

Press Release

The Quality of Life Insurance Sales in the Czech Republic is Poor, the Commissions of Insurance Brokers are 20 Times Higher than Clients Wish to Pay

Prague, 3 June 2014 – The quality of life insurance sales is still relatively poor in the Czech Republic. Among the major problems of the Czech life insurance market are the short duration of new policies and the fact that clients prefer to conclude new policies with other life insurance companies due to commissions that are again obtained by insurance brokers. Among other alarming problems are overly complex products with fees that are not clear; and life insurance that does not fit the client's needs. The survey of Deloitte and STEM/MARK carried out in April 2014, in which 1,066 respondents participated, has suggested that the commissions of life insurance brokers are 20 times higher than clients would be willing to pay for them based of their evaluation of the advisory services provided.

Life insurance is an important instrument that ensures economic security for the family, but it is still neglected in the Czech Republic. On average, Czechs spend three times less on life insurance than for example the Germans or Austrians according to the statistics of the Association of Insurance Companies. Therefore, life insurance has great potential in the Czech Republic if it is not complicated by the above problems related to sale quality. These are closely related to the prevalent business model used for life insurance distribution.

"Clients rarely select and purchase life insurance themselves; more often it is sold to them by a financial advisor. Insurance companies target their competitive offers related to the amount of commission and life insurance parameters at distributors, not at end customers. Non-transparent practices such as initial units related to capital life insurance or expensive special supplemental insurance help insurance companies to cover distribution costs but are not favourable for the end customer," said Karel Veselý, Director in Deloitte's actuarial advisory services.

Main outputs of the survey:

- **Impartiality of the offer** – Independent financial advisors achieved slightly better results as for the impartiality of the offered solution (67% respondents were satisfied), along with insurance company representatives (72% were satisfied); bank advisors achieved worse results (44% were not satisfied);
- **Consideration of clients' needs** – 72% of respondents who have been offered life insurance and have not concluded a policy claimed that the offer did not fit their needs, which is alarming. 12% of clients with life insurance declare the concluded insurance does not fit their needs;
- **Expertise of advisors** – The respondents claim bank advisors and independent financial advisors have only a limited degree of expertise (26% and 24% of respondents were not satisfied, respectively), slightly better results were achieved by insurance companies' employees (19% of respondents were not satisfied);
- **Commissions for advisory services** – Clients who have concluded life insurance policies are willing to pay CZK 657 on average for the advisory services provided during life insurance selection. Only 8% would be willing to pay over CZK 1,000. Clients who refused to conclude a policy would only pay CZK 319 on average;

- **Clarity of the offer** – Most respondents (85%) perceive the explanation of life insurance conditions to have been definitely or rather clear. The most striking differences can be seen in the perception of services offered by independent financial advisors. On the one hand, among the respondents who have concluded a policy, independent advisors achieved the best results (65% of respondents were satisfied), on the other hand, they achieved the worst result among those who have been offered life insurance and refused it (41 %);
- **Who offers life insurance to clients** – The respondents have most often been offered life insurance by a representative of an insurer (48%), an employee of a bank (26%) or an independent financial advisor (24%). The success rate of concluding policies is higher for insurers' representatives and independent financial advisors and lower for bank advisors;
- **Life insurance client profile** – 72% of respondents have been offered life insurance, but only 39% actually have life insurance; these are more frequently persons with A-levels (45%) or a university degree (51%); life insurance policies are most often concluded by persons at the age of 45-59 (55% of respondents) or at the age of 30-44 (45% of respondents);
- **Situation in different regions of the Czech Republic** – When comparing the three regions (Bohemia, Moravia, Silesia), Moravians tend to conclude life insurance policies more often than Bohemians; 43% of Moravians have life insurance; for Bohemians the number is 38%. Almost a third of Prague's inhabitants (30%) possess life insurance, which is the lowest share according to the survey.
- **Comparison of the situation based on gender** – Life insurance policies are slightly more often concluded by men than by women (41% of men and 37% of women).

“The survey has shown a great difference between the amounts that the client is willing to pay to a financial advisor and the actual commissions paid on the market. The usual commission for an average life insurance with annual premiums amounting to CZK 9,000 is CZK 14 to 16 thousand (160% - 180% of the annual premiums), ie 20 times more than the client would be willing to pay on average,” said Peter Wright, Partner in Deloitte’s tax and legal department and the FSI advisory services leader in Central Europe, and added: “We expect that the young generation of clients will wish to select life insurance themselves or have a truly independent financial advisor. Our experience from other countries, eg from the United Kingdom, the Netherlands and Germany, suggests that the current life insurance sale model in the Czech Republic will have to be modified.”

“What is positive is that some insurance companies realise the necessity to improve the quality of the life insurance market. Such insurance companies, for example, give up initial units related to capital life insurance or stop cooperating with unreliable networks. Some life insurance providers, for example, accept the distribution of commission over time, in order to decrease the motivation to concentrate solely on the short term volume of new sales; or they receive the same commission from different insurance companies, which is a step towards real independence,” said Karel Veselý.

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