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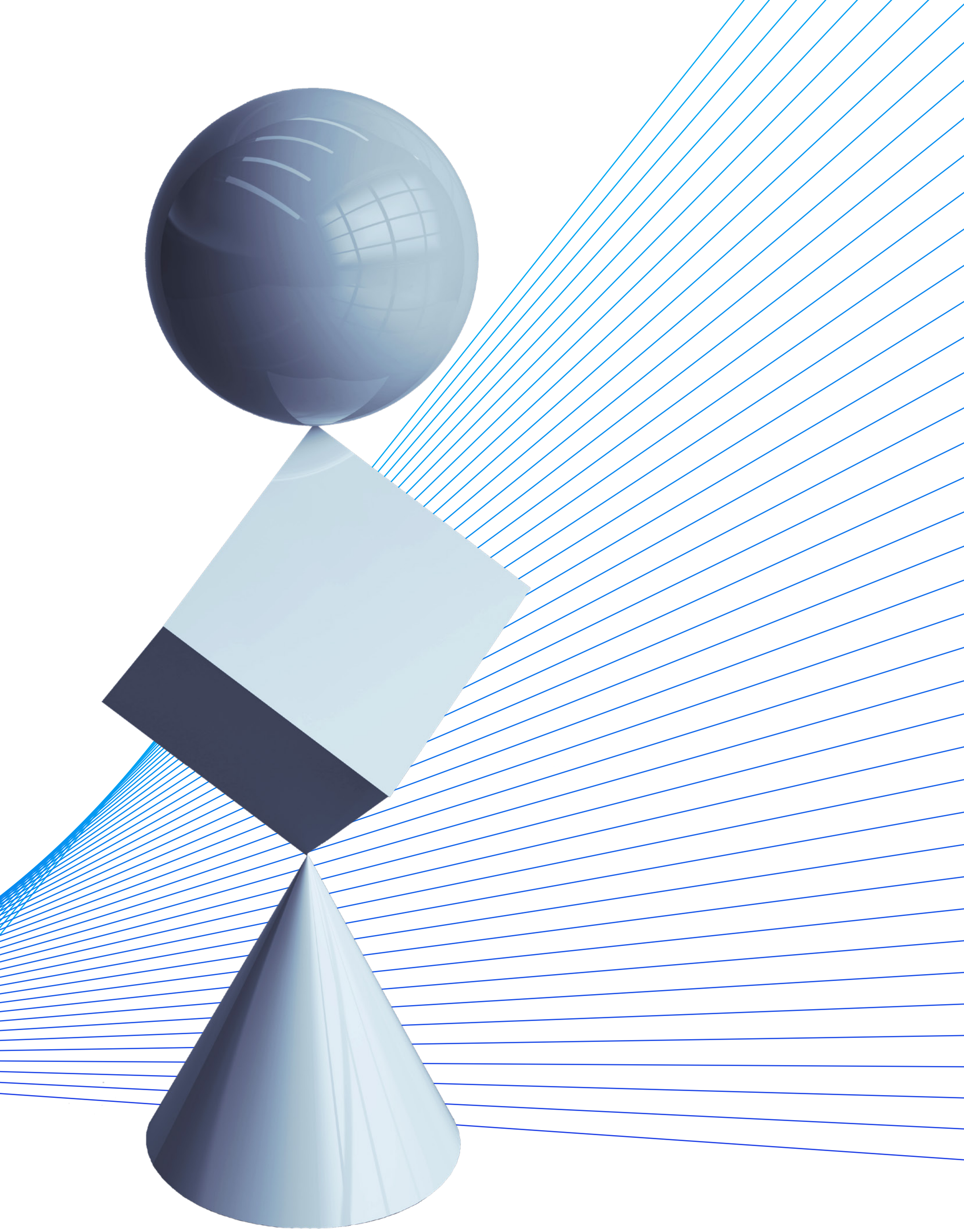


Insurance Practice

2020 Global Insurance Pools statistics and trends: Distribution

The latest market research on insurance distribution offers new data on performance by region and product line.

March 2021

Our latest analysis of McKinsey's Global Insurance Pools database offers detailed statistics and trends on the insurance industry. Overall, the global industry grew by 5 percent in 2019 over 2018, a slightly higher level than its CAGR from 2010 to 2018 of 4.4 percent, and total premiums reached €5 trillion.

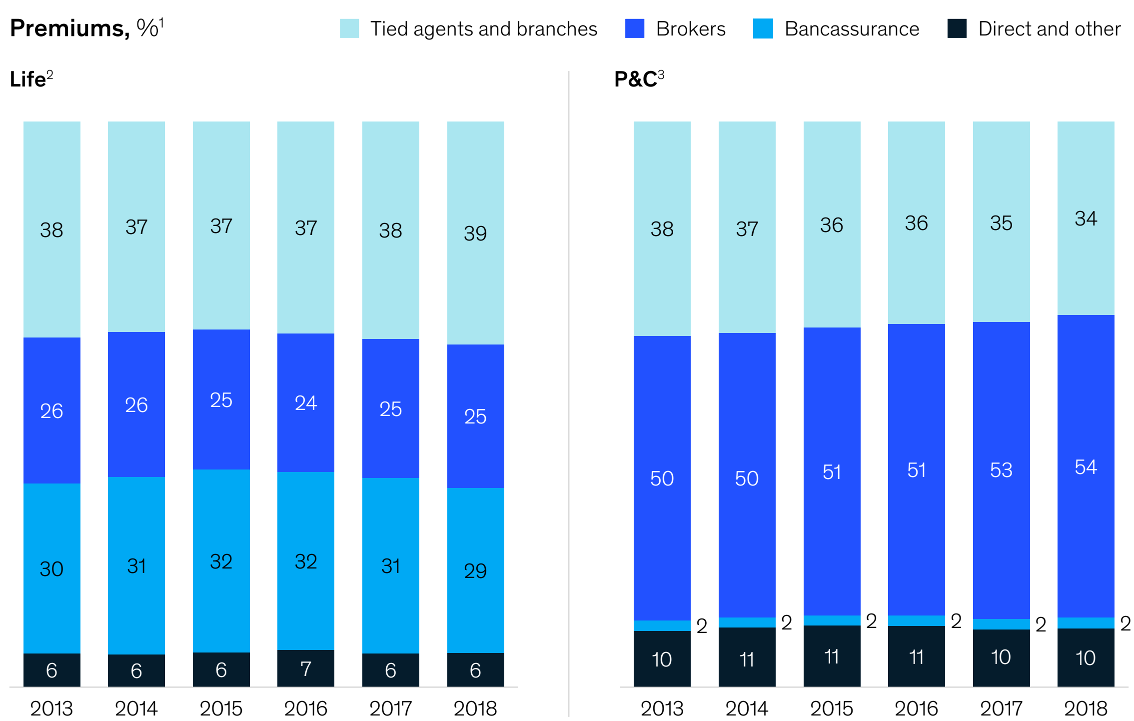
This report, one in a three-part series, provides analyses and insights on insurance distribution. In this report, we examine the share and trends of different distribution channels in the total in-force gross direct domestic written premiums (GDDWP). Due to the lag in reporting calendars, we are considering 2018 as the most recent year. While insurance distribution trends differ by region and by product, the industry has traditionally been dominated by an in-person sales force of agents and brokers. However, the direct sales channel has seen strong growth in recent years—and in some geographies, direct players are outperforming the market. Specifically, in P&C insurance, most Western geographies saw growth in direct channel share. The trend, though, is slightly different in APAC due to regulatory changes in China that limit direct sales. Insurtechs are also increasingly prevalent, particularly in marketing and distribution.

Overall distribution in life and P&C

In life insurance, global distribution from 2013 to 2018 (the latest year for which data are available) was led by agents and banks, with bancassurance and brokers maintaining somewhat smaller but still significant shares (Exhibit 1). While the split remained generally stable, agents and branches saw a slight increase in percentage of premiums, at the expense of the other major channels. The penetration of direct channels—which, in addition to telephone and internet sales, include premiums generated at insurance company head offices (but not through brokers or agents)—remained limited at 6 to 7 percent of insurance premiums.

Exhibit 1

Agents and banks led global life insurance distribution from 2013 to 2018, while brokers dominated P&C as the share of agents declined.



[1]Figures may not sum to 100%, because of rounding.
[2]For Germany, annual premium equivalent (instead of gross direct domestic written premiums) distribution mix considered.
[3]For Chile, China, Hungary, Poland, and South Korea, nonlife (instead of P&C) distribution mix considered.

In P&C, the direct channel saw slightly more penetration at 10 to 11 percent during the same period. However, brokers continued to dominate global P&C distribution—and their share grew in that period, at the expense of agents and branches. Bancassurance played a minor role with just 2 percent of P&C insurance distribution over that period.

Life insurance distribution trends by geography

The distribution landscape varied across regions from 2013 to 2018, reflecting local market dynamics and insurers' efforts to tailor products and sales-force approach with local consumer preferences. In life insurance, insurers leaned heavily on brokers and independent financial advisors (IFAs) in the Americas, while EMEA was more bancassurance-oriented (Exhibit 2). In APAC, the traditional tied agency channel remained dominant, reflecting the importance consumers in the region place on personalized advice.

Consider the following life insurance distribution trends in large geographies with significant changes:

In the US life insurance sector, the direct channel gained share from 2013 to 2018. Direct distribution increased in all segments as more US insurers embraced digital channels. Digital is also more penetrated in life-protection products than savings or investments due to product complexities; so with a decrease in individual annuities comes a decrease in broker/agent share, as brokers strengthened their market position and negotiation power.

The share of the broker channel in Mexico increased from 16 percent in 2013 to 21 percent in 2018. This was mainly due to the entrance of several strong brokers into the market for both group- and individual-life products.

In Italy, life insurance distribution continued to be dominated by banks. Insurance products in Italy continued to offer attractive returns at low risk, and sustained growth of bancassurance premiums in Italy helped buoy life insurance growth in the country overall.

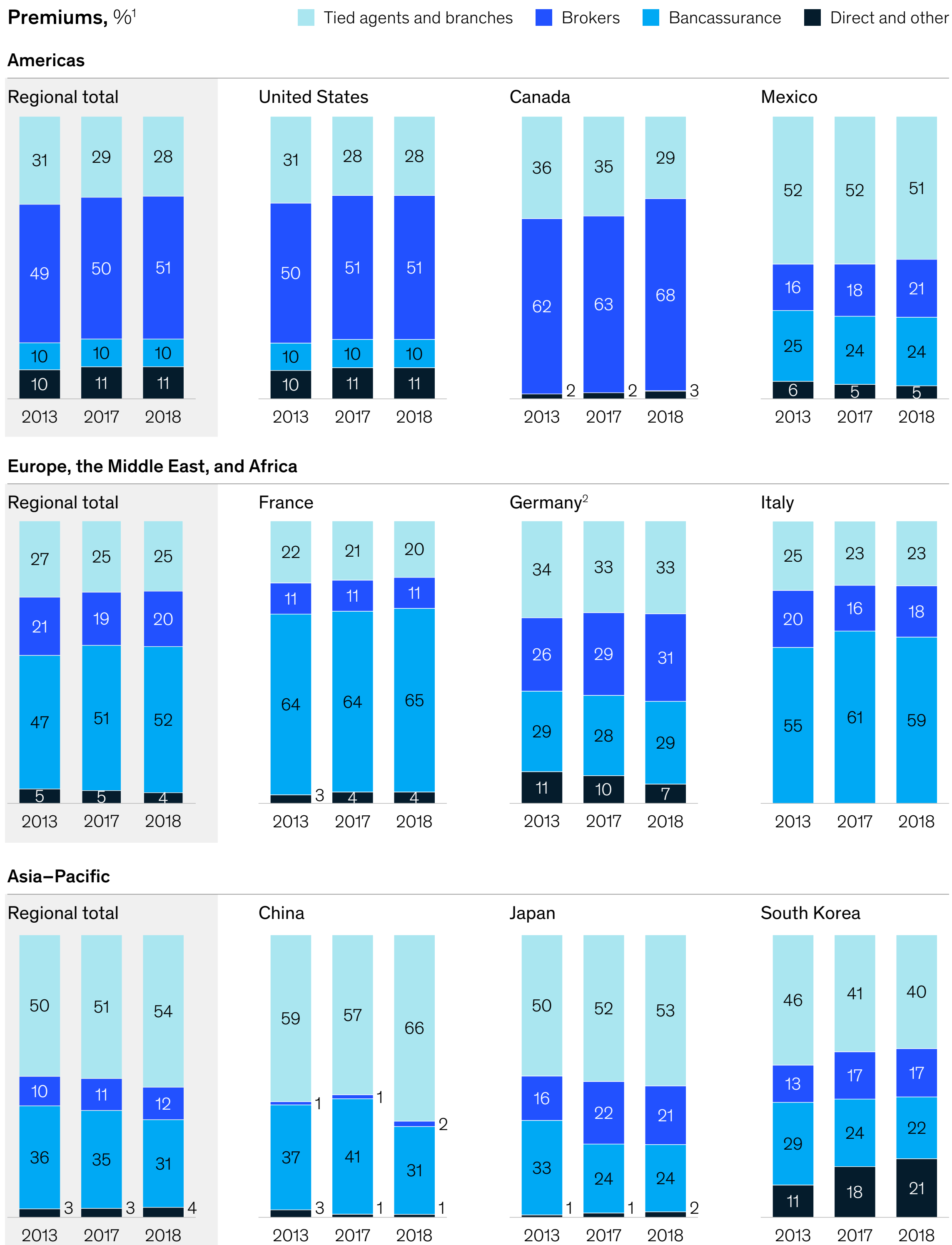
In Germany's life insurance market, growth in the broker channel was driven by growth in unit-linked products. Brokers were also able to expand their market share in other segments such as occupational disability insurance and company pension schemes.

In South Korea, the share of tied agents and bancassurance declined from 2013 to 2018. Some of this decline was the result of cost-optimization efforts that reduced head count of tied agents. The life insurance industry also lost some tied agents to the general agency channel and IFAs, which offered an attractive income compared with that available to tied agents for several reasons: savings-product sales and associated commissions declined due to the implementation of IFRS 17; whole life insurance sales were also stagnant as the market was quite saturated; and customers were avoiding expensive products due to the ongoing sluggish economic situation. Other tied agents moved to P&C insurers, which were looking for trained health insurance salespeople. At the same time, the direct channel saw a significant increase in share due to changing customer preferences.

Japan's bancassurance channel saw a significant decline in share from 2013 to 2018. This was majorly driven by the market decline in 2013, which was caused by a lowering of the guarantee rate for lump-sum whole life insurance—the main product for bancassurance. The Bank of Japan introduced a negative interest policy in 2016, which caused a further decline in interest rates for Japanese government bonds, and long-term savings products were not very attractive from the viewpoint of asset and liability management. Due to the low interest rate environment in Japan, life players have been shifting toward foreign-currency-denominated savings products, which enjoy the relatively higher interest rate of the United States and Australia. However, Japanese regulators have recently strengthened supervision of life players to protect individual customers and introduced fiduciary

Exhibit 2

Life insurance distribution channel preference varied by geography.



[1]Figures may not sum to 100%, because of rounding.
[2]For Germany, annual premium equivalent (instead of gross direct domestic written premiums) distribution mix considered.

duty principles that require banks to disclose sales commissions of bancassurance. All these factors combined to reduce bancassurance's share of premiums from 2013 to 2018.

P&C insurance distribution trends by geography

P&C insurance saw a similarly wide variation in distribution share depending on region—though they differed from those of life insurance in some cases (Exhibit 3). While the Americas again demonstrated a strong preference for brokers and IFAs, EMEA premium distribution was dominated by the agency channel; bancassurance, which led EMEA life insurance distribution, captured a much smaller share of P&C. In APAC, brokers led distribution, particularly in Japan.

Consider the following P&C insurance distribution trends in large geographies with significant changes:

From 2013 to 2018, the Americas saw a consistent decline in the share of premiums sold through agents, while brokers gained share. Agents once served as the front line in risk selection and pricing, as well as the face of an insurance brand, while advances in predictive models and the increasing availability of alternative channels are making this role a bit obsolete. Meanwhile, many major acquisitions among large brokerages caused an increase in share.

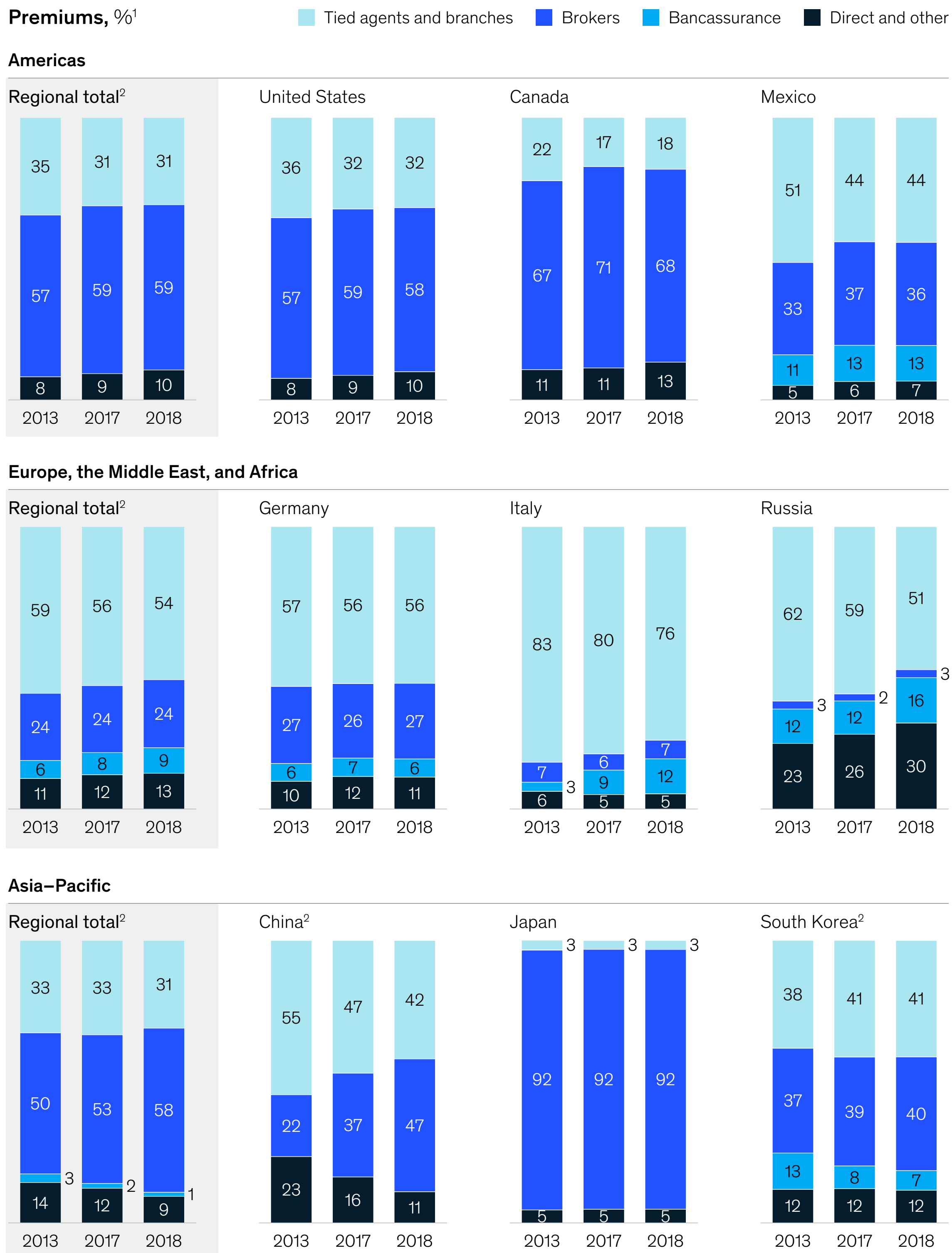
In Italy, the agency network continued to dominate P&C insurance distribution—however, its share declined from 2013 to 2018. This decline was the result of a negative CAGR (–1.1 percent) over that time period despite an upturn of +1.0 percent in 2018. The lost market share was claimed by the direct channel and bancassurance, both of which saw an increase in premium sales and share from 2013 to 2018. The growth in direct channels reversed a trend of decline in previous years, as internet and telephone sales resumed growth. The marketing of P&C policies through bank and post office branches also appeared to increase more sharply than the overall market.

China P&C distribution saw a major decline in the share of remote channels from 2013 to 2018, driven by a regulation change that placed more limitations on marketing and pricing of motor insurance policies. In addition, the country began rolling out motor insurance pricing reform in mid-2015, and that effort is still ongoing. The series of reforms have evened the playing field between online and offline channels, especially in terms of pricing, as the price advantage of direct channels gradually decreased from its peak in 2015.

Preference for convenience and competitive pricing fed the strong growth of the direct channel for motor policies in most geographies.

Exhibit 3

P&C insurance distribution channel preference differed from that of life insurance.



[1]Figures may not sum to 100%, because of rounding.
[2]For Chile, China, Hungary, Poland, and South Korea, nonlife (instead of P&C) distribution mix considered.

Deep dive: Trends in the direct channel for European motor products

Customers' preference for convenience and competitive pricing fed the strong growth of the direct channel for motor policies in most geographies, including Europe. However, while Eastern Europe continued to see strong growth from 2015 to 2018, driven by Russia, Western Europe saw a phase of stagnation (Exhibit 4).

In Russia, the strong growth of direct motor was driven by regulatory changes requiring motor third-party liability (MTPL) insurance, known as OSAGO. Starting January 2017, all insurers selling MTPL insurance must provide the option to purchase an MTPL contract online (so-called eOSAGO).

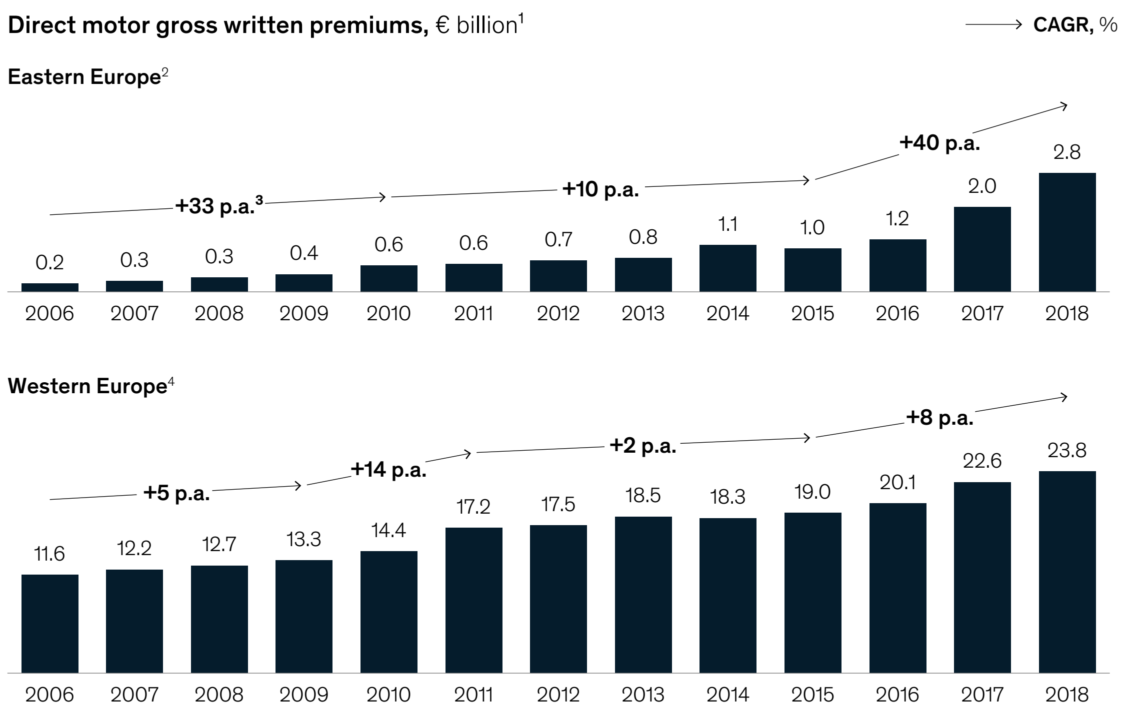
Despite a slowdown in overall direct insurance growth in Western Europe, some clear leaders emerge in a few countries. In motor insurance, most German and British direct players have outperformed their markets. An analysis of data available on significant direct Western European players demonstrates a correlation between GWP growth and profitability outperformance (Exhibit 5).

The rise of aggregators

Recent trends suggest an impending slowdown in growth of the direct channel. Some Western European geographies are already starting to show this slowing growth rate, and some Spanish and Italian players show no real positive profitability impact of operating in the direct distribution space—

Exhibit 4

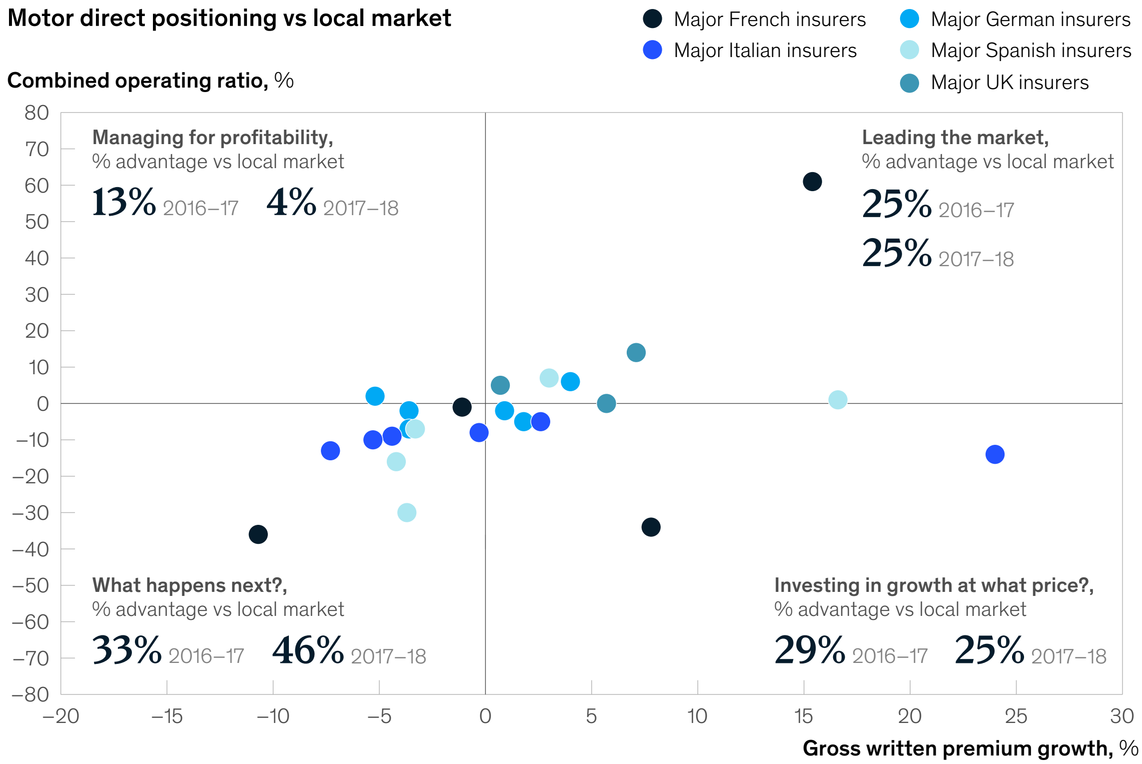
Direct motor insurance distribution saw strong growth from 2015 to 2018.



[1]Last year's exchange rate (2017) applied to full time series.
[2]Eastern Europe includes Croatia, Czech Republic, Hungary, Poland, Russia, Slovakia, and Slovenia. In Eastern Europe data reported from 2004 in Czech Republic; 2008 in Russia; 2012 in Slovenia; 2015 in Croatia; and 2016 in Slovakia.
[3]Per annum.
[4]Western Europe includes Belgium, France, Germany, Italy, Netherlands, Portugal, Spain, and United Kingdom.
Source: National statistics

Exhibit 5

There was a high correlation between growth and profitability outperformance of Western European direct motor players from 2016 to 2018.



Note: 2016–17 vs 2017–18 comparison based on same sample of players for both periods.

suggesting that traditional players may not have enough incentive to build direct distribution channels.

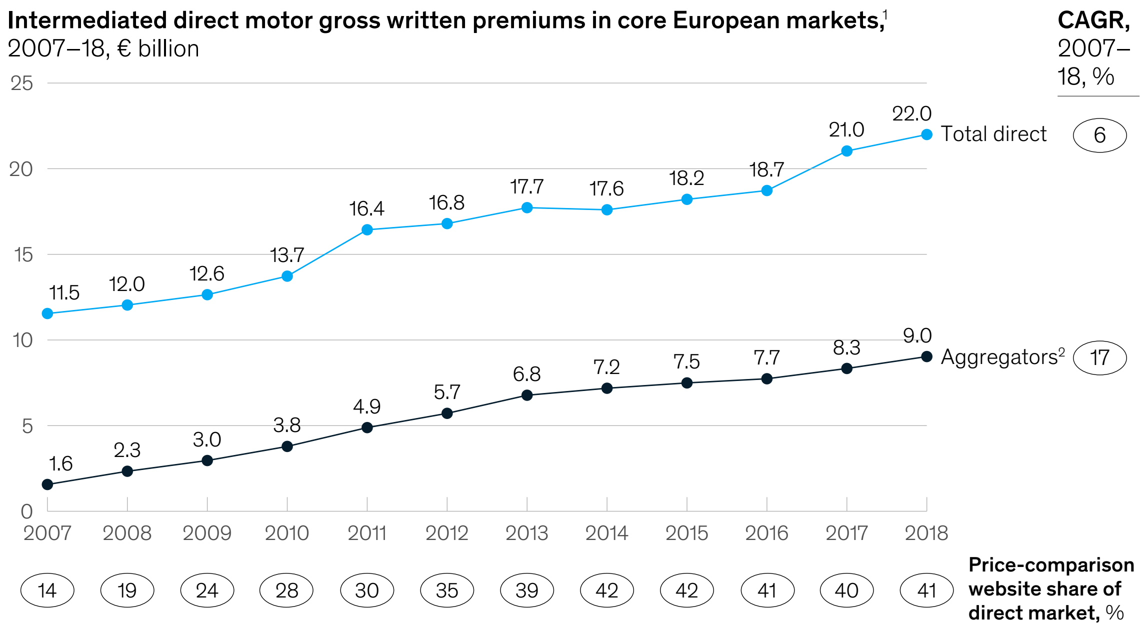
Indeed, considering the initial investment and setup costs in the direct channel, with limited success stories from purely direct players, we can foresee a rise of aggregators, or price comparison websites. From 2007 to 2018, for example, motor aggregator GWP grew at a CAGR of 16 percent, outpacing total direct motor growth of 6 percent (Exhibit 6). Working with such aggregators can be a preferable option to insurers that are wary of investing in the purely direct space. This may help to generate volumes, but aggregators usually have high negotiation power and hence can challenge profitability. As such, it is important to tailor product offerings and efforts.

The importance of multichannel

The trends in both life and P&C insurance point toward strong growth in direct channels overall, even though the industry is currently dominated by agents and brokers. The future may see a shift toward a multichannel approach in which, for example, an online page directs a customer to an agent if the product is too complicated to be sold online.

Exhibit 6

Aggregator growth far outpaced total direct-channel growth in European motor insurance from 2007 to 2018.

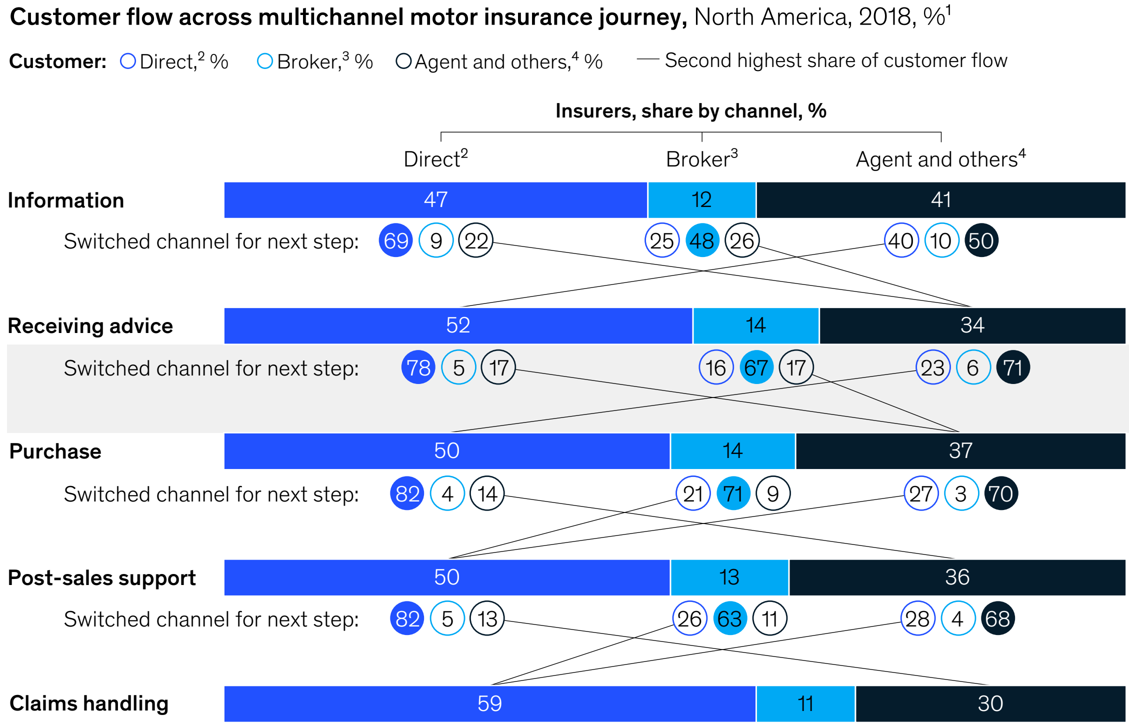


[1]France, Germany, Italy, Netherlands, Spain, United Kingdom.
[2]Business volume originated in aggregators, even if not effectively closed online.

Working with aggregators can be a preferable option to insurers that are wary of investing in the purely direct space.

Exhibit 7

The customer journey in North American motor insurance demonstrates the value of a multichannel 'handshake' approach.



[1]Figures may not sum to 100%, because of rounding.
[2]Includes insurer website, price-comparison website, tied agent or broker website, bank website, social media and blogs, call centers, email, and video conferencing.
[3]Includes person offering insurance products from different insurance companies.
[4]Includes tied agent, insurance branch, bank branch, car dealer or affinity channels, advertising, word of mouth, and others.

This *handshake approach* is already becoming reality in many geographies and product segments, as demonstrated by motor insurance in North America (Exhibit 7). The consumer journey for motor insurance in North America reveals that almost half of consumers begin information gathering through the direct channel. However, at each step of the journey they may toggle between direct, broker, and agent or other channels. At the critical juncture between receiving advice and purchase, the direct channel loses a significant chunk of customers to the agency channel. This indicates a need for a touchpoint and possibly a required explanation of products and coverages, as well as an opportunity for the penetration of AI-driven algorithms and virtual consultation.

As the digital/direct distribution space has gotten more popular, we have also observed increased funding of insurtechs.

The effect of insurtechs on distribution

Insurtechs have become increasingly prevalent in recent years. Today, they can be found covering almost every aspect of the insurance value chain, though their highest penetration to date has been in marketing and distribution (Exhibit 8).

Insurtech funding has also grown significantly in recent years, peaking in 2019 with $7.4 billion in deals (Exhibit 9). Around two-thirds of insurtechs focused on personal lines in 2017, though the number that operate in commercial lines has increased.

Exhibit 8

Insurtechs cover the entire insurance value chain across industries, with the strongest presence in marketing and distribution.

Insurtech landscape, number of innovations

% of database total[1]: <5% | 5–10% | >10%

Value chain

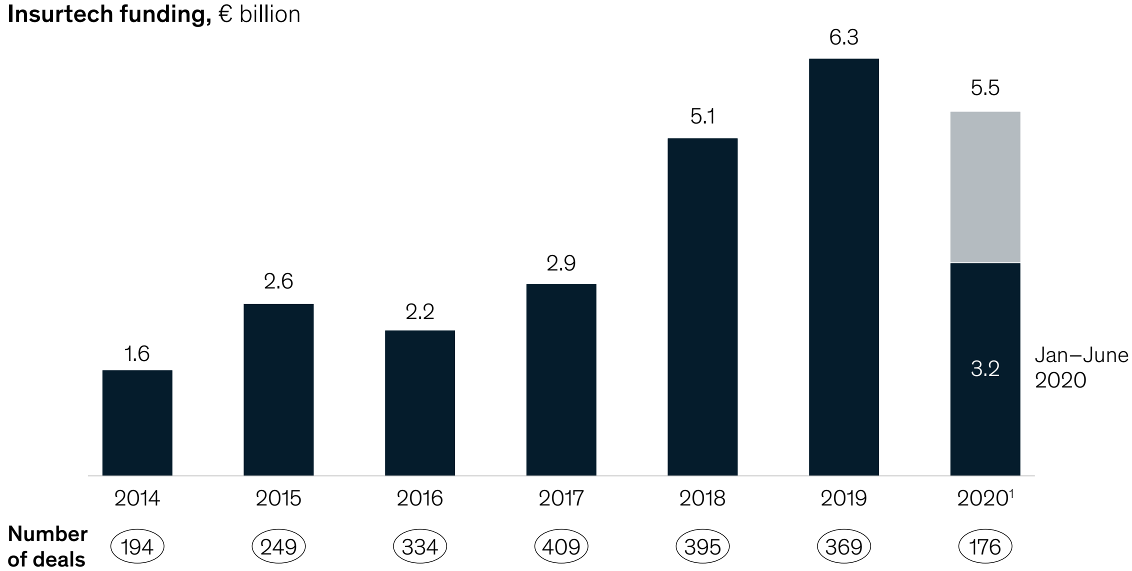
Products	Product development	Marketing and distribution	Pricing	Policy management	Claims
P&C, motor	4	12	4	2	4
P&C, other[2]	5	15	4	3	5
Health	4	11	3	3	4
Life	2	9	2	2	1

Note: Figures may not sum to 100%, because of rounding.
[1]Approximately 1,750 commercially most well-known cases registered in the Global Insurance Pools database (excluding wealth management–related innovations).
[2]Including accident, fire and property, liability, and other P&C insurance.

Exhibit 9

Insurtech funding has grown rapidly in recent years.

Insurtech funding, € billion



[1]2020 data are based on data as of July 2020; the rest of the year is projected estimation.
Source: Dealroom

While the distribution landscape depends on factors such as product mix, customer segments, regulations, and so forth, the COVID-19 pandemic has also impacted it in various ways. Indeed, the COVID-19 crisis is expected to impact distribution in both the short and long term. In the short term, the impact of lockdowns will differ among distribution channels. While physical distribution—for example, agents and brokers—is severely affected, digital distribution is significantly less affected. As the distribution mix varies among lines of business, so does the expected impact:

a. *Life insurance* products (especially savings and investments) are more reliant on physical distribution and, hence, more severely impacted.

b. *P&C insurance* has a higher share of digital or online sales compared to life, and is expected to see less severe impact.

In the longer term, the industry is expected to embrace the digital mode of distribution, and this pandemic may also sensitize the customers toward direct or online channels and increase their share of the overall distribution space.[1]

[1] For more on the evolution of insurance distribution in the wake of COVID-19, see Simon Kaesler, Matt Leo, Shannon Varney, and Kaitlyn Young, "How insurance can prepare for the next distribution model," June 12, 2020, McKinsey.com.

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