

Collaboration and synergy between online and offline channels will become an important focus of insurance companies

Customer insights

Establish a whole life-cycle strategy for customers with data insights and change the traditional business model of insurance sales dominated by low-frequency interaction and homogeneous service

Product innovation

Demand-side driven innovation of insurance products to flexibly respond to market changes

Lean operation

The combination of artificial intelligence and automation technology can improve operational efficiency and control operational risks

Open insurance

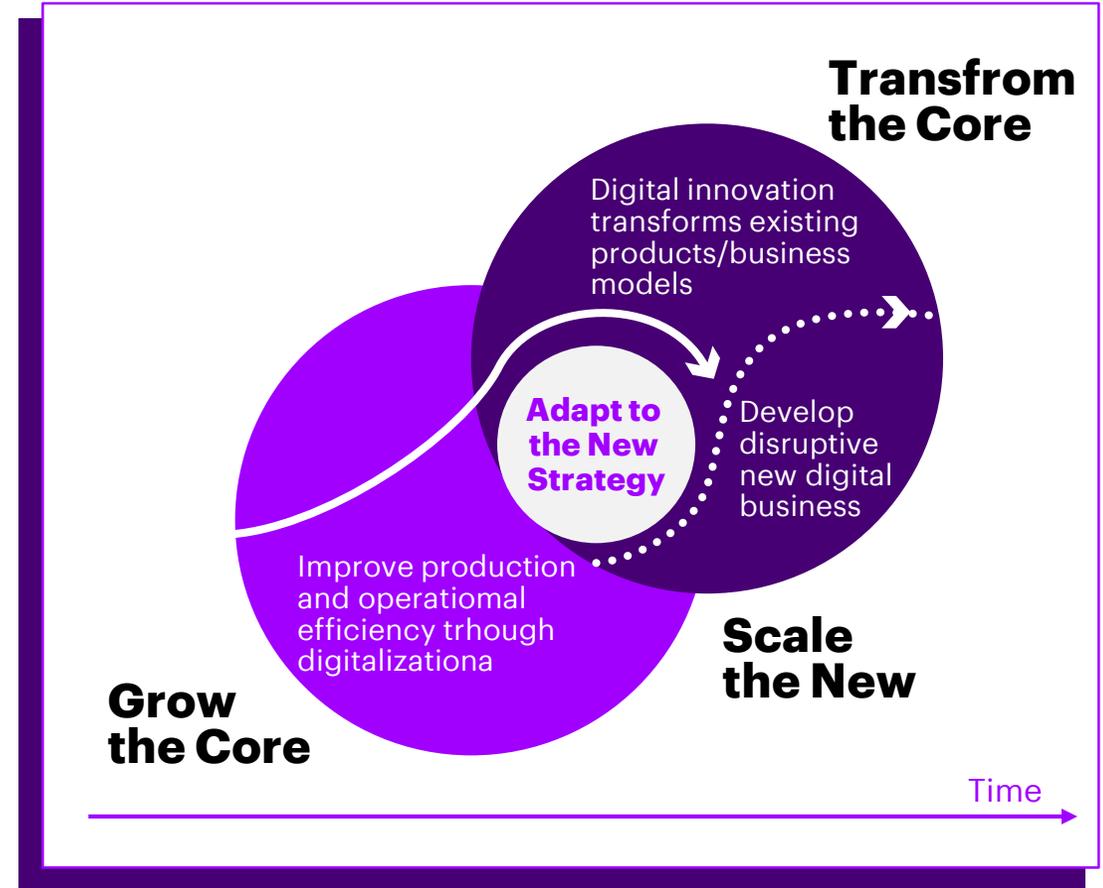
Exploring an open business model of win-win cooperation with ecological partners to achieve breakthrough growth of new businesses

Digital Strategy

Holistic digital strategy, change applied now

Digital strategy: After the pandemic, the trend of digital change is accelerating, so enterprises should follow the trend and accelerate the overall digital strategic layout, including aspects from channels, customer acquisition and operations, product innovation, and the business operation model.

"Improvise" strategic decisions: In the current market competition environment, it is increasingly difficult to maintain a long-term competitive advantage, but random trial and error may also bring economic or time losses to the company. Enterprises do not need to formulate a perfect development path in advance, but to quickly capture opportunities with controllable opportunities for rapid iteration.



Phygital (physical + digital)

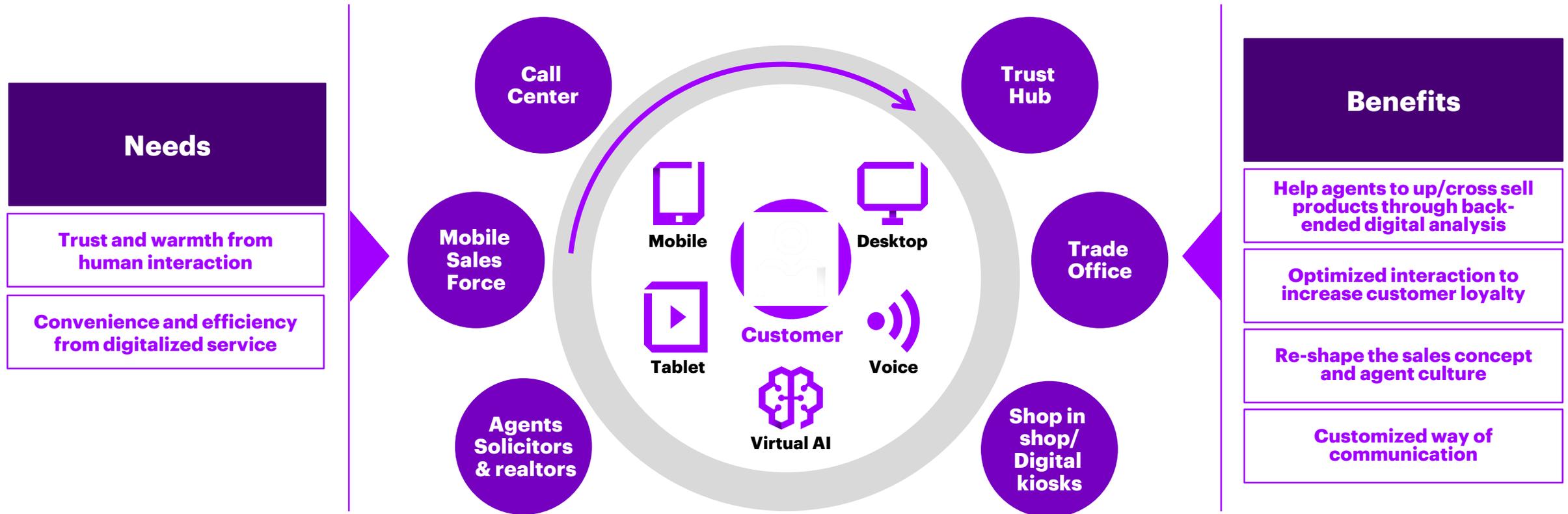
A new engagement model to build a growth engine for the future

Integration of online sales resources: Customers' acceptance of online services has increased due to the travel restrictions caused by COVID-19. In the post-COVID-19 era, incremental customers attracted by online services will become the target of competition for insurance companies. Therefore, insurers need to integrate online resources, strengthen online distribution and gain a first-mover advantage.

Due to the nature of insurance, face-to-face contact will still make a large portion of sales in the long term. After COVID-19, insurance companies should create a new engagement model, new channels of distribution and **a new technology application** to empower both online and offline engagement—hence, provide the customer a more efficient and convenient service.

Phygital (physical + digital)

Physical and digital interaction



Customer insights

Establish a life-cycle strategy for customers based on data insights, and change the traditional business model dominated by sales, low-touch interaction and homogeneous service

Accurate insights: The product demand and service preferences of different customer groups are different. A data-driven customer strategy will enable the insurer to design differentiated products and services based on the targeted customer segment. Insurers will also be able to identify the interaction/channel contact points that their customers prefer. For example, during an outbreak, leveraging data will enable the insurers to identify which customers are in a high-risk exposure environment, what services they need, and through what channels and connection points to interlock with their customers.

Full life-cycle interaction strategy: Insurers should review the traditional low-frequency interactive model with their customers, to increase customer activities by means of insurance value-added services and online activities. Insurers should explore leveraging real-time feedback of the data and make the appropriate readjustments to enhance the customer experience and improve insurance renewal and cross-selling rates.

Product innovation

A diversified and innovative demand-driven product offering to support consumer needs and nimbly respond to market changes

Extension of insurance products and innovation of the design model "guarantee + prevention + service": Taking health insurance as an example, the COVID-19 situation has further stimulated the public's demand for health insurance and related health services, such as online consultation, disease care, post-diagnosis rehabilitation and other comprehensive security services. The model of "guarantee + prevention + service" is guided by the chain of health management needs of individuals, which better meets the needs of the public.

Product design for new demand and new risk exposure: The occurrence of innovative and new risk events in business models has created more insurance demand for new risk factors. For example, the pandemic has created the public's need for COVID-19 to be included in the coverage. Insurers should explore product design based on specific scenarios (such as the employer's responsibilities on their employees returning to work) and special groups (such as exclusive insurance for new business types) to meet the needs of specific customers and enterprise groups.

Lean operations

Use a combination of artificial intelligence and automation technology to improve operational efficiency and reduce operational risks

New technology combining **automation technology and artificial intelligence** can help insurance companies improve the accuracy of business operations while saving on manpower and greatly reduce operational risks.

Areas for application:

- Underwriting: Use RPA and AI for risk detection and quotation verification to improve the accuracy of manual underwriting.
- Claims: Process a large number of claims documents with RPA and OCR to automate the claims process.
- Finance: Use RPA and OCR to deal with complex financial documents and realize online automatic reimbursement and other functions.

Advantages:

- Small investment, short implementation cycle, rapid deployment, quick results.
- Applies to human-intensive and repetitive processes in order to break existing operation bottlenecks and achieve improved efficiency.
- There are minimal changes to the legacy system and the implementation risk is highly controllable.

Open insurance

Explore mutually beneficial partnership models to achieve hyper growth

Open insurance is the practice of insurers sharing and consuming data, services and internet flow, in order to create more appealing value propositions and new revenue streams.

Considering the shrinking market size caused by COVID-19, insurance companies can explore the new hyper growth/new demands in the changing market through sharing data and other possible services with all parties.

For example, recently COVID-19 has spurred consumers to ask for medical advice online. The explosive growth of online consultation in the short term will boost the formation of internet diagnosis and treatment habits among patients/consumers and bring continuous growth momentum after the pandemic.

Insurance companies may consider cooperating with internet hospitals to launch insurance products covering online medical treatment by targeting the online patient population group. The patient's consultation and health data can be used as additional input for risk control models for precise risk control.

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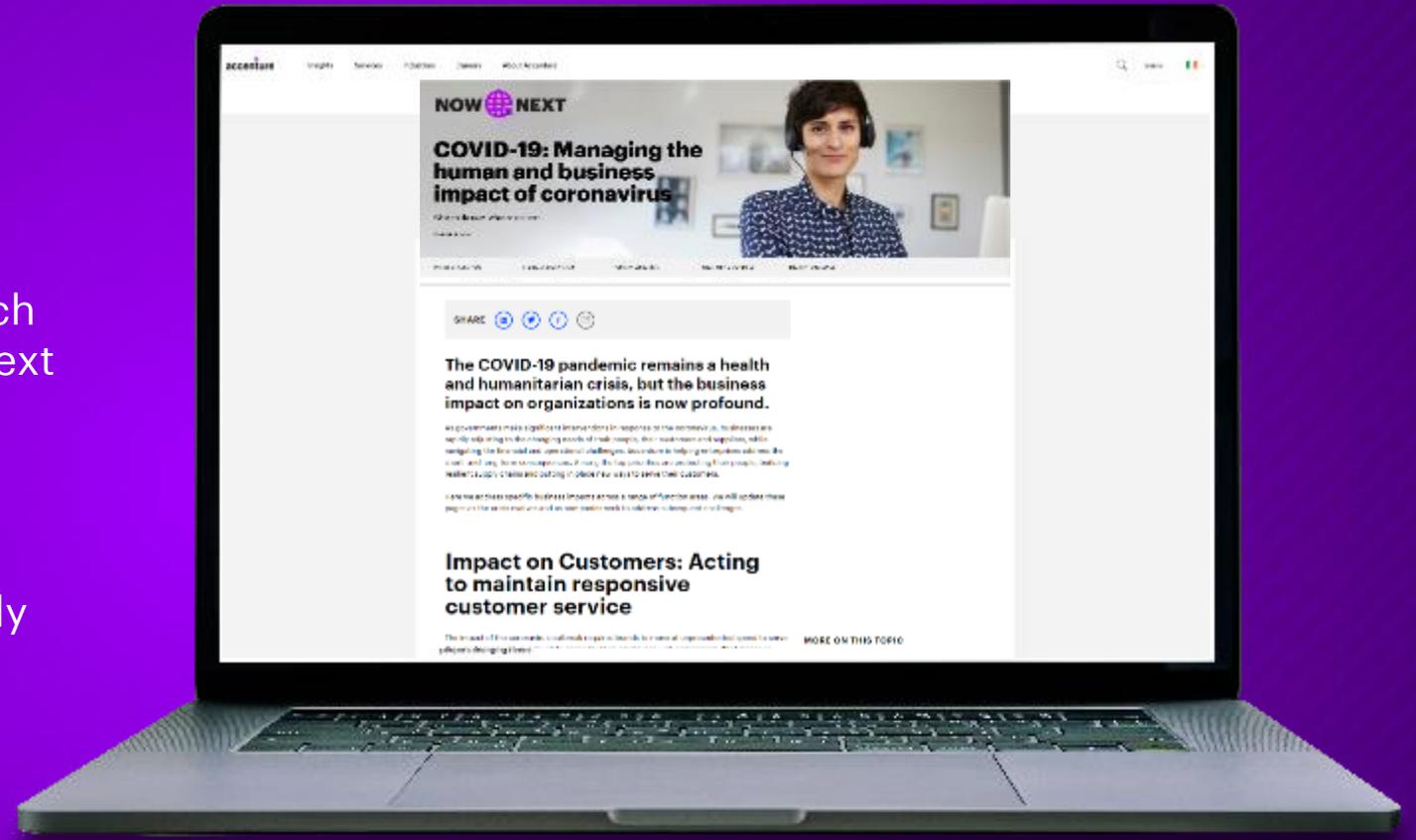
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To help our clients navigate both the human and business impact of COVID-19, we've created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions which can be taken now, and what to consider next as industries move towards a new normal.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

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