

“Ridiculous to envy freelance insurance brokers”

Are the commissions and brokerage fees for insurance brokers too high? In an interview with *Versicherungsmagazin*, Claus Peter Hendricks from the consulting firm zeb explains, among other things, why he does not share this opinion and what he thinks of commission-based advisory services.

Mr. Hendricks, freelance insurance agents are often accused of having excessive commissions and brokerage fees.

Do you share this assessment?

In my opinion, giving people incentives for economically meaningful activities is a simple necessity. In the context of protection and provision, the most common incentive model is commission-based advice. Due to comprehensive cancellation liability policies in the industry, the broker is motivated to conclude insurance contracts that the customer does not cancel. Or put differently, to conclude contracts that give the customer a benefit. There is thus a strong case for commission-based advice.

What are the average commission rates for independent agents and brokers?

If one looks at the total remuneration of brokers, one finds that the annual commission income is on average between 50,000 and 70,000 euros per year.

As is so often the case with averages, here too reality is widely dispersed. Approximately half of the brokers in Germany have less than 50,000 euros of commission income per year.

These are independent commercial agents. In their case, to determine the profit, the individual investments and operating costs need to be deducted. After taking them out of the equation, the remaining available income is significantly lower. If the entrepreneurial risk that a commercial agent takes is also considered, then it quickly becomes clear that envying the freelance insurance broker is ridiculous.

What commission rates are there for the different insurance products?

The rates of remuneration vary quite considerably depending on the types of insurance. The highest commission rates currently apply to decreasing temporary assurance. However, decreasing temporary assurance is a product of bank sales, as it is always concluded with the underlying loan agreement. For the kinds of insurance brokers we are talking about here, this pool of income is not available. Their remuneration is primarily composed of income from property and casualty, health and life insurance. For property and casualty insurance, an annual commission of 15 to 20 percent of the net insurance premium is usually paid. This is associated to the ongoing obligation

of the agent to provide advice during the term of the contract.

What about for health and life insurance?

In health insurance, an upper limit for the brokerage commission was set a few years ago at nine monthly premiums and paid upon conclusion of the insurance contract. In life and pension insurance, the commission is lowest at between three and five percent of the total premiums paid by the customer. Nevertheless, brokerage commission is expected to be capped here as well. The draft law on the capping of acquisition commission for life insurance policies and residual debt insurance policies provides for a maximum remuneration of 2.5 percent plus a special remuneration of 1.5 percent if the intermediary meets verifiable quality criteria, such as a low cancellation rate, a low number of complaints or if they offer high-quality and comprehensive advice.

How do you know that?

We currently advise many insurers on the pragmatic implementation of such remuneration models. For the majority of tied agents, this is not a problem because they tend to be at the lower end of the range of commission margins mentioned above.

Claus Peter Hendricks

heads the Practice Group Insurance Sales and Operations of the strategy and management consultancy zeb. He has more than 15 years of experience in advising financial service providers in Europe. The expert has been responsible for a large number of sales transformation projects.



Commissions tend to be higher in broker sales, as the exclusive support services provided by the insurer in broker sales are no longer provided or are significantly restricted. Furthermore, the remuneration from life insurance policies represents a central source of income for the majority of brokers. According to our analyses, one-third of insurance brokers in Germany generate more than 50 percent of their income from life and pension insurance. For 15 percent of brokers, the life insurance share of the total commission is over 70 percent. A commission cap of four percent is therefore linked to a further loss of income for insurance brokers.

What is it like in other industries? In other sectors, too, commission payments to intermediaries are common practice. In the automotive industry, salespeople usually receive a gross commission of over ten percent for vehicles and a higher rate for accessories. However, the basis of calculation here is different from that used in the insurance industry, meaning that comparisons are not immediately meaningful.

However, one does not have to look so far into other industries to classify the remuneration of brokers. In wealth management, fees of approximately five percent are common. In the event of an annual examination of the appropriateness and suitability of the asset management with regard to the knowledge and needs of the customer, further commissions for customer care are added. Another example would be the German real estate market. Depending on the region, the broker's commission is usually between five and six percent of the property price. And including value-added tax, this can accordingly account for up to 7.14 percent of the purchase price.

What would be an optimal fee structure? The topic of commission-based consulting has been given strong political support in recent years. Insurers are obliged to cooperate with commission-based insurance advisors at least in the lines of business requiring contracts. The optimal fee for advisory services should be based on transparent and standardized criteria. For private households, a standardized financial analysis according to DIN 77230 could

be a good basis for commission-based consulting.

But we should remember that there are only a few hundred commission-based insurance brokers. The willingness of private households to pay a fee for advisory services remains extremely low.

Should we differentiate here according to sectors?

The majority of commission-based insurance advisors now work in commercial business. Here, customers and advisors interact with a high level of professionalism. The value of good advice is transparent for both parties and therefore always understandable. Accordingly, the willingness to pay fees is high. At present, it seems unlikely that similar conditions will develop in the retail banking sector. However, in order to give private households access to qualified advice in the insurance sector, commission-based advice remains an important pillar of German financial services.



The interview was conducted by François Baumgartner.