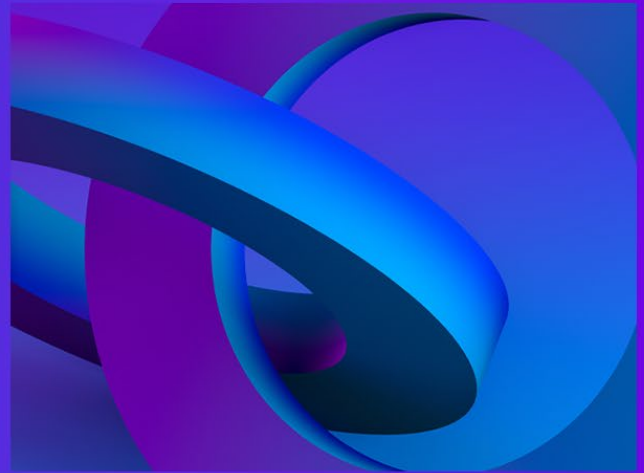


# Future of insurance distribution and services

## Reshaping the insurance distribution landscape



### Transforming insurance distribution

The insurance industry is continuously evolving, with changes driven by private equity, fluctuating interest rates, and industry consolidation. These developments have presented both challenges and opportunities to industry participants. As firms navigate these changes, the importance of embracing new technologies and fostering an apprenticeship culture cannot be understated. The industry's future lies in harnessing innovation and embracing talent.

The insurance distribution space has witnessed significant consolidation with private equity firms gaining prominence over the past 15 years. While private equity companies have indicated that they are in the industry for the long haul, their acquisition strategy is becoming more selective due to rising US interest rates. However, current market competition has driven up prices, and diversification for smaller firms may not be sustainable. Moreover, cash flow pressures have created challenges, particularly for heavily leveraged private-equity-backed firms.

Banks once favored acquiring insurance brokerages for fee income and cross-selling potential, but the landscape has shifted. Most banks have divested their insurance units due to current economic challenges. Opportunities for selective acquirers are limited, with few remaining options that offer significant value.



Market competition for target firms has driven prices higher, making it difficult for roll-up firms to continue performing the way they have in the past.

— **Andrew Watts**, CFO, Brown & Brown



To succeed in acquisitions within the insurance distribution space, companies must prioritize cultural fit, talent acquisition, geographical expansion, and specialized technology. Decentralized models are preferred over synergies, and cross-selling is viewed skeptically as its effectiveness depends on alignment with the core business.

### Insurance distributors embrace talent and ESG

The insurance distribution and services industry is working towards a bright future by offering robust educational and support programs for young professionals.

The industry remains positive and is convinced that emphasizing the meaningfulness of insurance can entice younger talent and resolve the challenge of an aging workforce.



Years ago, many held the belief that a large portion of the insurance distribution model would transition online, making producers obsolete. However, despite insurtechs' struggles, insurance brokers still play a crucial role in the industry.

— **Michael Scherer**, Partner, Advisory, Financial Due Diligence, KPMG LLP



Recognizing the importance of insurtechs comes with significant investments in technology and data analytics to enhance efficiency and credibility. These investments aim to address critical challenges, such as reduced accessibility, affordability, climate change, and catastrophe-exposed properties.

However, the possibility of higher prices may lead to affordability concerns, and the economic impact of unaffordable insurance. The significant economic impact of unaffordable insurance emphasizes the need to address the issue urgently. It is also important to understand that lack of affordable insurance can impact mobility.

Education and awareness of environmental, social, and governance (ESG) considerations are increasingly gaining traction in the insurance distribution and services sector. Insurance carriers are investing in educating policymakers, communities, regulators, and companies alike, specifically on climate-related issues.

Furthermore, some carriers are committed to incorporating ESG factors into their underwriting processes, influencing which accounts they write and what coverage they provide. This commitment is likely to shape the future of insurance distribution and services. A growing number of companies are also considering ESG factors when evaluating investment and partnership risks, emphasizing the significance of ESG for the insurance industry's future.

## Navigating challenges in the sector

The insurance industry serves as a vital safeguard against unforeseen risks, underpins financial stability, and constantly adapts to the changing landscape of modern life. The biggest concerns for the distribution and services sector for the next two to three years are:

- **Attracting talent. Leveraging technology.** Ensuring the industry attracts new talent to augment an aging workforce. Leveraging technology for new capabilities in operations, offerings, and recruitment is crucial going forward.
- **Evaluate and experiment with generative artificial intelligence (AI).** The insurance industry is currently in the early stages of evaluating generative AI, with both positive and negative implications to consider.

- However, the industry still faces challenges in dealing with unstructured data and paper-based processes, which poses a challenge that technology and generative AI may help address.
- **Creating an apprenticeship culture.** Most companies were operating with a geographically dispersed team and endorsing remote work pre-pandemic, but now these companies need to prioritize fostering an apprenticeship culture. Organizations recognize that while remote work doesn't hinder productivity, training new hires remotely is challenging. It is essential to find a balance between remote work and in-person collaboration to foster innovation and achieve growth.

As the insurance industry undergoes ongoing transformation, embracing digital distribution and services becomes essential for achieving success and long-term sustainability. The sector is actively charting a course towards a promising future through investments in education and technology, the infusion of talent, and the incorporation of ESG considerations.

## KPMG. Make the Difference.

Ready to tackle the evolving insurance distribution landscape?

KPMG is a trusted professional in transforming distribution processes. Leverage our proficiency to harness innovation, foster a culture of learning, and embrace technology for enhanced agility. At KPMG, we make the difference.

## Contact



**Michael Scherer**  
Partner, Advisory, Financial Due Diligence  
[mscherer@KPMG.com](mailto:mscherer@KPMG.com)  
KPMG LLP

This information was originally presented at the KPMG 35th Annual Insurance Industry Conference.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us:  [kpmg.com](https://www.kpmg.com)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS010880-1F

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.