



Insurance Practice

2019 Global Insurance Pools trends and forecasts: Distribution

Brokers and agents remain important, but the direct channel is growing. An in-depth examination of distribution highlights the variance by region and line of business.

Our 2019 analysis of McKinsey's Global Insurance Pools database offers detailed trends and forecasts on the insurance industry. Overall, the global industry grew by more than 4 percent in 2017, the same level as its compound annual growth rate from 2010 to 2016, and total premiums reached €4.7 trillion. This report, one in a three-part series, provides analysis and insights on the distribution function, with an in-depth look by region and line of business.

The distribution model has continued to evolve as insurers try to better connect with their customers. Over the years, the industry has been dominated by face-to-face selling through agencies and brokers. More recently, however, insurance has seen robust growth in direct channels. Notable developments are the prevalence of direct distribution in Europe, player-level performance in direct motor, and growth in aggregator revenues.

Distribution in life

In life insurance, the distribution landscape varies across regions. The distribution mix across regions reflects trends in local markets and consumer preferences, since insurers work with distributors to tailor products and a sales-force strategy to align with the local environment. We see a preference for brokers and independent financial advisers in the Americas while Europe, the Middle East, and Africa (EMEA) rely more on bancassurance. In the Asia-Pacific (APAC) region, the traditional tied agency channel is still more dominant, as people prefer personalized advice (Exhibit 1). Countries selected for each region in Exhibit 1 represent the largest countries driving the regional trends and distribution mix.

A more detailed look at selected countries reveals significant distribution trends.

In the US life insurance market, the direct channel has been gaining shares since 2012. This channel is increasing in all customer segments as insurance becomes more digital. Since digital channels are more prevalent in life and protection products, a decrease in individual annuities is matched by a decrease in the share of brokers and agents.

In Mexico, the broker channel's share increased from 5 percent in 2012 to 17 percent in 2016, mainly

because some large brokers entered the market for both group and individual life products.

In Italy, life insurance distribution is fueled largely by banks, although the bancassurance model has evolved in recent years, and some agreements have been renegotiated. From 2011 to 2015, the profitability of investment products was low while insurance products offered attractive returns at relatively low risk. This growth of the bancassurance channel in life insurance also partly reflects the rise of the life insurance industry in Italy.

In Japan, bancassurance declined significantly from 2012 to 2016. The primary cause was the 2013 market decline, which lowered the guarantee rate for lump-sum whole life insurance (the main product for bancassurance). And the Bank of Japan's introduction of the negative interest policy in 2016 sparked a further decline in the interest rate of government bonds. Hence, long-term savings products were not an attractive option for asset liability management.

In addition, low interest rates in Japan led life players to concentrate on foreign currency-denominated saving products, which benefit from relatively higher interest rates in Australia and the United States. However, the Financial Services Agency, Japan's regulatory body for financial institutions, has strengthened supervision of life players to protect individual customers; it has also introduced fiduciary principles that require banks to disclose sales commissions for bancassurance. Thus, the sale of insurance products through banks has continued to decline.

Distribution in P&C

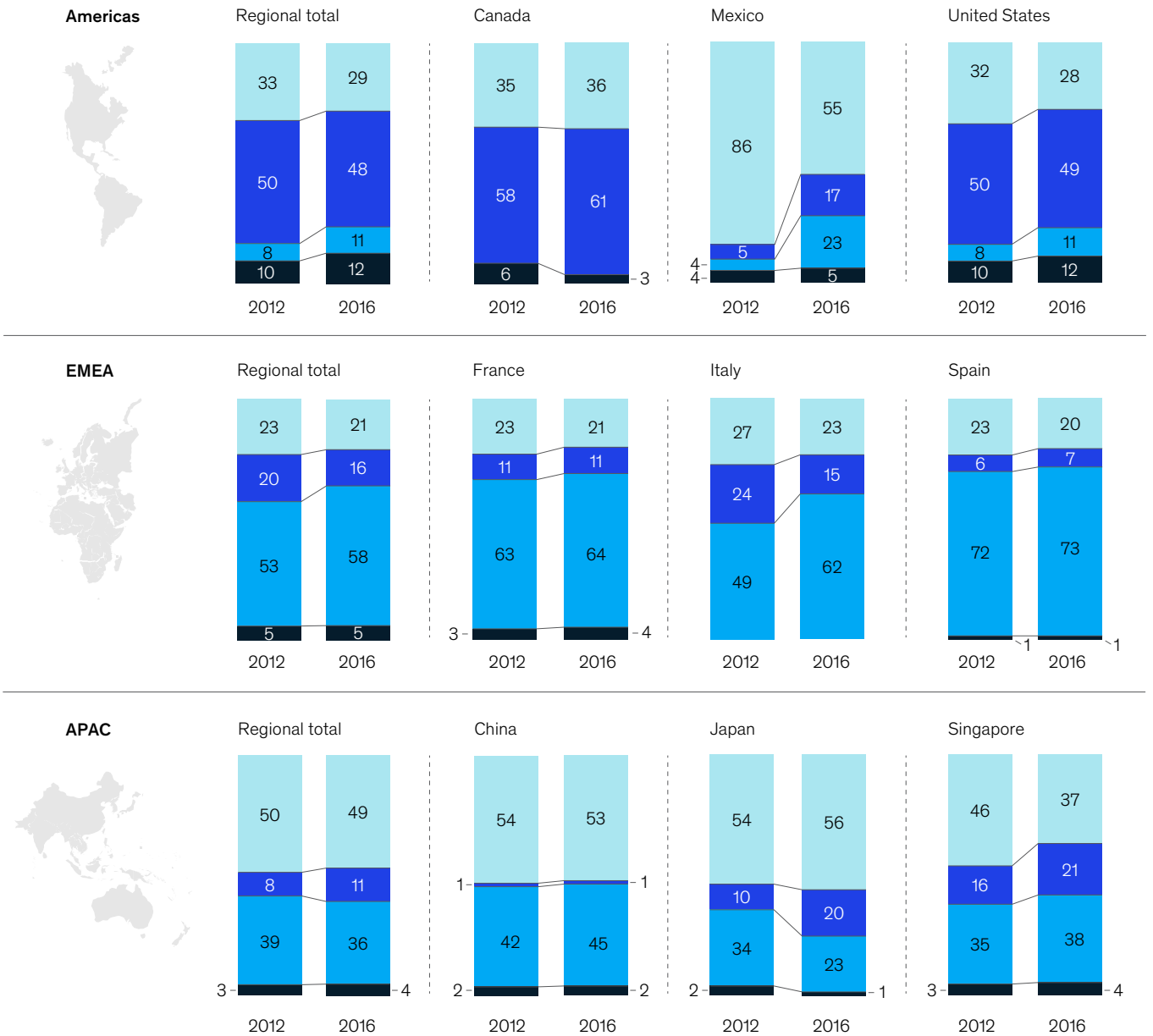
The same regional patterns for life insurance products also hold for property and casualty (P&C):

Exhibit 1

Life distribution channel preference varies by region.

Premiums, %¹

■ Tied agents and branches ■ Brokers ■ Bancassurance ■ Direct and other



¹ Figures may not sum to 100%, because of rounding.

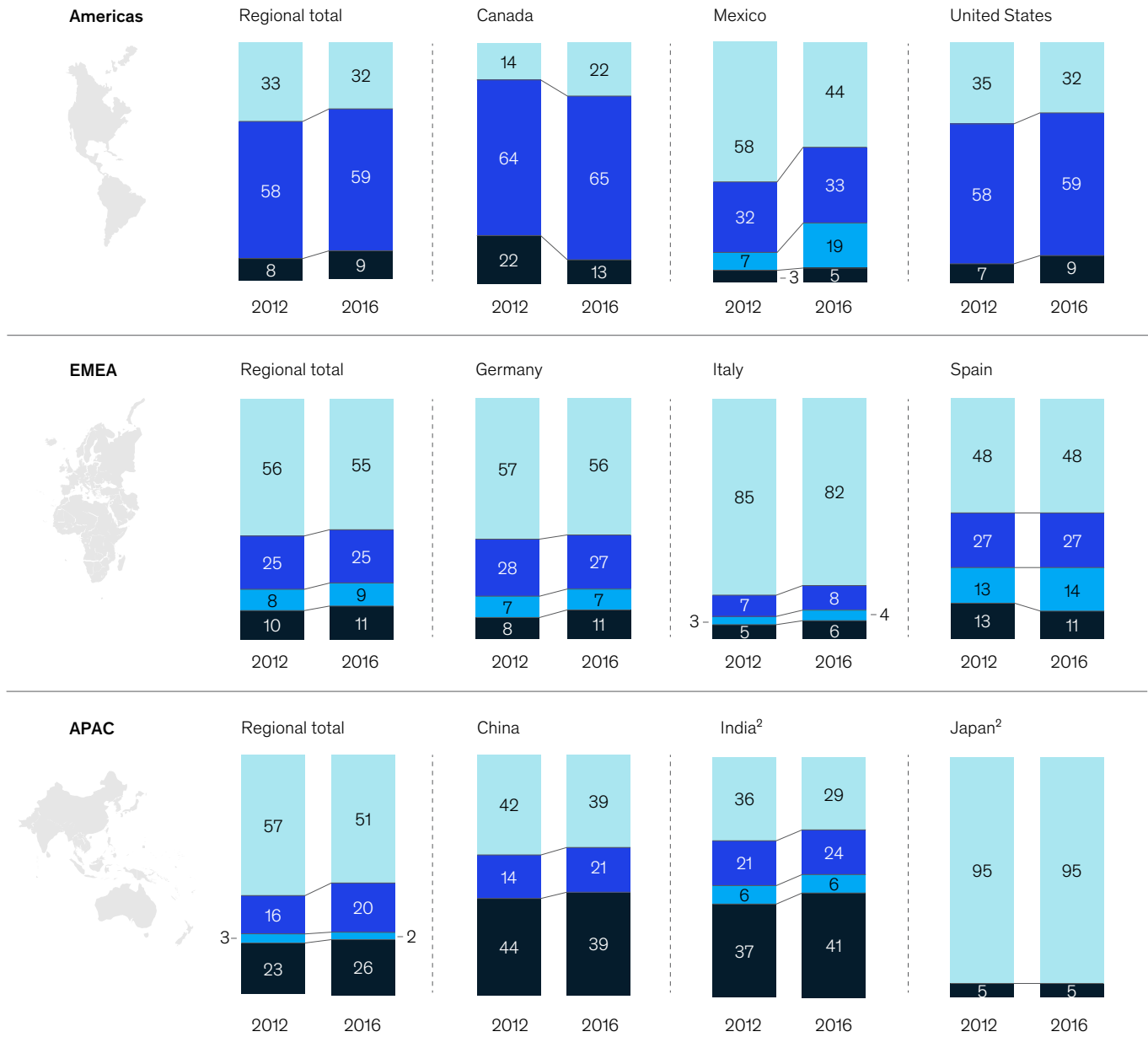
Source: McKinsey Global Insurance Pools

Exhibit 2

P&C distribution channel preference varies by region.

Premiums, %¹

■ Tied agents and branches ■ Brokers ■ Bancassurance ■ Direct and other



¹ Figures may not sum to 100%, because of rounding.

² In China, "direct and other" represents both direct and other, while in India it primarily represents direct distribution channel.

Source: McKinsey Global Insurance Pools

the Americas lean toward brokers and independent financial advisers, EMEA prefers the agency channel, and many APAC countries favor direct sales (Exhibit 2).

Selected countries demonstrate the significant distribution trends that have emerged.

In the United States, from 2012 to 2016, the agency channel declined significantly while brokers continued to gain share. Agents once served as the front line in risk selection and pricing, but advances in predictive models are making this role obsolete. And while the agent used to be the face of the brand, now customers increasingly connect

with their carriers through multiple channels. In the broker space, major acquisitions from the larger brokerages have increased that channel's share.

In Germany, the direct channel has gained market share primarily because of the growth of motor insurance. Consumers can purchase these products easily without the need for advice, making them a natural fit for the direct channel. In addition, price competitor websites, which already account for around 3 percent of in-force motor business, facilitate online purchases.

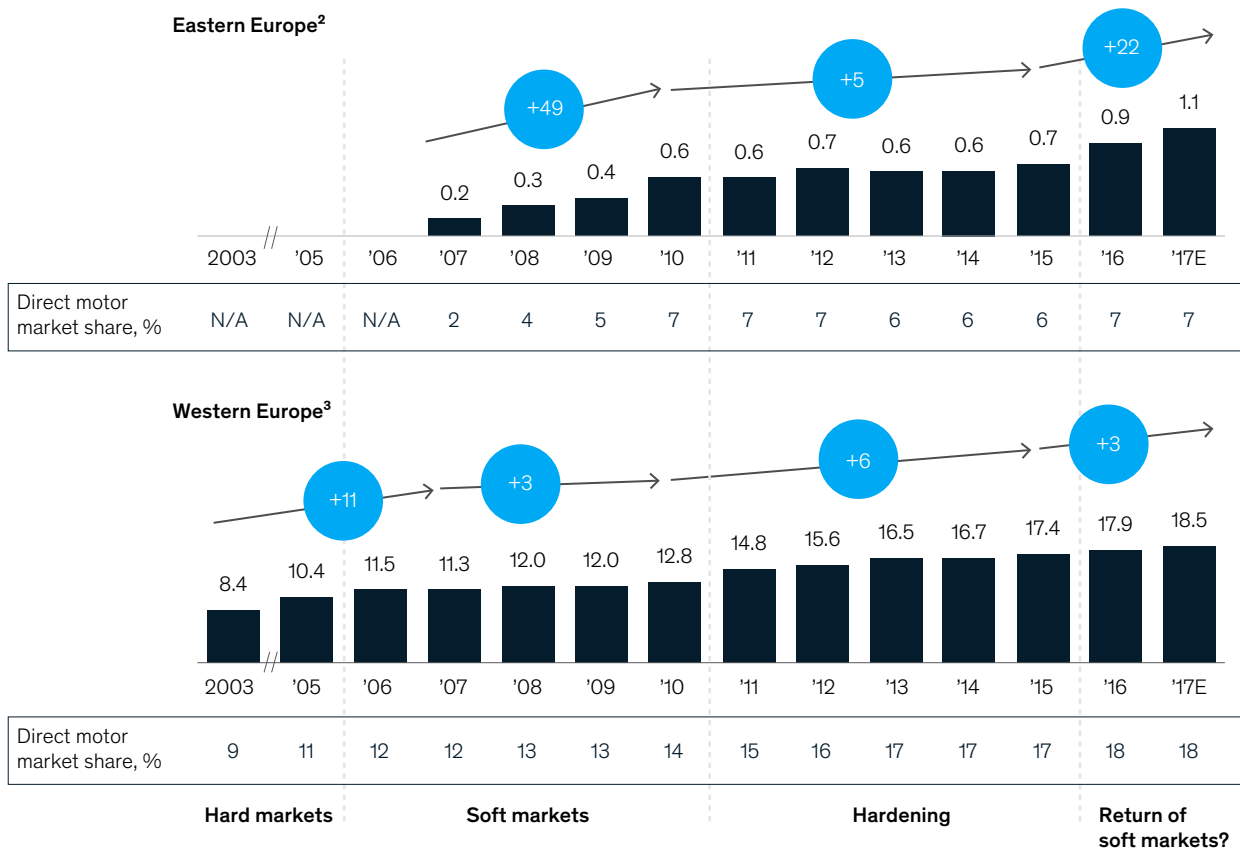
In China, P&C distribution is dominated by remote channels, which include online direct, call centers,

Exhibit 3

Direct channel: Growth has slowed in Western Europe but accelerated significantly in Eastern Europe.

Direct motor GWP¹ Europe, €, billions

● CAGR, % per annum



¹Gross written premiums.

²Eastern Europe includes Czech Republic, Poland, Russia, Slovakia, and Slovenia.

³Western Europe includes Belgium, France, Germany, Italy, Netherlands, Portugal, Spain, and United Kingdom.

Source: National statistics, McKinsey Global Insurance Pools

and branch sales. Traditionally, call centers were the major contributor. More recently, online direct has grown rapidly thanks to both innovative pure-digital insurers and sales through digital partnerships focused on specific use cases (such as third-party platform direct sales or redirecting leads).

Two notable emerging trends

In most regions, the direct channel has enjoyed robust growth resulting from higher internet penetration and consumer preferences toward convenience and price. An examination of motor insurance across regions reveals interesting variations. Western Europe has recently endured stagnation in the direct channel, but Eastern Europe continues to exhibit steady growth in direct motor sales (Exhibit 3).

Most Eastern European markets have seen the direct channel gain market share. In Russia, the strong growth of direct motor results from mandatory motor third-party liability (MTPL). Starting on January 1, 2017, all insurers selling MTPL

also have to make these products available for purchase online (so-called eOSAGO).

In motor insurance, most UK and German direct players have outperformed their markets in both premium growth and profitability as measured by the combined ratio (Exhibit 4).

Western Europe’s direct channel’s growth is expected to slow in the future. Some regions are already starting to exhibit this pattern, and the profitability of direct channels may explain why. Some Spanish and Italian players, for example, have seen no positive impact from their direct distribution efforts.

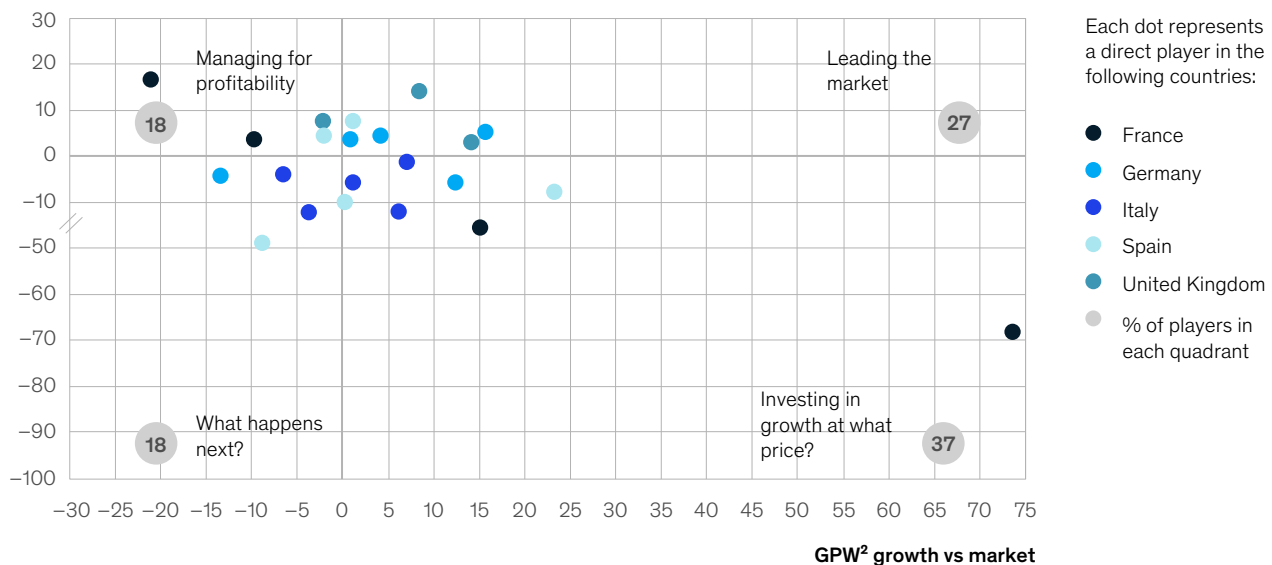
Many European insurers have embraced aggregators as an effective way to reach consumers. The online price aggregator channel has progressed significantly over the past decade. As European aggregators have evolved, they have helped insurers dramatically expand their customer reach—at a predictable cost. In almost every European market,

Exhibit 4

Especially in Germany and the United Kingdom, direct players are increasingly able to outperform their markets.

Motor direct positioning vs local market, advantage vs local market, 2015–16

COR¹ vs market



¹ Combined operating ratio.
² Gross written premiums.

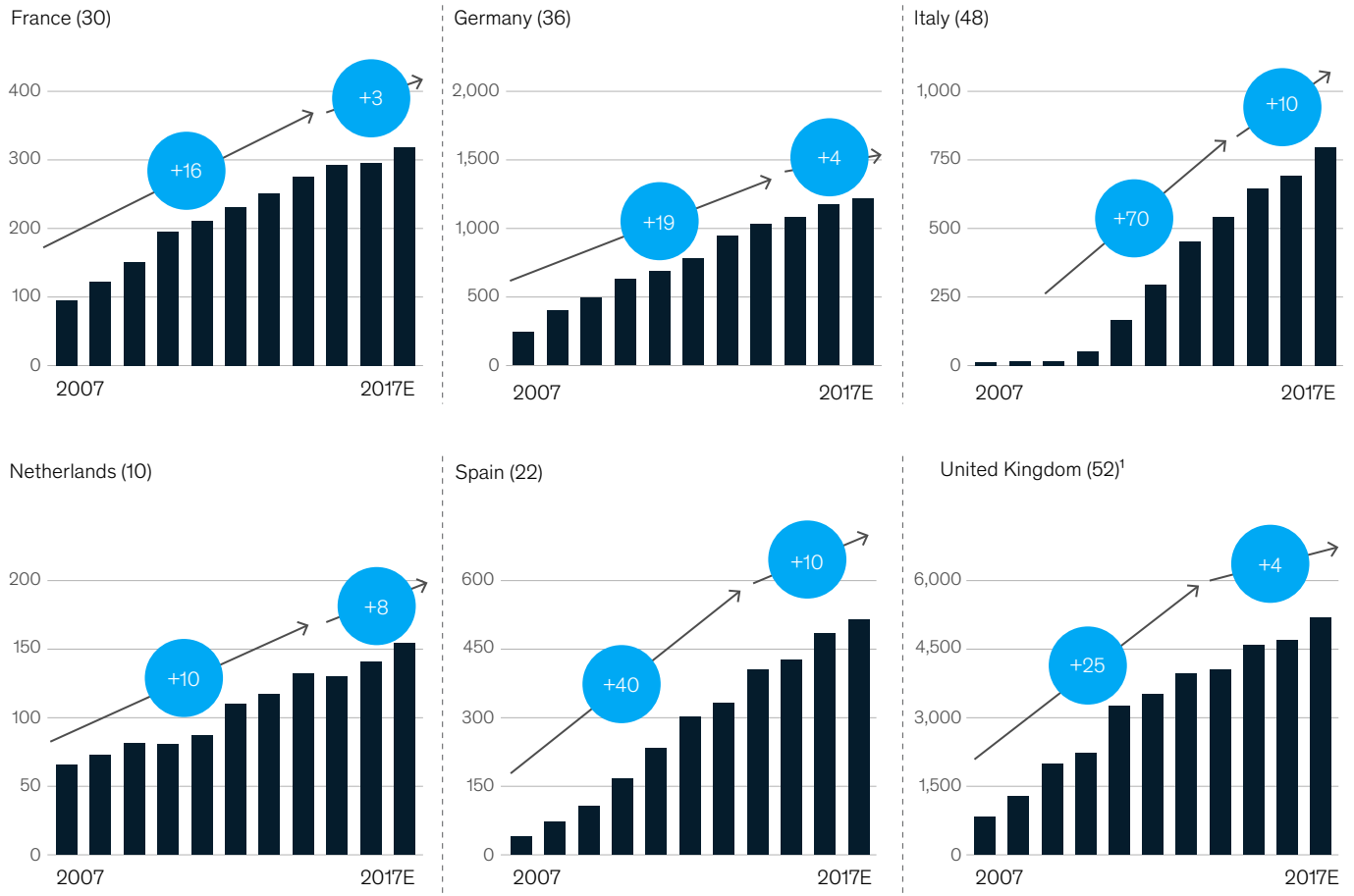
Source: National statistics, McKinsey Global Insurance Pools

Exhibit 5

Aggregators—growth in revenues is slowing down.

Aggregator market share in direct motor, €, millions

● CAGR, % per annum



¹ UK numbers are in £ due to foreign exchange volatility across years.

Source: McKinsey Global Insurance Pools

aggregators enjoyed double-digit CAGR for motor gross written premiums (GWP) from 2007 to 2017 (Exhibit 5).

Even though the industry is currently dominated by agents and brokers, both life and P&C insurance segments have seen direct channels make progress overall. Current trends suggest a pronounced shift

toward an approach that includes both traditional and direct channels in the coming years.

Our distribution analysis indicates that growth in the direct channel has been slowing down in recent years. Western Europe especially has seen a significant slowdown in direct, though growth in Eastern Europe continues to rise. The global insurance industry still offers tremendous opportunities for companies that can quickly identify pockets of value and respond accordingly.

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This report analyzes trends in the distribution function of the insurance industry. We've used historical data to examine current trends and present an assessment based on our understanding and research. This report is meant to provide a perspective on the direction the industry is headed. It identifies current trends and key pockets of growth; it does not present a bias or draw conclusions about any industry, product, or geography. Any forecasts in this report are based on our own research; they are merely meant to indicate the direction of the industry.

An overview of McKinsey's Global Insurance Pools

McKinsey's Global Insurance Pools (GIP) consists of six proprietary databases: Markets Database, Local Insurers Database, Global Insurers Database, Commercial Lines Pools, Direct Distribution Database, and Multi-Access Database. The data and insights have been provided by local researchers and regional and functional experts.

Markets Database contains more than 150,000 data points covering 66 countries, 14 subregions, and 99 percent of global insurance premiums. It includes key financial indicators for every market from 2000 to 2017¹ and projections to 2025. Future numbers prepared using a uniform forecasting methodology have been validated by local experts.

Local Insurers Database provides domestic premium-level data for total, life, and nonlife businesses of the top insurers in 43 countries. Additionally, the database also provides more granular (local) financials, such as cost and profitability metrics, for 14 countries.

Global Insurers Database captures group-level company financials for more than 100 global insurers, including premiums, cost, and profitability metrics from 2005 to 2017.

Commercial Lines Pools Database consists of information on the P&C commercial insurance industry with cuts for 17 industries, seven customer segments, and six business lines in 66 markets.

Direct Distribution Database features key financial information and trends in the life and nonlife businesses of the major direct channel players in 11 markets from 2000 to 2017.

Multi-Access Database offers comprehensive insights into customer multichannel journeys via analyses of clients' channel preferences and usage regarding core insurance products for 13 countries.

How GIP can help support clients

McKinsey's Global Insurance Pools can help insurers along several dimensions. GIP's Granularity of Growth analysis can identify a company's specific drivers of growth; the tool can also benchmark the company's growth and profitability against market performance and competitors and identify the impact of different macroeconomic scenarios on growth and future market shares. McKinsey offers a subscription to the database that gives users unlimited access to all data.

¹ Currently, the Markets Database has data available for 2017 only for markets in which regulators have already released this information.

Appendix

McKinsey's GIP initiative uses a bottom-up approach to size insurance markets. The level of detail in our GIP database varies from market to market. For less advanced markets, the data might include gross premiums written, technical reserves, and profits. For more advanced markets, GIP includes complete sets of financial indicators for each product line, including the mix of distribution channels. Historical data covers the period from 2000 to 2017 and forecasts to 2025.

GIP distinguishes five product groups in life, based on European terminology: term life, endowments, annuities, unit-linked, and group life (see below for detailed descriptions).

P&C consists of five product groups: motor, fire and property, liability, accident, and other (such as travel). Health is considered a separate line and consists of all health premiums underwritten by pure health insurers and life or P&C insurers (based on data extracted either from the life data or P&C records, depending on the regulatory treatment).

The distribution mix is available for the largest 35 countries. Channel categories consist of tied agents, brokers or independent financial advisers, bancassurance, branches, direct, and others (such as retailers and car dealers). These channels are defined later in this section.

The GIP model was built by collecting and analyzing public data (such as national insurance regulators' data or industry association publications) country by country and drawing on the insights of our global network of local experts. We mapped the local product types and distribution channels to the standard of globally accepted definitions.

Distribution channel definitions

Tied agents work exclusively for one or a few companies, or for the partners cooperating with a company. *Self-employed tied agents* are remunerated on a commission-only basis. *Salaried employed tied agents* are remunerated with salary plus commission.

Insurance distribution through *branches* implies that the salesmen are part of the insurer's staff; in other words, they receive a salary, not commission.

Brokers are independent insurance distributors who are not tied to any company or salaried. They represent a client (not a company) and distribute products from a panel of companies.

Bancassurance involves distribution through bank branches.

Direct channels refer to insurance distribution through remote channels such as telephone, internet, or mail. *Other channels* include channels not included in any of the above categories (such as retailers, car dealers, worksite marketing, affinities).

Life product definitions

Term life: all types of protection products with purely biometric risk coverage.

Endowments: all individual life-savings products (both single and regular premium) that provide a guaranteed credited-rate component and a lump-sum payout. Under US terminology, this would include universal life and whole life.

Annuities: individual life-savings products (both single and regular premium) that provide a guaranteed credited-rate component and a payout in the form of an annuity (in other words, a regular monthly payment stream for either a fixed duration or life). Under US terminology, this would include fixed annuities.

Unit-linked: individual life-savings products (both single and regular premium) for which the policyholder bears the investment risk and that provide a lump-sum payout. Under US terminology, this would include variable life, variable universal life, and variable annuities.

Group life: group protection, group unit-linked products, and group annuities; the largest segment is corporate pensions.

Forecasting methodology

Our volumes-forecasting model is based on a series of historical multivariate regression models that use both macroeconomic drivers and momentum as explanatory variables for premium growth.

We run panel regressions with random effects at both country and product-category levels. For life, P&C, and health, we split countries into two or three subgroups, based primarily on each country's level of economic maturity. We then run separate regressions for the subgroups at the country and product-category levels, with particular equation specifications for each product.

For our profit-forecasting model we also developed separate methodologies for life, P&C and health. For P&C and health, we take a driver-based approach in which we forecast separately all components of profit (claims, costs, and investment income). For each profit component, we test various specifications, combining macroeconomic variables (such as GDP growth, interest rates, and inflation) and time-series variables (such as momentum effects and mean-reversion effects). The approach for life was similar. That said, since life profits are highly sensitive to capital market and regulatory conditions, any profit forecast is only valid under the assumption of stability on both these fronts.

For both P&C and life, we ran panel regressions grouping similar countries. Overall, the regressions have generated superior results, with strong r^2 values, good stability, and reasonable back-testing behavior.

All our models employ economic forecasts from Oxford Economics. The macrodrivers we considered include GDP growth (nominal and real), long-term and short-term interest rates, penetration, and equity market returns.

Our global network of local experts reviews the forecasts produced by our regression models to adjust for any specificities in local markets (upcoming regulatory changes, demographic shifts, or pension or healthcare system reforms).

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