

## The Cost of Life Distribution in Europe

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The cost of life distribution varies considerably across markets and channels. This is increasingly important for insurers and regulators due to the continuing low interest rate environment in Europe, which strongly affects profits. The aim of this paper is to study the distribution costs of different distribution systems/channels and markets, examine the key drivers of distribution costs and discuss future developments against the background of digitalisation and an increasing intensity of intermediary regulation. Our analysis is based on empirical data for the European insurance market. This is complemented by interviews with several industry experts. Our findings suggest that distribution costs depend on various factors and cannot be explained solely by differences in distribution channel strategies.

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### Introduction

The problems of a continuing low interest rate environment and increasing acquisition costs in Europe are making life insurance products less attractive to customers and are becoming more relevant for insurers and legislators. For insurers, this is for two main reasons. First, their new business is at risk, since interest rates have continuously decreased in the last decade (e.g. the technical interest rate in Germany decreased from 4 per cent in 2000 to 1.25 per cent in 2015, in line with decreasing market interest rates),<sup>1</sup> whereas the arithmetic mean and median gross acquisition costs as a percentage of the annual premium equivalent (APE) in Europe increased by 16 and 30 per cent,<sup>2</sup> respectively. Second, legislators have begun to strongly intensify insurance distribution regulation on a European level through, for example, the Insurance Mediation Directive and the upcoming Insurance Distribution Directive, which also applies on a single-

<sup>1</sup> See Wieland (2015, p. 6).

<sup>2</sup> Change of acquisition costs ratio (acquisition costs as a percentage of APE) of 10 European countries (France, Germany, Hungary, Ireland, Italy, Netherlands, Poland, Spain, Sweden, U.K.) between 2000 and 2013. Data source: McKinsey's Global Insurance Pools.