

Financial Services Practice

Redefining the future of life insurance and annuities distribution

Fundamental shifts in the insurance industry are accelerating changes in the distribution landscape. How can insurers position themselves for the next wave of growth?

This article is a collaborative effort by Ramnath Balasubramanian, Cristian Boldan, Matt Leo, David Schiff, and Yves Vontobel, representing views from McKinsey's Insurance Practice.



Since the global financial crisis of 2008, North American life and annuities insurers have faced numerous disruptions as an industry, including profitability challenges driven by low interest rates, a global pandemic, high inflation followed by a rapid rise in interest rates, volatility in equity markets, and geopolitical uncertainty.

While insurers focused on managing these disruptions, several structural changes converged, creating a need for insurers to reconsider their distribution strategies. Although rising interest rates have provided some sales tailwinds in recent years (particularly for fixed and fixed-indexed annuities), insurers will need to act boldly to remain ahead of the curve.

In this article, we discuss several of these changes, such as the decreased relevance of life insurance, the shift in value creation toward distributors, and the continued convergence toward comprehensive advice on topics including health, wealth, and protection. We then offer four actionable priorities that North American life insurers could focus on over the coming years: redefining the role of strategic distribution partners, developing next-generation advisor capabilities, building a fit-for-purpose sales

operating model to align with strategic goals, and employing digital and AI as a means to differentiate themselves in the marketplace.

Trends shaping US life insurance distribution

Life insurance, the traditional way that individuals have protected their livelihoods, has become less relevant to the financial futures of US families. Life insurers have continued to lose ground to banks, asset managers, and brokerage firms, driven by increased competition from easily accessible investment alternatives and the decision many life insurers are making to expand beyond their traditional core. In 2022, the top 20 life insurance companies made up 13 percent of the total market value of the top 20 financial-services companies across segments, a decrease from 40 percent in 1985 and 17 percent in 2005 (Exhibit 1). In addition, life insurance ownership among adults in the United States declined from 63 percent in 2011 to 52 percent in 2023.¹ While the COVID-19 pandemic initially underscored the need for mortality protection, rising economic uncertainty and inflation have slowed the demand for life insurance products.

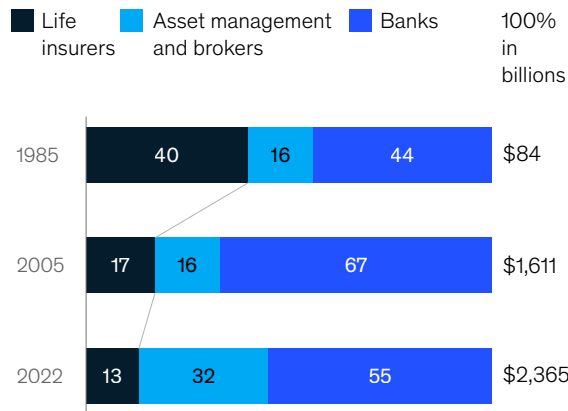
¹ 2023 Insurance Barometer Study, LIMRA.

Although rising interest rates have provided some sales tailwinds in recent years, insurers will need to act boldly to remain ahead of the curve in the face of disruptions.

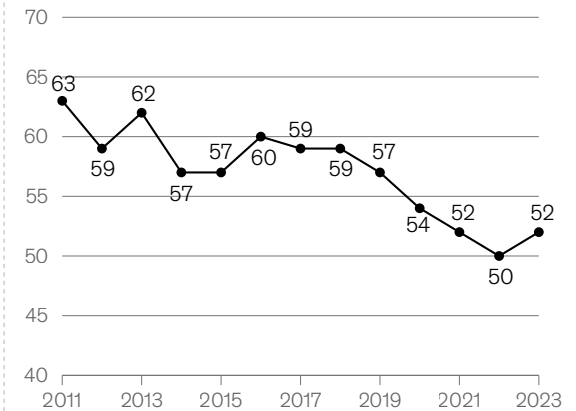
Exhibit 1

The US life insurance industry has been declining in both relevance and penetration.

Market capitalization of the top 20 companies,¹ %



Life insurance ownership, % of US adults²



¹Top 20 US publicly traded life insurers, banks, and asset managers and securities brokers, based on given year's market capitalization.

²LIMRA online survey of 8,000 US adults in January 2023.

Source: 2023 Insurance Barometer Study, LIMRA; S&P Global

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Distributors are claiming an increasing share of value creation

Since 2010, distributors have generated roughly three times more TSR than insurers (Exhibit 2). In addition to lower capital requirements and an attractive risk/return profile, distributors have benefited from their ability to generate additional advantages for customers through value-added services.

From this position of strength, distributors are demanding more from insurers in the form of personalized bonuses, proprietary products, API integration capabilities, and more. Distribution partnerships also increasingly require insurers to make significant investments in product differentiation, sales incentives, servicing, and technology. These investments can be quite costly

to insurers, and as a result, core partnerships must be strategically planned and established for the longer term.

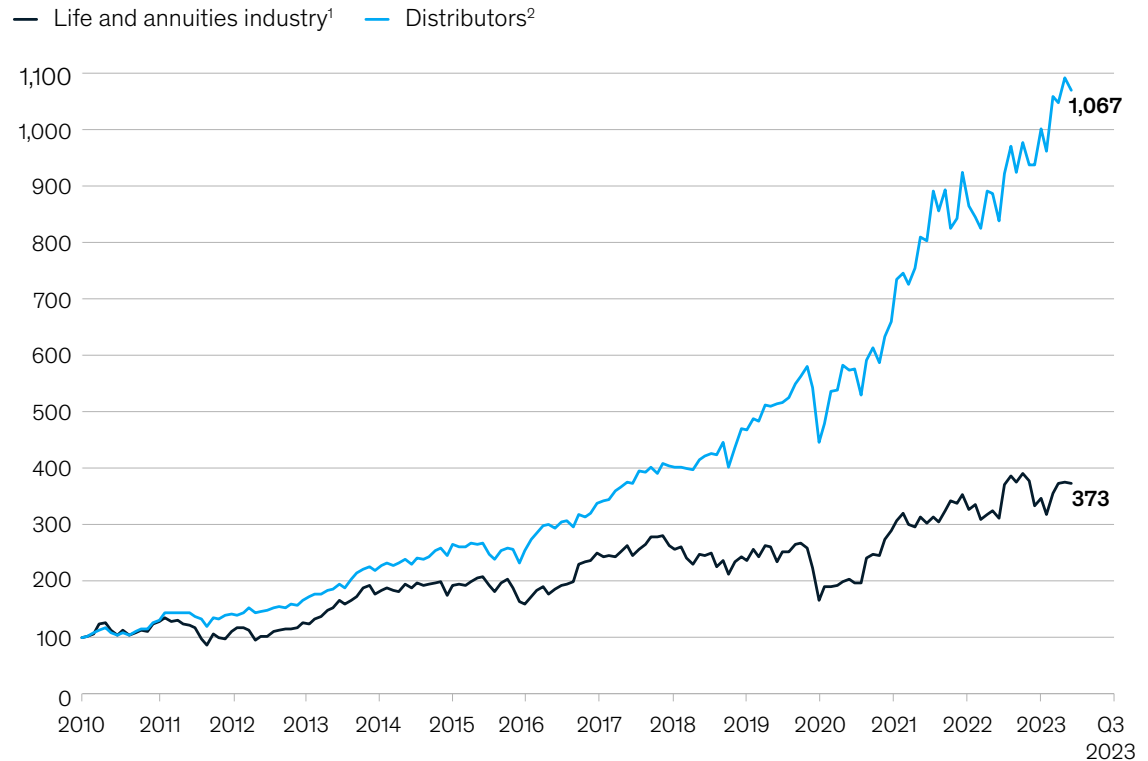
Distributors are consolidating

Both the independent-advisor (IA) and the broker-dealer (B/D) channels have experienced substantial consolidation in recent years. From 2017 to 2023, three large private equity-backed independent marketing organizations performed nearly 200 acquisitions. Within the same time frame, the top ten B/Ds completed about 50 acquisitions, with each of the top five B/Ds involved in at least four transactions (Exhibit 3). This ongoing consolidation is significantly altering the distribution landscape, with fewer, larger distribution partners gaining additional leverage and influence.

Exhibit 2

Value creation in insurance has shifted toward distributors.

TSR, index (Dec 31, 2009 = 100)



¹Includes selected publicly listed life and annuities companies.

²Includes selected publicly listed insurance distributors (eg, brokers).

Source: S&P Global

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Third-party distribution is growing

Third-party distribution has been on the rise. Between 2016 and 2022, the annual growth rate in sales for third-party distributors—which include IAs, B/Ds, and banks—was approximately six percentage points higher than the growth in career agent channels (Exhibit 4).²

There are several factors driving this growth. One is that customers continue to look for a broader

set of choices and more-sophisticated products, which tend to have higher premiums. The typical face value per policy in third-party sales is 1.4 times higher compared with captive sales.³ Several insurance carriers with traditionally captive distribution have redefined their priorities, shifting away from individual life and annuities toward sustained efforts to expand sales in third-party distribution through either acquisition or product expansion. As a result, insurers that have historically

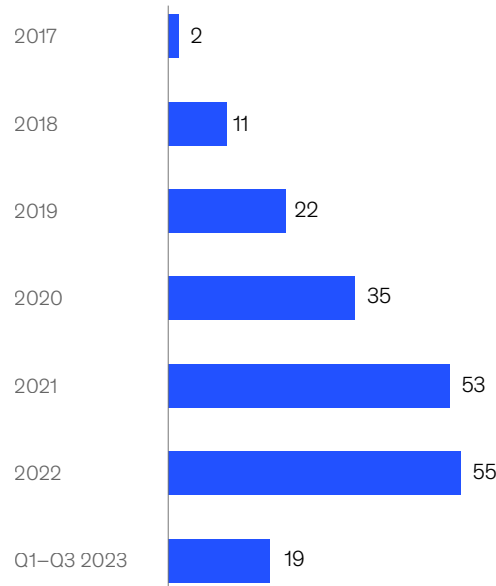
² LIMRA estimates; LIMRA U.S. Individual Annuity Sales Survey; LIMRA U.S. Individual Life Insurance Sales Survey.

³ Not adjusted for differences in product mix and volumes.

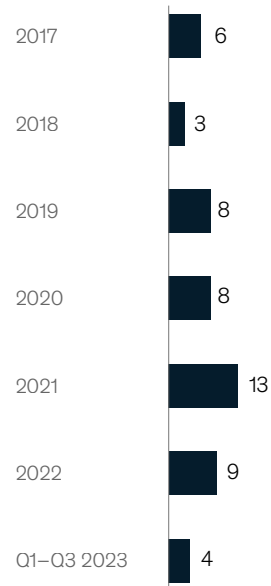
Exhibit 3

Insurance distributors are experiencing significant consolidation.

Acquisition activity driven by 3 private equity–owned IMOs,¹ number of transactions



Consolidation activity driven by top 10 broker–dealers by revenue, number of transactions



¹Insurance marketing organizations.
Source: S&P Global

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focused on third-party channels have grown and captured significant market share.

Because of these factors, third-party distribution now represents 52 percent of sales in life and 81 percent in annuities. As the competition among insurers in third-party distribution continues to intensify, strategic distribution relationships are becoming closely intertwined with insurers' success.

Technology and AI are transforming the way distribution works

New technologies such as generative AI have significant potential to increase productivity across the full insurance value chain. A recent McKinsey

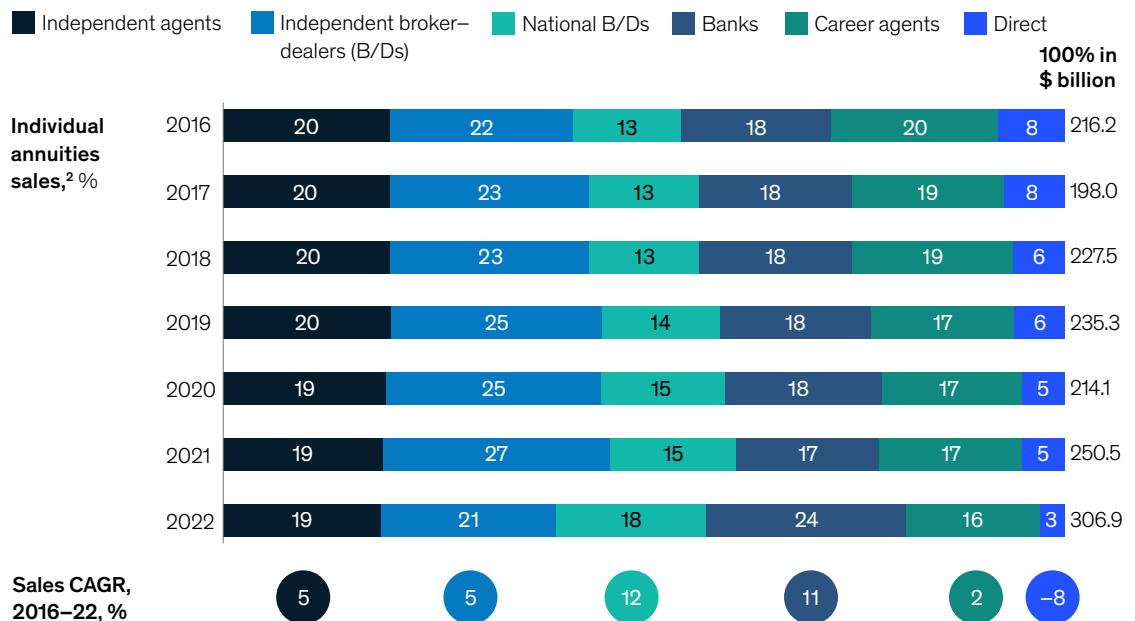
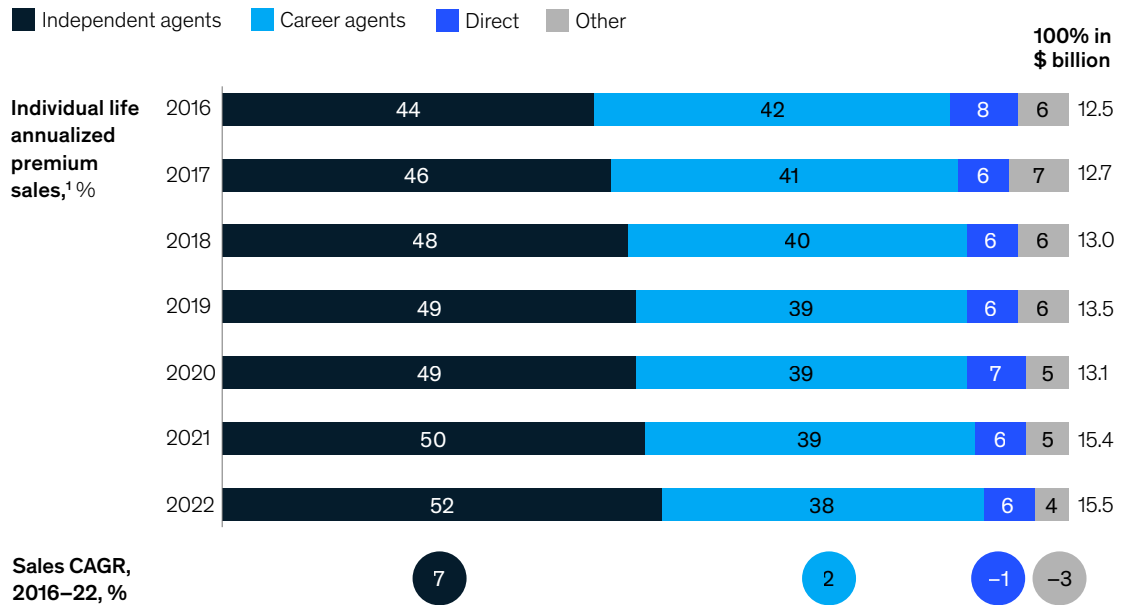
report estimates that technology's impact on the insurance sector could total between \$50 billion and \$70 billion—with marketing and sales experiencing some of the highest impact.⁴ Indeed, the technology has already started to increase the productivity of wholesalers and financial professionals while improving customer and advisor experiences.

While generative AI is already leaving its mark, the broader distribution models and processes in the insurance industry may still be in the early stages of transformation. Insurers not at the forefront of technological change may run a heightened risk of being disrupted by more-agile competitors as time passes.

⁴ "The economic potential of generative AI: The next productivity frontier," McKinsey, June 14, 2023.

Exhibit 4

Third-party distribution is becoming the primary battleground for insurance sales.



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

¹New recurring premiums + 10% of new single premiums (for annualized premium equivalent purposes as defined by LIMRA).

²New premiums + recurring premiums + add-on premium payments (as defined by LIMRA).

Source: LIMRA estimates; LIMRA U.S. Individual Annuity Sales Survey; LIMRA U.S. Individual Life Insurance Sales Survey

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Consumer tastes are changing—and expanding in scope

The typical US consumer has shifted in terms of both demographics and insurance needs. Today, many individuals seek comprehensive advice and solutions that span various aspects of their financial well-being, including health and life insurance, wealth, retirement, and taxes. Younger consumers in particular tend to seek out advisors who can address their financial needs holistically, including investments, insurance, and tax considerations. A 2023 McKinsey survey of 6,994 respondents found that 62 percent of people under age 55 prefer such an advisor, compared with 36 percent of those aged 55 to 75 and 23 percent of those over age 75.⁵

In tandem with evolving consumer preferences, the lines between traditional distributor channels have begun to blur. While distributors historically competed for distinct customer segments, the industry is experiencing a paradigm shift as distributors move up or down the market as required to address customer needs comprehensively. Life and annuity carriers will thus be compelled to rethink their distribution approaches and identify new ways to engage with their distribution partners—if they haven't already done so.

Improving insurers' strategic distribution position: Four priorities

These changes in the distribution marketplace, along with continued uncertainty in the macroeconomic environment, will have significant implications on insurers' operating models. To drive efficiency and effectiveness in their sales processes and better adapt to dynamic market conditions, insurers need to strengthen their capabilities across four areas: strategic distribution partnerships, next-generation advisor capabilities, a fit-for-purpose sales operating model, and differentiated digital and AI capabilities.

Strategic distribution partnerships for the future

Consolidation is limiting the number of partners that insurers can work with and increasing distributors'

leverage over insurers. Insurers will have to carefully assess which partnerships they want to invest in over the long term and which they are comfortable deprioritizing. To do so more effectively, insurers may evaluate their partner relationships through two lenses:

Strategic direction and outlook. Insurers need to build a comprehensive understanding of their distribution partners. Insurers should define partner segments by considering factors such as partner outlook (including market share and growth trajectory) as well as factors that relate to distributors' approach to partnership (such as flexibility in working toward production goals).

Profitability. Insurers need to estimate the value generated and the actual cost of output from each partner—including both cost of production and cost of maintaining the partnership. Partnerships that generate less attractive returns should be renegotiated unless the insurer strongly believes they can improve in the near term or are of broader strategic relevance.

Insurers can use the insights gained from these two lenses to help them consider future long-term partnerships more broadly. If insurers identify partners that are strategically aligned with their aspirations, they can deepen those relationships for mutual success and consider offering more extensive solutions, including proprietary products, data feed integration, tailored bonuses, and higher-tier servicing. On the other hand, if certain partners do not align with strategic goals, insurers may need to scale back investment and limit offerings with those partners to, at most, standard servicing or products. A clear approach to strategic segmentation and a partnership playbook can empower insurers to make informed decisions about how to invest their resources.

Next-generation advisor capabilities

To secure advisor loyalty and improve productivity, insurers need to reexamine the capabilities they offer and increase the level of transparency and

⁵ McKinsey Affluent Consumer Insights 360 Survey, conducted online from February to March 2023.

understanding of the end-to-end advisor experience for both independent and career agents:

Offer a tailored-support model for advisors.

Rather than providing the same support levels to all advisors, insurers could target specific segments with a clear value proposition. The most appropriate strategies for each segment will vary, with production levels typically being the most important factor for determining what support will be most helpful. Based on these levels, insurers could implement a tiered support model that tailors available resources and capabilities to advisors. Insurers can add value and differentiate their offerings for critical capabilities and potential pain points such as client onboarding, servicing, and customer relationship management.⁶

Increase the level of transparency and understanding of the end-to-end advisor experience. Having a better understanding of advisors' decision-making process at every step of the sales journey will allow insurers to pinpoint specific advisor needs. If those needs are addressed, insurers could help advisors unlock additional sales while increasing their level of satisfaction. To start, insurers will need to establish a process of rigorous, ongoing feedback with advisors—shifting from what is typically a single check-in with advisors to continuous communication. This will keep insurers in close touch with advisor needs, allowing them to respond quickly if problems arise.

Develop strategic advisor-loyalty programs. Advisor loyalty, particularly in the IA channel, can be a clear source of value creation. Through strategic advisor-loyalty programs, insurers can capture a larger portion of their highest-producing advisors' total business, contributing to increased sales and revenue. Such loyalty programs might include features such as white-glove sales support, tiered recognition programs, and additional production incentives.

A fit-for-purpose sales operating model

Insurers that use a fit-for-purpose sales operating model can streamline their sales processes, enhance the advisor and customer experience,

and distribute insurance products more efficiently. When designing a fit-for-purpose sales operating model, insurers can consider two actions:

Redefine sales and sales support coverage

across distribution channels. Many insurers have made changes to their sales teams in response to COVID-19 disruptions. With the pandemic largely in the rearview mirror, insurance carriers have an opportunity to undertake a comprehensive review of their sales operating models. Insurance carriers should review the design and effectiveness of their sales and support organizations in the context of new market and coverage realities (for example, balanced hybrid and remote models), considering trade-offs in the structure of their brokerage channel strategy, relationship management, and support team. Insurers can consider organizational setup (such as channel coverage); expertise (such as generalist versus specialist coverage); sales presence and territory coverage (considering the differences among remote, hybrid, and field work); sales support ratios; and sales capabilities.

Optimize wholesaler territory coverage. Rather than serving all regions equally or on the basis of historical decisions, insurers can focus on understanding where the most generative opportunities lie across geographies. Growth is often granular, so the more insurers can spot detailed and specific opportunities—and then shape coverage around them—the greater their competitive advantage will be. For example, insurers could use AI to identify opportunities through zip code or metropolitan statistical area data. Based on these opportunities, they could then redraw wholesaler territory coverage. Ideally, this coverage would be dynamic so that it can be adjusted regularly and capture value in market shifts.

Differentiated digital and AI capabilities

Digital and AI tools can help insurers take their operating models to the next level by improving the value proposition of partnerships through digital integration, enhancing capabilities offered to advisors, and strengthening operating-model effectiveness.

⁶ McKinsey Insurance Advisor Survey 2020 and 2022.

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Improve the value proposition of partnerships through digital integration. Digital integration capabilities such as APIs can deepen the relationships between insurers and their third-party distributors. As advisors increasingly pivot toward a more comprehensive advisor approach, in which they employ an array of distinct systems to provide holistic guidance, the ability to effortlessly integrate data and tools with partners takes on new significance. Moreover, simple and user-friendly digital self-service offerings for advisors and end customers remain key. While these offerings may not lead to full integration, they enable a more seamless experience for both advisors and end customers.

Enhance capabilities offered to advisors. Digital and AI can help life insurers work more effectively with their advisors. One approach is to develop new analytical models that identify next-best-product recommendations aligned to life events or that help match leads or clients with advisors based on demographics and behavioral data. Both models can help advisors achieve more sales. Life insurers can also consider creating digital platforms to provide advisors with training and support, as well as access to real-time data and insights—for example, including real-time negotiation guidance or personalized outreach recommendations enabled by generative AI. This can help advisors better serve their clients and strengthen potential partnerships.

Strengthen operating-model effectiveness.

Digital and AI can help life insurers streamline their distribution processes by automating tasks or by helping leaders make better decisions. For example, once-complex tasks such as replying to inquiries from end customers or advisors can be automated using AI-supported virtual assistants, and AI models can be used to identify high-producing advisors that insurers may wish to work with.

The insurance industry is at an inflection point. Insurers will need to act with urgency to ensure their distribution models are resilient, flexible, and adaptable to market and industry dynamics now and in the future. Each of the four strategic priorities will play a critical role in driving performance improvements in the near term. In the long term, these shifts could enable insurers to stay competitive, foster relationships with high-producing advisors, and make analytics-enabled decisions that enhance sales processes and the advisor experience. No matter where insurers are in this process, the actions they take in the next one to two years could determine the winners and losers within the next decade.

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