ANALYZING CHANGES IN INSURANCE DISTRIBUTION IN EUROPE

A Comprehensive Study

Founded by Margaret Thatcher in 2009 as the intellectual hub of European Conservativism, New Direction has established academic networks across Europe and research partnerships throughout the world.

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CONTENTS

1	Introduction	5
2	Current state of the insurance industry in Europe	7
3	Ageing population and its impact on the insurance industry	9
4	Analysis of distribution channels	12
5	Life and Non-Life Lines of Business	15
6	Digital Transformation in Insurance Distribution	18
7	Loss ratio and premium increases	20
8	Fragmentation in Insurance Distribution and Brokerages	23
	References	26

1

INTRODUCTION

Indeed, recent regulatory changes have profoundly affected insurance distribution, leading to significant transformations within the industry. One of the key initiatives that has played a pivotal role in this transformation is the Solvency II process. Solvency II, originally designed to improve risk management and self-regulation within insurance companies, has also prompted a comprehensive reassessment of risks and potential collusion within the manufacturing and distribution chain. To fully understand the implications of these regulatory changes, it is essential to understand the various stakeholders involved in the insurance value chain. This value chain encompasses both manufacturing and distribution, each with its own set of responsibilities and considerations. In recent times, we have witnessed a remarkable increase in consolidation within the manufacturing side of the industry.

This consolidation has resulted in closer relationships between manufacturers and distributors, especially within larger groups. From a commercial perspective, one would expect this greater alignment between manufacturing and distribution to lead to better outcomes for both groups. Ideally, this alignment should result in a more structured and efficient distribution market. However, it is crucial to recognise that Europe's sovereign bond market reveals some underlying vulnerabilities. The financial crises that arose from the breakdown in sovereign bond markets have drawn attention to the fact that Europe, despite having a monetary union, has yet to establish a comprehensive banking union and other necessary capital market regulatory measures.

To address this issue, Europe has been actively pursuing harmonisation and standardisation of regulations, priorities and processes. The ultimate goal is to enable the smooth movement of goods, services and capital across the continent. By achieving this, Europe hopes to create pan-European markets for various products and services, allowing economies of scale to flourish. In addition, centralisation and consolidation are expected to generate more efficient structures within industry. Despite these commendable efforts, it is important to note that the single insurance market has focused primarily on tariffs and policy conditions, with relatively less attention paid to distribution regulations.

This oversight has left certain gaps in the overall regulatory framework, which could hinder the realisation of a fully integrated and optimised insurance distribution market. In conclusion, recent regulatory changes have had a notable impact on insurance distribution, leading to a widespread reassessment of industry dynamics. The Solvency II process, coupled with Europe's continued pursuit of a harmonised and centralised market, has set the stage for transformational changes. While significant progress has been made, more attention needs to be paid to strengthening distribution regulations to ensure a truly efficient and fluid insurance market across Europe.

Background and significance

A well-functioning insurance distribution market is of crucial importance for several reasons. First, insurance services play an important role in society, providing financial protection and security to individuals and businesses. However, in order to accurately assess the value of these services in relation to the price charged, it is essential that the services are effectively offered and accessible to the market. In addition, insurance distribution can be seen as a fundamental element of corporate governance of insurers.

The selection and use of distribution channels are critical to creating incentives for channel participants to act in the insurer's best interest. By carefully choosing channels that align with their objectives, insurers can effectively manage their risks and optimise their performance. In addition, the shape and structure of the insurance distribution industry are vital to employment and economic growth. Insurance distribution represents one of the key functions in the provision of insurance services and encompasses all activities necessary to introduce the insurer's products to the market and successfully conclude sales.

This end-to-end process involves several channels, including tied agents, independent sales agents, brokers and other professionals such as banks, lawyers and accountants who often engage in insurance distribution as a sideline. In addition, insurers also develop and oversee "direct" channels, where their own employees interact directly with customers or sales are made through telephone or Internet platforms. Over the last decade, the insurance distribution landscape has witnessed major legislative changes that have had a profound impact on the industry in Europe and beyond. These changes have sparked immense interest among academics, business practitioners and policymakers who are eager to understand the

implications and effects of such transformations. Stakeholders are particularly intrigued by the nature and importance of different distribution channels, as well as by the distinctive features of the evolving structure of the European market.

Through in-depth research and analysis, it is essential to gain a comprehensive understanding of the current insurance distribution landscape, the challenges it faces and the opportunities that lie ahead. This knowledge will enable stakeholders to make informed decisions, develop effective strategies, and contribute to the continued growth and development of the insurance industry, ultimately benefiting individuals and businesses around the world.

Scope and objectives

The document is structured as follows:

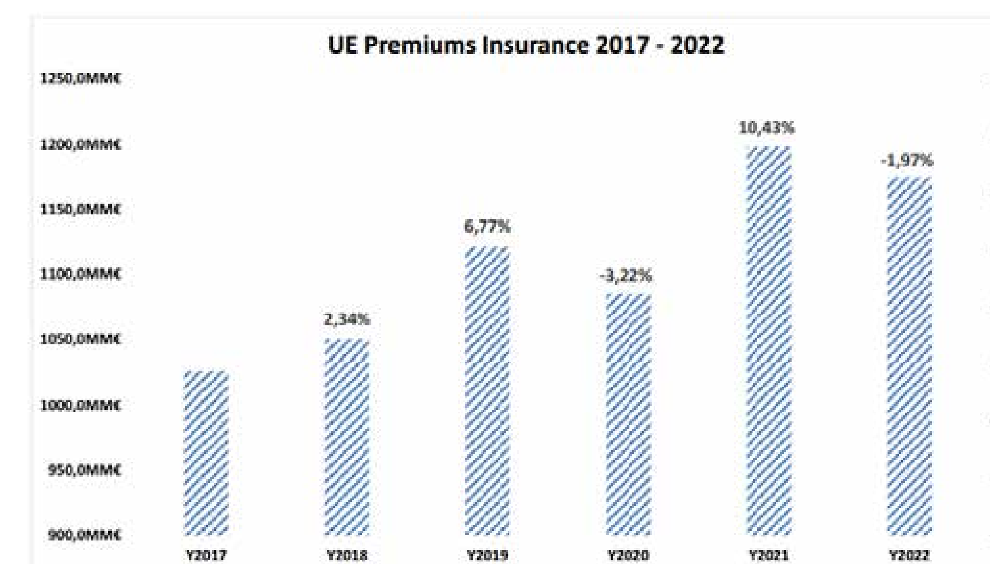
- Section 2 provides some background on the European insurance industry and its current state.
- Section 3 explains why changes in the insurance distribution are important and sets out the main research questions.
- The most important distribution channels are summarised below in Section 4.
- This is followed by a brief discussion of the most important theoretical frameworks in Section 5 and a review of the existing literature on changes in insurance distribution in Section 6.
- The main findings of our research are presented in Sections 7 and 8.
- Finally, Section 9 concludes and provides some advice for future research. The appendix describes the methodology used.

The overall objective is to provide a holistic view that integrates the perspectives of multiple stakeholders and includes both supply and demand side factors. The study contains a strong empirical element, involving both qualitative and quantitative data. Part of the data comes from in-depth interviews with senior executives of leading European insurance companies, insurance industry trade associations and other experts.

2

CURRENT STATE OF THE INSURANCE INDUSTRY IN EUROPE

Historically, the main traditional distribution channel in the insurance industry has been tied agents, who help connect customers to insurance policies. However, in recent years, many European Union (EU) countries have experienced a substantial decline in the number of tied agents. As a result, the market share of tied agents has declined, while other distribution channels, such as brokers and direct writers, have experienced significant growth and have become the main beneficiaries of this changing trend. To adapt to these changes, traditional insurance companies have had to re-evaluate their business models. One of the key factors driving this reassessment is the increased use of information technology, which allows insurance products to be tailored more efficiently to customers' needs and risk profiles. This has opened up opportunities for these products to be distributed through multiple channels rather than relying solely on tied agents. In addition, technological advances have made it easier for consumers to access insurance products and services. This, in turn, has led to greater transparency in the pricing of services. The convergence of financial services and the consolidation of the insurance market have also put pressure on the development of insurance distribution methods. The insurance industry is an important component of the European and national financial system. Over time, the role of national insurance markets has evolved from simple risk protection to more advanced risk management. The European insurance market is huge, with a gross written premium of approximately EUR 7,000 billion in 2022 worldwide (Swiss RE, Annual Report 2022). At the European level, total written premiums in 2022 amount to EUR 1,175 billion (EIOPA Europe Data Report, 2022).



This growth over the last 5 years can be attributed to the establishment of the Single Market and the subsequent market opening and removal of trade barriers. The insurance industry has benefited greatly from the implementation of common capital rules and supervisory standards across EU countries. Today, there are more than 5,000 insurance companies operating in Europe, offering a wide range of products to both consumers and commercial customers. These companies employ various distribution channels, including tied agents, employed agents, brokers, bancassurance, direct sales and various emerging channels. This diverse and dynamic landscape allows for greater choice and accessibility for customers in the insurance market.

A characteristic feature of the European insurance market is its diversity. At one extreme is the UK, whose insurance market, with total premiums sold in 2002 of 347.2 billion euros (UK Markets Insights 2023, Association of Financial mutuals, 2023), is widely regarded as one of the most competitive in the world. The UK market is characterised by a high degree of innovation in products and distribution channels, as well as a widespread use of direct marketing techniques, selling insurance products

via the Internet, supermarkets, banks, etc. At the other extreme is Romania, with a small insurance market, EUR 2.8 billion (EIOPA Europe Data Report, 2022), which is currently in the process of commercialisation and privatisation. In between these two extremes are the other countries in Europe, each with its own peculiar market and regulatory structure. However, there is a common trend for regulatory interventions to be gradually dismantled, leading to increased competition, consolidation moves, product innovations and changes in distribution strategies.

Europe is an immensely diverse region, comprising many advanced economies with a high, albeit ageing, standard of living. European insurance markets are very different in terms of concentration, product range or capita income. At the same time, public pension systems in many of these countries - particularly those in Central and Eastern Europe - are currently in the process of total or partial dismantling, or at least severe cutbacks. One possible effect of such a reduction could be an increase in demand for private pension provision. Unemployment risks are also increasingly being shifted to individuals. Institutional changes of this kind are opening up interesting business opportunities for insurance companies, especially those that are able to innovate in the area of new products and new distribution channels. But to make the most of these opportunities, insurers need to understand the changes in demand for their products, as well as changes in consumer behaviour.

Key trends and developments

New market entrants, mostly from various financial services sectors such as banking and investment, are now posing a significant threat to the long-established distribution system. These newcomers are harnessing the potential of cutting-edge technologies, including big data analytics and artificial intelligence, to revolutionise the industry.

Their primary goal is to optimise the customer experience and leverage the inherent advantages offered by advanced technologies. As a result, customer behaviours and preferences are evolving rapidly across all segments, spanning private, commercial and corporate domains. Today, individuals and businesses alike crave customised insurance products that effectively meet their protection needs throughout various life-cycle events. They are looking for comprehensive coverage that is tailored to their specific needs, ensuring maximum financial security. At the same time, these individuals and companies are increasingly concerned about pricing and service. They expect competitive premiums and fast, hassle-free claims processing. As a result, insurance companies and intermediaries are forced to adapt and evolve their business models accordingly.

To remain competitive in this dynamic landscape, incumbents are making substantial investments in innovative technologies. They are actively collaborating with InsurTech start-ups and forging strategic partnerships with other technology companies to foster innovation and improve customer engagement. By collaborating with these emerging players, established insurance companies can tap into new sources of creativity and gain access to cutting-edge solutions that can optimise their operations. In addition, incumbents are streamlining their internal processes by leveraging digitalisation and other technological advances. They are investing in robust digital platforms that enable seamless interactions with customers, providing personalised insurance offers and responsive support.

By embracing digitalisation, insurance companies can improve efficiency, reduce costs and deliver a superior customer experience. Undoubtedly, digitalisation and technology represent the main agents of transformation, profoundly reshaping the European insurance distribution landscape. Europe, renowned for its highly developed insurance market, has an impressive density of insurance penetration. Over many years, the distribution sector has meticulously cultivated strong and valuable relationships with customers, who have developed a strong sense of trust in intermediaries, particularly insurance agents and brokers. Established insurance companies and well-established intermediaries possess a remarkable competitive advantage due to their significant customer base, comprehensive product knowledge, compliance with local regulations, capital strength and abundance of resources.

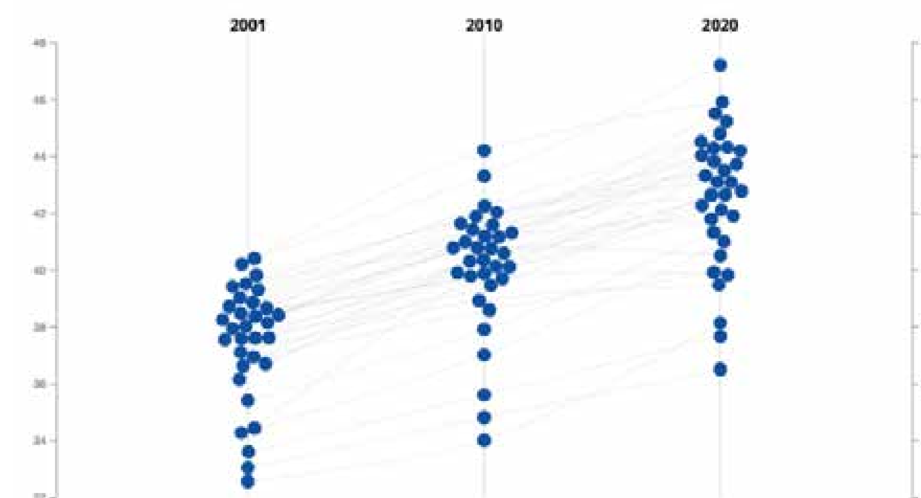
However, even these industry stalwarts face a myriad of challenges brought on by the changing landscape. They must navigate evolving regulatory frameworks, manage cybersecurity risks and adapt to changing customer demands. In conclusion, new market entrants and advanced technologies are reshaping the insurance distribution landscape in Europe. Traditional companies must embrace innovation, invest in technology and adapt their business models to remain competitive.

By leveraging digitalisation, forging strategic partnerships and focusing on customer-centric solutions, insurance companies can seize the opportunities presented by this evolving industry. The way forward requires a proactive approach, combining tradition with transformation, to ensure continued success in this rapidly changing environment.

3

AGEING POPULATION AND ITS IMPACT ON THE INSURANCE INDUSTRY

In addition, the ageing process has initiated structural reforms in the insurance industry. Since 2001, Europe has been experiencing an accelerated ageing process, one of the main consequences of which is that the median age of the population is increasing.



The most obvious change concerns the distribution of insurance products. Traditionally, life insurance and pension products are mainly distributed through independent agents who cooperate only with one insurer (the market leader in many European countries). Independent agents receive high commission payments, resulting in high acquisition costs for the insurer.

In the competitive market for life and pension products, where profit margins are under pressure, insurers have started to explore other, more profitable distribution channels. The process of replacing traditional distribution channels with more innovative channels has been accelerated by new information and communication technologies, which have reduced transaction costs and improved access to customers.

Today, the most important new distribution channels for life and pension products are bancassurance and direct marketing, including direct sales via the internet. Europe is experiencing the impact of a major demographic change on society and on the insurance industry: the increasing longevity of the population and declining birth rates. From a societal point of view, this demographic change raises concerns in many European countries about the ability of their social security systems to continue to maintain the current level of public pension benefits in the long term. Consequently, a number of measures have been implemented to transfer part of the responsibility for the provision of retirement income from the public sector to individuals. This, in turn, has increased people's awareness of the risk of poverty in old age and stimulated demand for financial products that can help individuals accumulate sufficient funds to finance long-term care or supplementary pension benefits. These demographic and social changes have far-reaching consequences for the insurance industry. The need for life insurance has declined, while demand for other insurance products, such as products covering risks related to old age, inability to work or long-term care, has increased.

As the ageing population continues to grow, the insurance industry must adapt to the changing needs and demands of the market. In addition to focusing on more cost-effective distribution channels, insurers are also exploring innovative ways to cater to changing demographics. One such area of focus is the development of specialised insurance products that specifically address the risks and challenges associated with old age, inability to work and long-term care. These products aim to provide financial security and peace of mind to individuals and families facing these difficult circumstances. In addition, advances in information and communications technologies have played an important role in facilitating these changes. The internet and digital platforms have revolutionised the way insurance products are marketed and

sold. Direct sales through the Internet have become increasingly popular, allowing people to easily shop for and purchase insurance policies from the comfort of their homes.

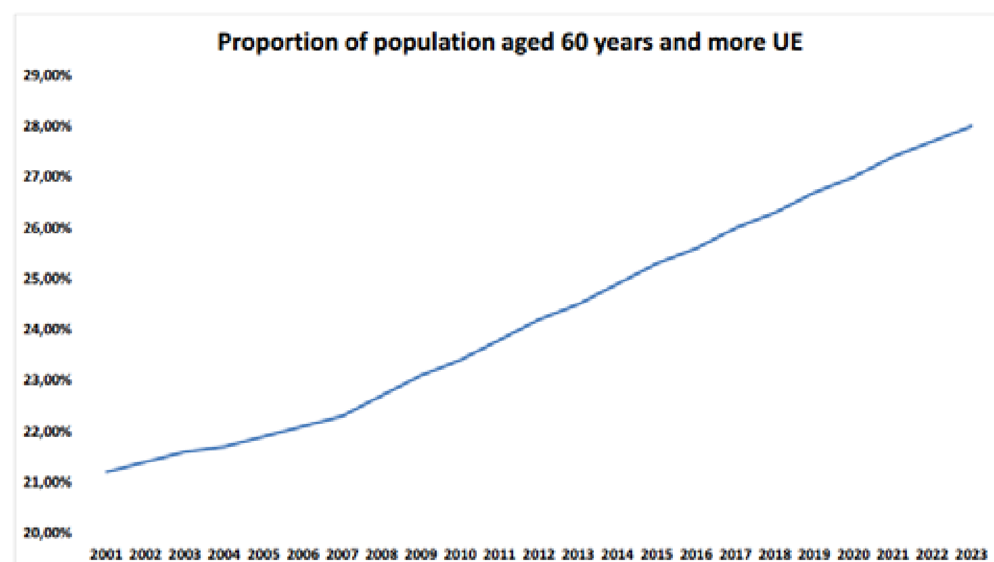
This convenient and accessible distribution method has opened up new opportunities for insurers to reach a wider audience and provide customised solutions to clients' specific needs. In addition, bancassurance has become a prominent distribution channel in the insurance industry. This approach involves collaboration between banks and insurance companies to offer comprehensive financial services to customers. By combining banking and insurance products, bancassurance offers a comprehensive solution for individuals seeking to secure their financial future. This partnership allows insurers to tap into the banks' existing customer base and leverage their expertise in financial management and risk assessment. It also provides customers with a more integrated and convenient experience, as they can access insurance services alongside their regular banking activities.

Overall, the ageing process and demographic changes are profoundly reshaping the insurance industry. Insurers are adapting to the new landscape by adopting more cost-effective distribution channels, developing specialised insurance products and taking advantage of technological advances. These strategies aim to meet the changing needs of individuals and families, ensuring that they have the financial security and protection they need in the face of old age, inability to work or long-term care. As the insurance industry continues to evolve, it will play a critical role in supporting individuals and society as a whole through the challenges and opportunities associated with an ageing population.

Demographic changes in Europe

Family structure is undergoing major changes in our society. There has been a noticeable decrease in the number of married couples with children and the age at which people choose to marry is steadily increasing. In contrast, the number of single-parent families is increasing. Another crucial aspect of these changes is the longer period of education followed by women, which leads them to enter the labour market at a later stage. In addition, the fertility rate has remained below the replacement level of around 2.1 children per woman for almost three decades, and is unlikely to increase in the foreseeable future.

These changes in family dynamics have given rise to genuine concerns about the risk of poverty in old age, especially for women. Surprisingly, European women currently receive, on average, 40 per cent less in pension benefits compared to their male counterparts. Europe is currently undergoing remarkable demographic transitions, which have important consequences for the economy. Life expectancy is steadily increasing, with each decade contributing approximately two more years. Moreover, the number of people aged 60 and over is growing three times faster than the general population. As of 2016, 1 in 4 people in Europe is aged 60 and over (Eurostat, 2023).



The impact of this demographic change is particularly felt within national social security systems, which rely mainly on pay-as-you-go systems. Ready-to-use pension schemes. With the growing ratio of pensioners to the working population, these systems will inevitably face increasing pressures. Not only are people retiring at an earlier age, but their retirement period is also significantly longer. Today, the average European already spends about a quarter of his or her life in retirement. This proportion is expected to increase to around one third by 2050. Consequently, there is a growing demand for financial products that can support people in both their pre- and post-retirement life, helping them to achieve their desired way of life.

Implications for insurance distribution

Being the first to introduce insurance products in growing and changing markets has always guaranteed high sales. This advantage, however, has its own consequences. In particular, it has resulted in high market shares and a powerful industry, especially in a more homogeneous distribution configuration. Over time, as market concentration increased, the barriers to entry into the single link of the value chain to the customer became more pronounced. This led to the emergence of generations of insurance intermediaries, which served as a crucial connection between insurers and clients.

Now, in the era of globalisation and deregulation, insurers face new challenges. They must break these close ties with intermediaries, particularly captive agents, and explore alternative distribution systems that span borders and channels. This strategic shift aims to safeguard their access to different customer segments by ensuring a constant supply of heterogeneous risks. These risks are not only vital for risk-based capital but also act as fuel for innovation within the industry.

The impact of globalisation and deregulation on distribution has been significant. In policy terms, these forces act as external drivers of change, reshaping the insurance distribution sector. Critics argue that few intermediary sectors face as many external shocks as insurance distribution. Unfortunately, despite their crucial role, intermediaries have limited tools to influence their own destiny. They must therefore adapt and respond to the evolving landscape driven by external forces.

4

ANALYSIS OF DISTRIBUTION CHANNELS

This research paper provides a comprehensive and in-depth analysis of insurance distribution in Europe. It dives into all major distribution channels, including direct sales, tied agents, independent agents, brokers, financial advisors, banks and other channels. In particular, this article stands out from previous studies because of its unique approach in examining all distribution channels. To support its findings, the paper uses extensive data from individual national insurance markets spanning a 15-year period. The overall objective of this paper is to provide answers to several key questions. First, it seeks to determine the relative importance of the different distribution channels in Europe. In addition, the paper seeks to identify and analyse trends in insurance distribution across the continent. Furthermore, it explores the possible convergence of distribution structures between different countries. Finally, the paper seeks to uncover the main determinants behind these distribution patterns.

To ensure clarity and organisation, the paper is structured as follows: Section 2 delves into a concise description of the existing literature related to insurance distribution. Thereafter, Section 3 details the database employed and provides full explanations of the distribution channels and variables used in the analysis. Subsequently, Section 4 forms the heart of the article as it presents a meticulous analysis of the various distribution channels. Finally, the article concludes in Section 5, summarising the key findings and their implications. Overall, this article represents a significant contribution to the field of insurance distribution in Europe.

Through its comprehensive analysis, it sheds light on important ideas and trends, filling gaps in the existing body of knowledge. It is an invaluable resource for academics, practitioners and policymakers seeking a deeper understanding of the dynamics and determinants of insurance distribution in the European context.

Direct distribution of insurance companies

In the non-life market, developments seem to follow different patterns, where competition is much fiercer. The proportion of non-life products placed through banks is much smaller and has not shown a clear growth pattern. In many countries, the establishment of agency relationships has been facilitated by the relaxation of registration requirements. However, this has gone hand in hand with the concentration of the supply of travel and motor and small commercial risk products in a limited number of insurers providing services.

The development of real-time online connections with such insurers is a key element in the formation of new agency systems. While bancassurance has absorbed a significant share of sales of life and pension products in many European countries, the share of the bank subsidiary office network has been declining in most countries. This has been accompanied by the facilitation of the establishment of broker and agency systems. Possibly hampered by the long-term portfolio effect, current internet sales of life and pension products are predominantly carried out by internet brokers, with a clear loss of market share by traditional direct insurers, which they have tried to compensate by re-entering the market through independent subsidiaries. In recent years, the non-life market has witnessed a multitude of evolving trends and dynamics, which have led to an increased level of competition. It is worth mentioning that the proportion of non-life products distributed through banks remains relatively small and shows no discernible growth trajectory.

Nevertheless, the process of establishing agency relationships has become increasingly simplified in many countries, thanks to the relaxation of registration requirements. This transformation, however, has coincided with an increased focus on motor and travel products, as well as small commercial risks, by a few select insurers providing services. To forge new agency systems, the development of real-time online connections with these insurers is an absolute necessity...

Role of insurance brokers

While the transaction flows effortlessly and smoothly between the affiliated broker and the group's specialist insurer, it is primarily driven by a strong emphasis on brand recognition and product offering rather than solely on underwriting appetite. The group's overall strategy is perfectly reflected and embodied in the affiliate broker's diligent focus on this particular deal flow, as well as in the meticulous and distinctive disposal shown in the area of claims handling.

It is common for large insurance groups to license affiliated brokers as their main distribution channel, allowing them to act with the full support and backing of the group, thus making use of the alliance brand. This brand, which is intricately woven into the fabric of the organisation, is widely promoted through broker-owned marketing tools, instilling a sense of professionalism and granting exclusive access to special group-related products. These affiliated brokers are carefully selected and introduced to highly specialised fields of the insurance business, serving specific customer segments with precision and finesse. While they have the privilege of access to the group's wide range of (re)insurance capital protected products, it is important to note that this access is predominantly confined and restricted to the large commercial and industrial risk segments. This limitation, in turn, has led to considerable consolidation within the European insurance market, where large insurance groups have seamlessly integrated into multi-faceted financial service providers, effortlessly combining an affiliated broker with their existing banking and other financial services businesses. Naturally, this evolution and concentration has also led to a parallel concentration of insurance brokers, where affiliated brokers have become immensely important in the distribution of insurance products.

Their connection and affiliation to sister (re)insurance companies provides them with facilitated and optimised access to the wide range of products offered by the group. The group's specific emphasis on capital protected products is effectively and convincingly promoted by providing these affiliated brokers with internal access to the (re)insurer's inner circle, consolidating their role as vital conduits for the distribution of insurance products. Across Europe, the distribution of insurance products is currently undergoing major adjustments, driven by the introduction of the Solvency II Directive and the Insurance Mediation Directive. This change has resulted in insurers strategically realigning their overall strategies, placing greater emphasis on risk underwriting in direct contrast to capital protection. Consequently, the other functions encompassing good risk management, maintaining sufficient proximity to the customer and promising disciplined claims management have taken on new and greater importance in the industry.

As insurance companies navigate this changing landscape, they are forced to refine the orchestration of these multifaceted elements to ensure an optimal and sustainable approach to the insurance business. To address the challenges posed by this changing insurance landscape, affiliated brokers must continually adapt and refine their strategies to meet the evolving needs of their clients. This involves keeping abreast of industry trends and regulatory changes, as well as forging strong partnerships with other key players in the insurance ecosystem. By cultivating relationships with sister (re)insurance companies, brokers can leverage their affiliations to gain access to a wide range of specialised products and services. In addition, these affiliations provide brokers with valuable information on market conditions and emerging risks, enabling them to provide their clients with comprehensive and customised coverage solutions. To further differentiate themselves in the market, affiliated brokers must also focus on building strong brands that resonate with their target customer segments. This involves developing compelling marketing campaigns that highlight the unique value propositions of their products and services. By effectively communicating their expertise, reputation and commitment to customer satisfaction, brokers can establish themselves as trusted advisors in the insurance industry. In addition to their role as distribution channels for insurance products, affiliated brokers play a crucial role in claims and risk management. By working closely with clients to assess and mitigate potential risks, brokers can help minimise the likelihood and impact of insurance claims.

This proactive approach not only benefits clients by reducing their exposure to financial loss, but also strengthens the reputation of the affiliated broker and the insurance group as a whole. In conclusion, the affiliation between brokers and insurance groups is a symbiotic relationship that benefits both parties. For insurance groups, affiliated brokers serve as reliable and effective channels to distribute their products and expand their market reach. Meanwhile, affiliated brokers gain access to a wide range of products, services and market expertise, enabling them to better serve their clients and differentiate themselves in a highly competitive industry. As the insurance landscape continues to evolve, the role of affiliated brokers will become increasingly important, requiring continuous adaptation, innovation and collaboration. Through their collective efforts, brokers and insurance groups can address the challenges and seize the opportunities presented by a rapidly changing insurance marketplace.

Fragmentation in distribution channels

It can be observed, however, that the development of different distribution channels is not uniform across Europe. While in one country direct sales predominate, in another country the bank guarantee system prevails. This uneven development leads to what could be called a fragmentation of the European internal market. Fragmentation is to be understood here as the impediment to market access for other European insurers in a Member State due to the existing variety of distribution channels. The wide variety of insurance products as well as the diversity of customers leads to high costs for insurance distribution. The predominant distribution system in insurance is still the agency system. A considerable market share of 59% in life and 40% in non-life is proof of this view.

However, recent years have shown changes in the distribution structure. With the help of modern information technologies,

direct sales to the customer have become possible and more efficient. It is therefore not surprising that direct sales are increasing at a considerable rate, approximately 20% per year. The changes in the distribution structure seem to be so evident that the European Commission reacts with a sector enquiry related to trading conditions in the insurance sector. Since a large number of insurance companies operate in more than one European country, the investigation focuses on pan-European and national competition in the market for consumer and business insurance services.

The Commission will assess what kind of obstacles stand in the way of an integrated European insurance market and may then decide on further sectoral and antitrust investigations. With the advance of technology, the insurance landscape across Europe is undergoing a transformation. It is evident that different countries have adopted different distribution channels for their insurance products. While some nations rely heavily on direct sales, others have adopted the bank guarantee system as their primary approach. This variation in development creates a fragmented internal market within Europe, which limits the accessibility of European insurers in certain Member States due to the multitude of distribution channels available. The existence of a wide range of insurance products and the diverse nature of customers further complicates the distribution process, leading to higher costs.

A polarisation is taking place in insurance distribution, where all those products that do not require a customer service or advice from the distributor are turning to direct sales. Products such as car, travel, pet, home, etc. are becoming direct sales commodities. On the other hand, insurance distributors such as brokers are taking over the market for the distribution of life products and business services, where these products require specialised advice or service, both in the sales and after- sales process.

Since numerous insurance companies operate in several European countries, the focus of this research is on both pan-European and national competition in the market for consumer and business insurance services. The main objective is to identify obstacles to the realisation of an integrated European insurance market. On the basis of the findings, the Commission could subsequently decide to conduct additional antitrust and sector enquiries to address these issues.

5

LIFE AND NON-LIFE LINES OF BUSINESS

In this section we aim to delve deeper into the changes taking place in life and non-life insurance distribution strategies across Europe. By delving deeper into the factors that distinguish between life and non-life insurance business models, it becomes apparent that these two entities differ greatly in several facets. In fact, insurers engaged in both types of business commonly maintain separate accounting systems to efficiently manage their operations. It must be stressed that each business has its distinctive characteristics, be it product features, sales dynamics, underwriting practices, reserving methods, investment ideologies or even reinsurance tactics.

However, despite the disparities between the two, the emergence of bancassurance has triggered a concentrated effort towards sales. Numerous studies focus meticulously on the distribution of life insurance through banks. However, in this remarkable paper, we take a holistic approach by addressing both life and non-life business, using a comprehensive European dataset dedicated exclusively to examining the complexities of distribution channels in these areas.

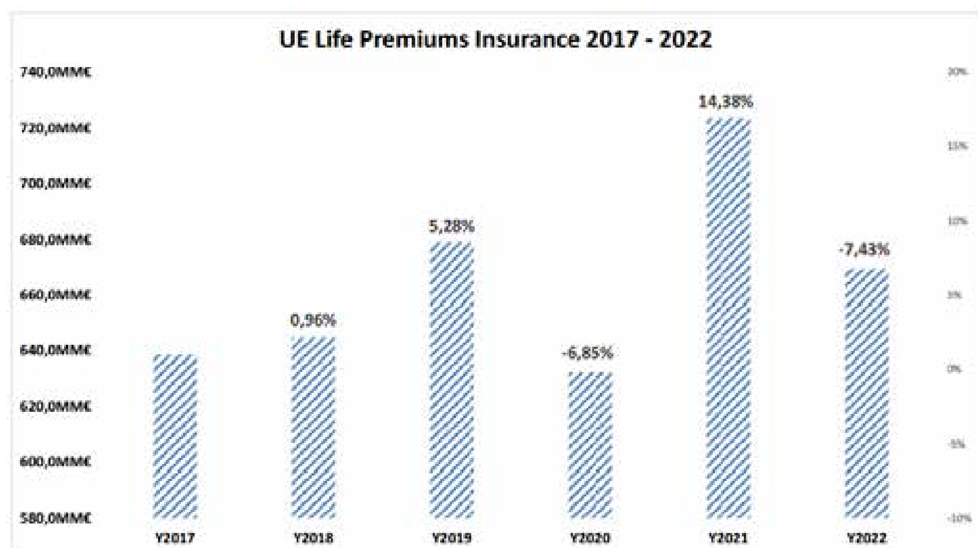
Life insurance, as an integral component of the insurance landscape, plays a critical role in the accumulation of capital for businesses over the long term and, at the same time, provides a safety net in the event of long-term disability, ensuring economic recovery. This intrinsic correlation between life insurance and social security systems, as well as employer-sponsored pension funds, is undeniable. It is through these functions that life insurance attracts its esteemed client base. Surprisingly, it has been hypothesised that life insurance is primarily marketed through regulatory means, further highlighting the critical relationship that regulation and life insurance share. Non-life insurance, on the other hand, operates on a separate premise, focusing solely on the concept of consumption smoothing. Unlike life insurance, the risks associated with non-life insurance are defined as “sudden and unexpected”.

These risks contrast sharply with accumulated capital, which may gradually decline due to demographic or economic factors. It is therefore clear that non-life insurance business does not require extensive regulation through strong social security measures, which distinguishes it from its life insurance counterpart. As our research delves deeper into the changes found in life and non-life insurance distribution strategies across Europe, it becomes clear that a comprehensive understanding of the various factors at play in each area is crucial. By studying the unique dynamics, characteristics and challenges facing life and non-life insurance, we strive to provide a comprehensive analysis that sheds light on the changing landscape of distribution channels in the European insurance market.

Overview of the life insurance market

The life insurance market in Europe, led by Germany, France, the United Kingdom, Italy and the Netherlands, reached a staggering €670 billion (EIOPA Europe Data Report, 2022). These nations have impressive life insurance density and penetration rates, measured as a percentage of Gross Domestic Product (GDP). However, when looking at other Eastern European countries, excluding the Czech Republic, a contrasting picture emerges. These nations have a significantly smaller life insurance sector, characterised by low densities and penetration rates compared to the EU15.

In fact, life insurance density in these countries is approximately eight times lower than in the EU15. This discrepancy can be partly attributed to the prevalence of a relatively high ‘first pillar’ pay-as-you-go public pension system in these countries. As a result, the importance of ‘second pillar’ funded pension schemes is relatively minimal, apart from the Czech Republic, where they play a more important role. (Gatzert and Reichel, 2024)

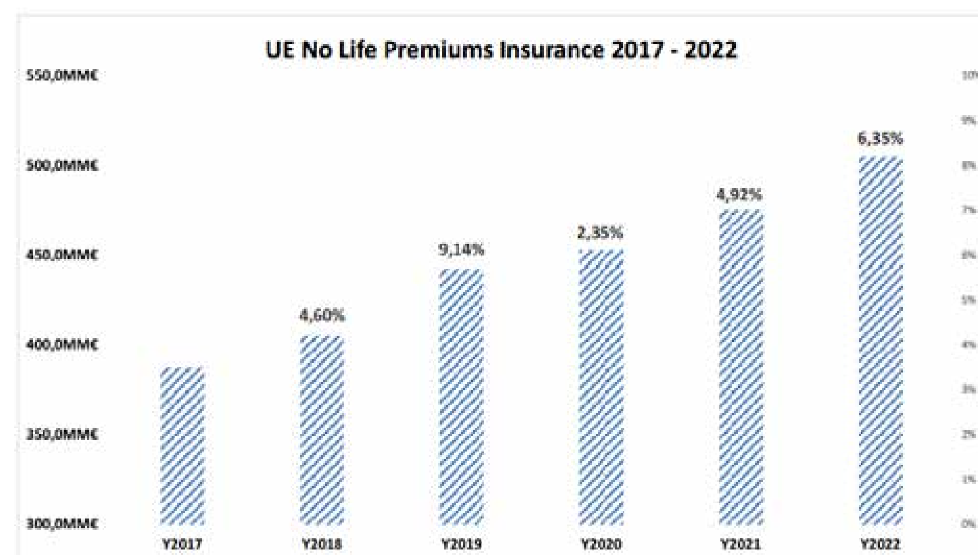


Because life insurance has both an investment and a protection component, it is inherently more complex than non-life insurance. As a result, standardising life insurance products is becoming increasingly challenging. However, it is essential to note that life insurance plays an important role in fostering long-term relationships between clients and companies. In addition, it is of immense social importance in providing people with a safety net. Given its complexity and social impact, the regulatory approach to life insurance has been relatively lenient, particularly before the turn of the century. This light regulatory approach has effectively prompted numerous life insurance companies to establish branches in several European Union (EU) countries.

These branches have been able to offer their services on the basis of their "local" regulatory regime throughout the EU. Consequently, this development has undoubtedly intensified competition within the sector. Increased competition has not only benefited companies, but has also increased the options available to individuals seeking life insurance coverage.

Overview of the non-life market

The non-life insurance market in Europe, led by Germany and France, exceeded EUR 500 billion (EIOPA Europe Data Report, 2022). Non-life insurance is characterised by more stable premium growth due to its direct link to the production and industrial sector.



This type of insurance is also commonly known as property and casualty insurance because of its comprehensive coverage. It encompasses a wide range of protection, including auto, homeowners, commercial property, liability and credit insurance. Each of these coverages is distinct and meets specific requirements. Within the non-life insurance industry, several companies specialise in offering insurance for one or two of these specific coverages. However, most non-life insurance companies take a more comprehensive approach by writing a broad range of these coverages. This approach allows them to effectively diversify their risks and minimise potential losses across multiple sectors. The non-life business is characterised by significant reserves and large amounts of capital. These financial resources are essential to provide long-term guarantees and effectively manage catastrophe risks in the liability and property fields. It is these reserves and capital sums that enable non-life insurers to ensure the financial security of their policyholders and to respond effectively to unforeseen events. However, one of the most distinctive aspects of non-life insurance, which differentiates it from life insurance, is its short-term nature. The vast majority of non-life insurance contracts are designed to cover shorter periods, emphasising the immediate protection and coverage of risks required by policyholders. This dynamic characteristic aligns with the nature of non-life insurance and differentiates it from the longer-term commitments typically associated with life insurance contracts.

6

DIGITAL TRANSFORMATION IN INSURANCE DISTRIBUTION

Transformation is dynamic and many traditional industry players are focused on improving their customer value proposition as a way to sustain and grow their business. Many traditional brokers are using digital technology to expand their services in unprecedented ways. In Europe, motor insurance, widely regarded as the most competitive market, is currently undergoing a remarkable and intense digital transformation in terms of insurance distribution. However, it is important to note that the digital revolution is not limited to motor insurance alone. Europe's other insurance markets are also recovering at an impressive pace.

These new digital distribution models are reshaping and revolutionising the insurance industry, becoming an indispensable part of the change in insurance distribution across Europe. Digital technology has opened up endless possibilities and paved the way for the emergence of a multitude of new insurance technology companies. These innovative start-ups have forged ahead, developing new direct digital models for insurance distribution, effectively challenging the traditional and long-standing models of brokers and agent networks.

The advent of these new models signifies a dramatic change in the insurance distribution landscape. Across Europe, insurance companies are consciously and actively engaged in the process of digitally transforming their businesses. However, this transformational journey is not just about improving products or creating new services. It is also about restructuring and revolutionising the very essence of how distribution is conducted.

New and disruptive digital technologies are empowering and enabling this change, serving as catalysts for the emergence of innovative distribution models across Europe. These distribution models not only streamline processes, but also deliver enhanced customer experiences, ultimately redefining the entire insurance distribution landscape across the continent.

Emergence of new digital channels

The survey results and examples of many of the categories listed are set out comprehensively in the second part of the report, represented on a country-by- country basis. It is worth noting that the retail and bank/finance categories have the largest and most globally recognised names, which captivate and serve a broad customer base. On the other hand, the direct commercial category is dominated mainly by a few very large international insurers, which predominantly means a shift from serving only personal lines to also encompassing the sale of small commercial lines. In contrast, software houses, marketplaces and metasearch platforms generally exhibit a more granular scale or emphasis on individual countries. Currently, the mobile category exhibits a relatively tiny presence.

However, it should be stressed that new insurers, which have recently established themselves with the intention of selling their own products through digital channels, often receive significant venture capital backing.

Our classification of digital channels is as follows:

- Retailers.
- Banks and financial companies.
- Comparison websites.
- Marketplaces.
- Meta-search.
- Mobile only.
- New Insurers.

The emergence of new digital distribution channels is helping to address some of the challenges of traditional insurance distribution described earlier in this paper and thus contributing to its decline. This is particularly evident in the decline of agency forces as a channel in several European countries.

These new digital channels encompass a range of very different business models, many of which do not seek to offer their own insurance products, but rather to partner with or act as intermediaries for traditional insurers. In this section, we will first describe the classification of digital insurance channels and then discuss each of the categories found in our survey in a little more detail.

Benefits and challenges

The challenges for insurers in working with aggregators arise from the need to resolve those basic conflicts of interest in any partnership arrangement. Aggregators have the power of access to and ownership of customers and, to a large extent, power in direct sales transactions. The preferred state is to view product sales as the consequential result of the customer's visit to your website and customer satisfaction as the result of the sale. In this way, their desire for independence in product design and to have a say in customer service processes can be satisfied without their involvement becoming intrusive. Insurers gain several benefits from using large aggregators.

First, there is the potential for mass customisation and the use of smart products. Large aggregators provide access to a huge customer base and, through large- scale data mining techniques, can identify customer needs and preferences and design products to meet those needs. This is particularly important in mature markets where most customer needs are already satisfied and new customers are entering the market in very heterogeneous cohorts. Secondly, new customer segments can be accessed through the Internet and through the expertise that aggregators have developed in e-commerce. Large aggregators have become adept at attracting visitors to their websites and converting them into customers, without the need for a lengthy sales process. This is a lower cost sales distribution channel than any other.

The Internet can also provide a low-cost delivery channel for products and after- sales services. In addition, the use of aggregators allows insurers to harness the power of advanced analytics and machine learning algorithms. These technologies can further enhance the personalisation of insurance products and improve risk assessment processes.

By analysing large amounts of data collected from customer interactions and online behaviour, insurers can gain valuable insights and make informed decisions about product offerings and pricing strategies. This data-driven approach not only helps insurers remain competitive in the marketplace, but also allows them to better serve individual customer needs and preferences.

In addition, working with aggregators gives insurers the opportunity to expand their reach and enter new markets. Through collaboration with established aggregators, insurers can gain access to untapped customer segments and geographic regions. This opens up possibilities for growth and diversification, as insurers can tailor their offerings to specific target markets and broaden their customer base. By leveraging the expertise and network of aggregators, insurers can establish a strong presence in new markets and compete effectively with local players.

In addition, the partnership between insurers and aggregators fosters innovation and encourages the development of new products and services. As aggregators continually explore ways to improve their platforms and attract more customers, insurers are encouraged to adapt and evolve their offerings. This collaborative environment promotes the introduction of innovative insurance solutions, such as usage-based policies and customised coverage options. By embracing technology and changing customer needs, insurers can stay ahead of the curve and create value for both themselves and their policyholders.

Overall, working with aggregators presents insurers with numerous advantages and opportunities. From accessing a broader customer base to leveraging advanced analytics, insurers can optimise their operations, improve customer satisfaction and drive business growth. By understanding the unique challenges and benefits of this partnership model, insurers can effectively navigate the evolving insurance landscape and position themselves for long-term success.

7

LOSS RATIO AND PREMIUM INCREASES

Market dynamics depend to a large extent on the position of market players in a highly competitive and dynamic competitive landscape. Companies operating with a relative solvency surplus position can strategically and proactively explore numerous growth opportunities that can further strengthen their already strong solvency position. These growth opportunities can be exploited by expanding horizontally, thereby increasing their size and presence, or by moving vertically into different levels of the value chain, thereby opening up new avenues of value creation. As time goes on, capital bases inevitably become stronger, allowing firms to shift their attention away from relying solely on the traditional low-cost advantage associated with their size. Instead, they can strategically shift their attention to more competitive aspects within the value chain.

Adopting this strategic shift as the preferred option allows companies not only to maintain their solvency advantage but also to leverage it, thus further improving their overall competitive position. By developing a sound and efficient cash flow structure, companies with a superior solvency position can create a significant competitive advantage. This strengthened financial base enables them to navigate dynamic market conditions more effectively, adapt to changing customer demands and quickly take advantage of emerging market opportunities.

As a result, these companies can maximise operational efficiency, optimise resource allocation and innovate sustainably to deliver superior value to their customers and stakeholders. Over time, these enhanced capabilities, backed by a stronger solvency position, can generate substantial added value for shareholders. This added value can manifest itself in multiple ways, such as higher profitability, increased return on investments, higher shareholder returns and a strengthened market reputation. Ultimately, shareholders can reap the rewards of their investment as the company's competitiveness and financial performance steadily improve, generating long-term sustainable growth. In short, companies operating from a position of relative surplus solvency have a strategic advantage in shaping market dynamics. By capitalising on their existing solvency strength and actively pursuing growth opportunities, these companies can further solidify their competitive position. Through strategic shifts within the value chain and the development of a solid cash flow structure, they can navigate the changing market landscape with agility and unlock significant added value for their shareholders.

Tighter underwriting standards often lead to higher claims ratios, with a time lag related to the duration of insurance contracts. Consequently, the potential impact on a company's financial stability is significant. As a result, the need to maintain adequate solvency becomes even more crucial, given the potential risks involved.

To mitigate these risks and ensure the continued financial well-being of the company, it may be necessary to consider increasing premium income. By increasing premium income, companies can effectively address potential strains on their solvency position. However, it should be noted that this approach is not without its challenges. In the absence of gaining market share, an increase in claims accompanied by growth in premium volume could lead to a decline in the growth of their relative solvency position. This decline, in turn, may pose additional challenges in terms of sustaining and maximising the added value created by the flow of funds.

On the other hand, companies operating with a relative solvency surplus position have a considerable advantage in terms of potential growth opportunities. By having better prospects for growth without losses, these companies can capitalise on their financial stability and drive their expansion in a sustainable manner. This advantageous position allows them to sustain a higher rate of premium income growth, thereby strengthening their overall financial performance. However, to sustain a higher rate of premium income growth, companies need more than financial stability. They also require a stable or growing contribution from the value chain.

The value chain, which encompasses the various processes and activities involved in delivering a product or service to customers, plays a crucial role in determining the long-term success and growth potential of a company. By effectively utilising and improving the value chain, companies can ensure a consistent and reliable source of revenue, which in turn allows them to sustain their growth momentum.

In summary, as companies navigate the complexities of tightening underwriting standards and their impact on claims ratios, it is essential to consider the implications for solvency and financial stability. By increasing premium income and strategically managing market share, companies can mitigate potential risks and maintain a favourable solvency position. It is crucial that companies recognise the value of operating from a position of surplus relative solvency, as it provides greater opportunities for growth. In addition, a stable or growing contribution from the value chain is critical to sustaining a higher rate of premium income growth. By constantly assessing and optimising these factors, companies can position themselves for sustainable growth and success in the evolving insurance industry.

Understanding the loss rate

Before turning to the formal and technical aspects, it is useful to gain a thorough understanding of the claims ratio concept by looking closely at a set of simple but remarkably illuminating examples. These examples will not only shed light on the distinction between the loss ratio and the expected value of insured loss and premium ratio, but will also provide valuable clarifications that are vital to understanding this intricate subject.

To demonstrate this clearly, let us assume that the premium is €100,000. In our first example, the possible loss is distributed according to the following probability: there is a 99.5% chance of no loss (0) and a 0.5% chance of losing €1,000,000. The expected value of the loss, in this case, amounts to €5,000. While the expected loss rate denotes an inherent 5%, the actual loss rate, interestingly, can only be 0% or 100%, which firmly establishes the distinct and dichotomous nature of this rate.

Now, let us delve into the second example, which interestingly involves a six-sided die. Considering that the premium value amounts to €17,500, the expected value of the claim is a magnificent and surprising €14,000, culminating in a claims ratio of a significant and remarkable 80%. However, it is of utmost importance to note that in all possible realisations, the loss can only be 0% or 100%, thus accentuating the dichotomy and dualism of the loss ratio. These aforementioned examples serve as vital case studies to highlight and magnify the complexities, intricacies and multifaceted nature surrounding the calculation, determination and evaluation of the loss ratio.

By meticulously analysing and scrutinising different scenarios, each characterised by different probabilities and potential losses, we can experientially and tangibly capture, understand and appreciate the subtle nuances, subtle distinctions and underlying complexities inherent in the determination and assessment of the actual loss ratio. One of the most studied variables in insurance economics, industry and business publications is the "claims ratio".

However, the vast majority of these publications fail to understand what the claims ratio actually is. This is because they do not reveal the underlying distribution of loss ratios and therefore do not identify the shape of the loss ratio distribution. Understanding the loss ratio distribution is crucial if the aim is to make robust comparisons, draw valid conclusions and perform reliable prediction exercises. The loss ratio distribution is related to the distribution of the insured loss when there is no correlation between the size of premiums and the size of insured risks. The relationship between the loss ratio distribution And the distribution of the insured loss is a simple scaling that holds under risk-proportional premiums, as we will explain below.

Impact on premiums

For direct issuers, the portion of premium paid as commission to a direct issuer is substantially less than that paid to a broker. An insurer that has a substantial portfolio of direct business, with relatively lower commissions than broker business and a commercial policy to keep commission rates on broker business under pressure, can generate a cost advantage. Consequently, such an insurer will be in a better position to strengthen its competitive position in a highly competitive market. The relatively high proportion of premium going to brokers' business is an indirect consequence of the shift of power from insurers to brokers under the increasing concentration of power of insurance companies.

There are at least three reasons that could lead to an increase in the share of the premium going to brokers. First, brokers should be able to negotiate a larger share of the insurer's commission in the absence of direct costs for services provided by the insurer to the client. In a competitive market, the cost advantages generated by economies of scale allow the broker to become more active in all types of business, with a relatively lower price as a consequence. Although the insurance market is not performing very well in economic terms and prices of all kinds are under pressure, the major players are trying to increase their market share by merging.

Technological Solutions

A number of technological solutions can be used to address these challenges and many stakeholders are already developing and implementing them. Big data, the internet of things, blockchain and artificial intelligence all contribute to distribution in their own way, but some more innovative solutions, such as on-demand insurance or parametric insurance, are also being developed for very specific needs of some clients. segments.

The future of insurance distribution will, in our view, be in ecosystems. Several insurance products, especially in general insurance, no longer need to be distributed through traditional channels. They are offered directly to the customer through digital media, either developed by insurers or through platforms. In these ecosystems, the insurer offers special value-added services alongside the insurance product, thereby increasing customer touch points and customer value.

As a result, in the long term, customer relationship and brand strength will become the most important competitive strength of insurers, in our view, more important than capital management and underwriting skills.

8

FRAGMENTATION IN INSURANCE DISTRIBUTION AND BROKERAGES

The remuneration of insurance brokers by insurers has been the subject of much discussion and analysis in Europe and other regions of the world. The dynamics surrounding this issue have led to a variety of different approaches in different countries. For example, in several EU member states, brokers are prohibited from receiving commissions directly from insurers, requiring the implementation of a fee-based approach in which brokers charge their clients directly for services rendered.

On the other hand, in the Nordic countries, brokers often adopt a dual approach: they charge a fee in addition to the commission they receive from insurers. The emergence of fee-based systems in the Nordic countries has led to a growing demand for greater competition among brokers and greater transparency with respect to the services they provide and the prices they charge. This push for greater competition has been driven by the increase in the number of insurance companies and the subsequent increase in specialised insurance products designed to meet the unique needs of various businesses and industries. While advances in technology have enabled clients to interact directly with insurers and banks for their insurance requirements, the complex nature of commercial enterprises and the inherent risk exposures they face have consistently solidified the broker channel as the predominant distribution channel for commercial lines not only within the EU but also on a global scale. This trend is expected to persist for the foreseeable future, reaffirming the critical role of brokers in facilitating the insurance process for companies operating in a variety of sectors.

Insurance brokers are independent professional intermediaries who act on behalf of their clients and provide expert advice on the purchase of various types of commercial and personal lines of insurance. These expert brokers play a key role in the distribution of insurance and contribute to the total cost of insurance for the underwriting business. Traditionally, insurance companies compensate brokers by paying them a commission for the policies they successfully sell. However, the dynamics of this industry have been evolving and insurers are increasingly offering brokers fee-based products and services. This change allows insurers to work more closely with brokers and effectively negotiate rates for the valuable services they provide to customers, insurers and other stakeholders in the insurance business. Brokers receive compensation from insurance companies for their efforts to place voluntary policies for both commercial and personal lines of insurance. While brokers in some of the major EU countries may be experiencing declining profits, it is important to note that brokers in certain smaller EU countries are thriving, making impressive profits and capturing significant market share.

They have managed to adapt and excel in this ever-changing industry. The role of insurance brokers goes beyond simply connecting clients to insurance policies. They offer personalised advice and guidance to clients, helping them navigate the complex insurance landscape and make informed decisions. Brokers stay up-to- date with the latest insurance trends, policies and regulations, ensuring that their clients receive the most relevant and comprehensive coverage available. Their expertise extends to diverse areas such as risk assessment, claims management and policy customisation. Brokers leverage their extensive network of relationships with insurance providers to negotiate competitive premiums and favourable terms on behalf of their clients.

These professionals prioritise their clients' interests above all else, striving to find the most appropriate insurance solutions that meet their specific needs and budget. Insurance brokers act as trusted partners, providing ongoing support and assistance throughout the policy lifecycle. They conduct regular policy reviews, ensuring that clients' insurance coverage remains adequate and tailored to their changing circumstances. In the event of a claim, brokers help clients navigate the claims process, providing expert guidance and advocating on their behalf. In today's fast-paced insurance industry, insurance brokers are essential players who bring unparalleled value. Their commitment to professionalism, expertise and a client-centric approach distinguishes them and solidifies their position as vital intermediaries within the insurance market. Despite the ever-changing landscape, insurance brokers continue to evolve, adapt and thrive, driving the growth of the insurance industry and shaping its future.

Acquisition Transactions of Small Broker-dealers

Secondly, small brokerages rely heavily on personal lines and small commercial business as their main source of revenue. It is precisely in these specific industry segments that direct writers possess a significant cost advantage and aggregators are exceptionally active.

In addition, it should be noted that broker commissions within these areas are higher compared to the micro business segment; however, competition within these sectors is also notably fiercer. This poses a significant challenge for small brokerages, as they face a cost disadvantage compared to direct writers and an information disadvantage compared to aggregators. Aggregators, due to their dominant market shares, exert significant power and leverage by pitting one underwriter against another, which effectively reduces the price of risk. Consequently, small broker-dealers find themselves on shaky ground in this particular market segment, treading on shifting sands and sinking deeper with each struggle they face. While it is true that some small brokerages manage to survive amidst this challenging environment, it is crucial to recognise the inherent dangers associated with operating in such circumstances.

Through our extensive research and analysis, we found that small brokerages, characterised by fewer than 25 dedicated employees, face the most formidable competitive challenges in today's corporate insurance market landscape. These challenges arise from three distinct but interconnected sources, each of which presents its own set of obstacles. First, small brokerages are primarily limited to serving small-scale clients within the corporate spectrum.

Unfortunately, within this particular niche, clients often perceive the broker's role as inconsequential and bringing no discernible value to the insurance transaction. Consequently, the compensation received by these brokers is subject to intense downward pressure. Faced with this adversity, small brokerages are forced to counteract the devaluation by extraordinary means. The only recourse available to a small broker to successfully compensate for this unwelcome downturn is to expand its market share in this specific segment. However, achieving an expansion of this magnitude requires a merger or acquisition by another broker.

Unfortunately, organic growth is simply unattainable in these inherently brutal circumstances. Therefore, the unforgiving nature of this environment requires alternative strategies and tactics to navigate through it effectively.

Succession challenges for brokerage firms

Risk shareholder-owned broker-dealers present their own unique and intricate challenges when it comes to succession planning and continuity. Like policyholder- owned brokerages, these entities often face immense business pressures and evolving client preferences, which can make it difficult to identify and promote capable management successors and employees within the firm. In the fast-paced fields of insurance and finance, risk takers are forced to think not only about short-term profitability but also about the long-term sustainability, ethics and core values of their brokerage. As risk takers contemplate passing their business to the next generation, they must thoroughly assess the diverse range of stakeholder interests at stake, while considering the possible need for management or employee incentives to ensure a smooth transition.

In certain scenarios, it may become apparent that intermediation is unlikely to thrive under next generation management. When this arises, risk owners and other stakeholders may find themselves contemplating the prudent course of action: a well-organised liquidation process that allows for an equitable distribution of any residual economic value that remains. This thoughtful approach aims to uphold equity and fairness, recognising the contributions and commitments of all stakeholders involved. Risk shareholder-owned brokerages, with their distinctive ownership structure and responsibilities, present a host of challenges related to the successful continuation of their operations. In many ways, these challenges mirror those faced by their policyholder-owned counterparts. Both types of brokerage face immense commercial pressures and the tumultuous tides of contemporary customer preferences, often making it arduous to identify and promote competent management successors and employees within the organisation.

Amidst the fast-moving and ever-changing landscape of the insurance and finance sectors, risk takers must not only contemplate the immediate commercial viability of their brokerage, but also devote careful consideration to its enduring ethics and core principles. When risk takers decide to pass on leadership to the next generation, they face a multifaceted task that requires a thorough examination of the various stakeholder interests involved. Meanwhile, they must also grapple with the possible need for incentives for management or employees to ensure a smooth transition of power. In some cases, it becomes clear that the brokerage is unlikely to thrive under the leadership of the next generation. This realisation compels risk owners and other stakeholders to embark on a thoughtful journey, contemplating the most sensible course of action: an orderly liquidation procedure that facilitates an equitable division of any lingering economic value. This equitable approach aims to exemplify fairness and equity, honouring the invaluable contributions and unwavering dedication of all parties involved in the brokerage firm.

Owner-managed policyholder brokerages are a well-recognised and highly valued feature of the insurance distribution sector in many countries. These brokerages play a vital role as a crucial link between customers and insurers. Specifically, they diligently present customer risk information to insurers and, conversely, offer customised insurance products to customers. Over the years, numerous insurers have established and nurtured strong business relationships with these trusted brokers, which have become an integral part of these brokers' robust business models. It is worth noting that the presence of hundreds of thousands of such brokerages across Europe contributes substantially to the overall insurance mediation landscape. The succession planning process in these brokerages is crucial to ensure their continued success and stability in the market.

However, it is essential to recognise that the institution of brokerage faces challenges due to evolving commercial and social developments. Rapidly escalating commercial and regulatory costs, further intensified by the recent financial crisis, pose a significant threat to the sustainability and commercial viability of many small and medium-sized brokerages. In addition, it is imperative to recognise a more fundamental and far-reaching challenge: the evolving preferences and behaviours of new generations of customers. The widespread use of the internet among these tech-savvy individuals has revolutionised the way they shop for a wide range of financial services products.

As a result, this digital transformation presents a formidable challenge to the traditional role of the insurance broker. In light of these developments, it is clear that owner-managed insurance brokerages must adapt and innovate to remain relevant and thrive in this rapidly changing landscape. It is essential that these brokerages explore new avenues, leverage technology and adapt their business models to meet changing customer needs and preferences. In conclusion, while owner-managed insurance brokerages have long been a cornerstone of the insurance distribution industry, they are at a critical crossroads. To secure their future and maintain their integral role, these brokerages must embrace change, harness innovation and navigate the uncharted waters of the digital age. In doing so, they can continue to foster successful relationships with insurers and serve as trusted intermediaries for customers seeking reliable insurance solutions.

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