

How Do Insurance Companies Inform their Clients of Insured Value within Business Insurance against Natural Disasters in the Czech Republic?

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Abstract

This article elaborates on how information is provided in the terms and conditions of various insurers and how it is related to one of potential demonstrations of information asymmetry. The aim of this article is to evaluate the rate of knowledgeable of the characteristic “insured value” within business insurance against natural disasters in the Czech Republic as of Sep 1, 2013. This article analyses the supply side of the insurance market, i.e. insurers, evaluating how insurers inform their clients of the characteristic “insured value”. Evaluation of the rate of knowledgeable is achieved by the method of comparison of the standard of information with actual information provided within the insurers’ terms and conditions. This article also presents a calculation of the rate of knowledgeable. The standard of information is established based on analysis and synthesis of knowledge of insurance theory, practice and legislation in the Czech Republic. The method of selection is also used. The outcome of this article is a model of the standard terms and conditions regarding the characteristic “insured value”, evaluation of knowledgeable within the Czech insurance market and presentation of specific recommendations for the insurance market to improve the rate of knowledgeable.

*Keywords: rate of knowledgeable, information asymmetry, unawareness risk, insurance market.
Jel codes: G22, D82*

1. Introduction

The insurance market is one component of the system of markets in economy. Information on insurance products is not as straightforward as, for example, on the market of goods. An insurance product should be specified with respect to provisions of an insurance contract and its terms and conditions. Correct specification of an insurance product depends on whether or not we are actually familiar with information contained in the insurance contract. Unawareness of this information, in the phase of negotiating, may lead to a financial loss of the insured party, especially in the event of a claim. Lack of information may represent a hazard. Proper decision making is dependent on information, especially on collecting and processing it. (Smejkal, Rajs, 2006)

Providing information on products is related to the information asymmetry problems on the supply side and there are many ways, on the insurance market, to avoid communicating all relevant information, which gives ample scope to information asymmetry. Information asymmetry on the Czech insurance market has been repeatedly elaborated on in scientific publications by Daňhel (2002), Daňhel, Ducháčková, Radová (2007) and Ducháčková, Daňhel (2010). These authors consider the insurance market, with reference to the rules of market mechanism, significantly deformed as for information asymmetry. (Ducháčková, Daňhel, 2010). Daňhel, Ducháčková and Radová (2007) also point out that the insurance market can be characterized as a market with mutual information imperfection considering that neither of parties can predict the future which may bring negative financial consequences to both parties of the insurance contract, predominantly on the supply side. According to Tříška (2002), the customer knows his or her own risk level better but it is the insurer who masters the insurance terms and conditions, e.g. circumstances under which the insurance company is entitled to refuse to pay out a claim.

The main objective of this article is to evaluate the rate of knowledgeable as regards the characteristic “insured value” within business insurance against natural disasters in the Czech

Republic. Insured property can be specified using various criteria. The criterion used in this article is the characteristic related to business insurance against natural disasters called “insured value”. The article describes this characteristic and sets a collection of information necessary for negotiating an insurance contract. The article also evaluates the rate of knowledgeableness on the insurance market as of Sep 1, 2013. Those interested in having their property insured (future insured party) should focus on these characteristics and consequently specify the insured property before the insurance contract is concluded. It is important to point out that legislation in the Czech Republic constitutes the duty of every policy holder to learn the terms and conditions which are a component of the insurance contract. Legislation assumes that the policy holder is familiar with contents of the insurance contract. The article asks this research question: *“What is the rate of knowledgeableness on the Czech insurance market regarding the characteristic “insured value”?*

This article is based on the state of Czech insurance market as of Sep 1, 2013 and on the current state of legislation, i.e. Act No. 37/2004 Coll., Insurance Contract Act and the terms and conditions of insurers offering business insurance against natural disasters. Insurance theory in the Czech Republic deals with this issue in a general sense. To the contrary, this research is narrowly focused and elaborates on a very specific area. This article proceeds from practical processes accompanying negotiating of the contract of business insurance against natural disasters.

As a consequence of the focus this article has, a qualitative research with some elements of a quantitative research (rate of knowledgeableness) will be used. A brand new method for evaluating the terms and conditions is formulated. This method is called “Method of standard terms and conditions (STANDARD TaC Method)” and it is the pillar for creating basic information (base) for their evaluation. This set of information is called “STANDARD TaC Model”.

In order to achieve the aim of this article and answer our research question, we will proceed as follows.

- Theoretical introduction to the analyzed issue is contained in the following chapter (Chapter 2). This chapter will describe the nature of “insured value”, proceeding from the relevant bibliography, legislation, information available on the web pages of the Czech Insurance Association (CAP) and also latest findings in insurance practice. The outcome of this introduction is a description of terms related to “insured value”. This description is an introduction to the analysis and it summarizes information in subchapter 3.2.
- Analysis of the insurance market (subchapter 3.1) provides a summary of insurers who offer business insurance against natural disasters and it presents insurers’ shares on the market of business insurance against natural disasters.
- The analysis of insurers uses data presented in the 2012’s Annual Report of CAP and individual results of its members as of 2012 (CAP, 2013).
- The further step of this research contains an analysis of the terms and conditions of chosen insurers (subchapter 3.2). Before this can be conducted, we need information, according to which the terms and conditions should be analyzed. The starting point for this is contained in the theoretical introduction in Chapter 2. The result of the analysis of the terms and conditions is, using a method of selection, a key for summarizing information which pose a risk to the insured party and, using a method of synthesis, the STANDARD TaC Model (as shown in Chart 8) can be created. The standard of terms and conditions is then used for comparing and further evaluation of the terms and conditions. Including this standard in the terms and conditions is necessary because it reduces the insured party’s risk of financial loss.
- Another step of our research (subchapter 3.3) is the most essential because it evaluates the terms and conditions. The subchapter presents evaluation of the rate of knowledgeableness of insurers. The evaluation of insurers is conducted by the STANDARD TaC Method in the following way: Each piece of information has its number (see STANDARD TaC Model). There are fifteen pieces of information. Chart 9 presents information according to its number in lines and according to individual insurers in columns of the chart. When a cell in Chart 9 contains “YES”, the piece of information with the given number is included in the terms and conditions. An empty cell means that the piece of information is missing. Cells with “YES” are then counted up. Counts are then listed (11 subjects). The insurer with the highest total informs customers of the characteristic “insured value” in the best possible way. Every total is accompanied by a percentage according to each insurer. Totals of information are also presented, based on specified information (15 pieces of information).

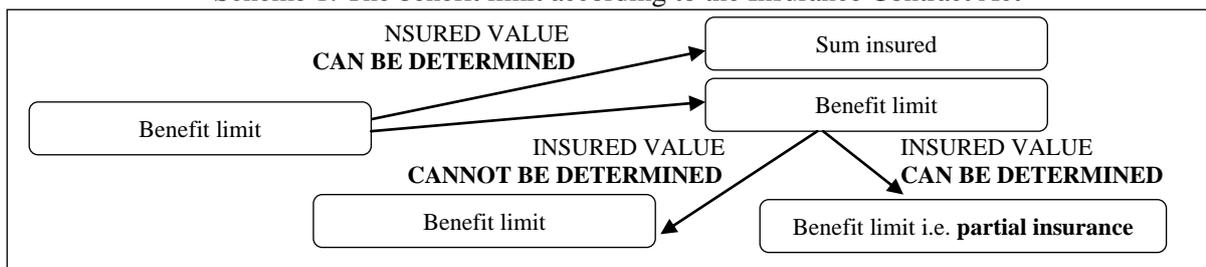
Information with the highest total on the Czech market is published in the best possible way. The total of information expresses the rate of knowledgeableness according to individual insurers on the insurance market.

2. Theoretical introduction regarding “insured value”

The sum insured is directly related to the value of an insured article (i.e. property or interest) which is called “insured value”. The Insurance Contract Act contains following information related to the issue of insured value or sum insured. The insured value is the maximum amount an insurance company will pay. The upper benefit limit is defined by the sum insured or by the benefit limit. If it is possible to determine the property insurance value, the upper limit is defined by the sum insured. The sum insured is determined in the insurance contract on the proposal of the insured party so that it corresponds with the sum insured regarding the insured property at the time of conclusion of the insurance contract.

If it is impossible to determine the insured value of property, the upper benefit limit is determined by the benefit limit. The benefit limit must be included in the insurance contract even if the private insurance covers only a partial value of the insured property, which is known as “partial insurance”. The benefit limit can also be arranged in case that the insured value can be determined and if an insurance interest is present. Also, the Insurance Contract Act states that the benefit limit covers only one occurrence of loss/damage, unless otherwise agreed in the insurance contract. The situation as described in the Insurance Contract Act can be depicted by this scheme.

Scheme 1: The benefit limit according to the Insurance Contract Act



Source: Own work

Property insurance belongs to the group of damage insurance. It has three basic forms. It is either a pure interest insurance, first risk insurance or full value insurance. Pure interest insurance is a type of insurance without a sum insured. It is not used in case of property insurance. First risk insurance (this term is not used by the Insurance Contract Act itself) is sometimes referred to as limited pure interest insurance. Sum insured sets the maximum limit of the insurance payment. Intensity of insurance protection is dependent on height of the sum insured. First risk insurance is used when property insured value cannot be easily determined. In case of first risk insurance, underinsurance provisions are not used, this should be stipulated in the insurance contract, unless it is stated in the terms and conditions. First risk insurance also excludes the risk of overinsurance. Full value insurance is the fundamental form of property insurance. The benefit depends on the insurance value (value of insured property). The value of the insured property must be determined beforehand with regard to any changes in economic conditions during the insurance period. The sum insured gives the maximum benefit threshold (which is given by the indicated insured property value) and the insurance protection intensity as underinsurance may occur. (Ducháčková, 2003)

The following chart summarizes potential situations of full value insurance and expresses influence of sum insured on the benefit and premium.

Chart 1: Full value insurance within property insurance

Comparison of sum insured and insured value	Underinsurance/overinsurance emergence	Comparison of Benefit and Damage	Relation of Premium to Sum Insured
S.I. = I.V.		Benefit = damage	Adequate Premium
S.I. < I.V.	Underinsurance emerges	Benefit < damage	Lower Premium Value
S.I. > I.V.	Overinsurance emerges	Benefit = damage	Higher Premium Value

Source: Own work

Legend. S.I. – Sum insured; I.V. – Insured value

The terms underinsurance and overinsurance are used by the Insurance Contract Act itself. Overinsurance emerges wherever the sum insured exceeds the insured value of property. In case of overinsurance, the insured party pays higher premium and when an insured event occurs, the insured party obtains the value of the real damage. Underinsurance, according to the Insurance Contract Act, emerges wherever the sum insured, at the time of the insured event, is lower than the insurance value of the insured property. The insurer then pays lower benefit. According to the Insurance Contract Act, the insurer shall reduce the benefit in such proportion in which the sum insured stands with regard to the actual amount of the insurance value of the insured property, unless otherwise stated in the insurance contract.

Insured value of individual articles belonging to one's property can be defined by a new price or a current price. The Insurance Contract Act also mentions a usual price. The new price is a price for which, at the given location and time, one can buy the same or comparable product, of the same kind or purpose (The Insurance Contract Act). A new price is the reproduction price of property and when appraising and assessing it, depreciation of property is not taken into account. A current price is the price of an article immediately prior to the insured loss. It is calculated from the new price and brought closer to the degree of wear and other kind of depreciation or valuation of the article that has occurred as a result of a repair or modernization of the same or in any other way (The Insurance Contract Act). The Insurance Contract Act also mentions the term "customary price". Customary price insurance comes into consideration if a new price or current price is not determined by the insurance contract. A customary price is defined by the Act No. 151/1997 Coll., on Valuation of Property.

The Insurance Contract Act does not define procedure for determining the insured value. Every insurance company has its own methodology for determining it. Non-binding methodology for calculation of value of property can be found on the website of the Czech Insurance Association (CAP, 2013). It is an approximate calculation and there is a warning stating that the calculated insured value is a minimal value for new price insurance. Responsibility for determining the sum insured is held by the insured party.

3. Results

Business insurance against natural disasters is defined by these characteristics: "article of property", "proprietary rights to property", "insurance location", "exceptions from insured property" and "insured value". These characteristics are usually included in the insurance contract or in the terms and conditions. It is obvious that it is essential for the insured party to have a good knowledge of these characteristics, with insured value playing an especially important role. Appropriate determination of insured value and subsequent determination of the sum insured in the insurance contract is interwoven with the other characteristics. It is impossible to correctly determine the type and height of the insured value without determining the insurance location and proprietary rights to property. To each characteristic it is possible to determine a set of information which is essential for the client and which should be contained in the terms and conditions of the insurer. Unawareness of any information represents a risk of financial loss in case of paying premiums or application for insurance benefit.

3.1 Analysis of the market with business insurance against natural disasters

The insurance market of members of the Czech Insurance Association got to 68'409'165'000 CZK in 2012 (CAP, 2013). According to the 2012's results published by Czech National Bank (CNB), the insurance market of all insurers in non-life insurance got to 83'083'478'000 CZK (CNB, 2013).

The share of CAP members in the written benefit of the Czech Republic in 2012 is almost 86 %. Business insurance against natural disasters is marketed by 14 insurers as shown in the chart below. The chart arranges subjects according to their percentage in the insurance market (with business property insurance) in 2012. The chart also shows the percentage in the insurance market. The insurers KOOP, CP, GP and ALLIANZ show totals higher than one billion Czech crowns. CP ranks first in the category of business insurance against natural disasters in the Czech Republic. The insurers WUST and PVZP are excluded from further research because their shares in the insurance market are minimal (up to 0.1 %). Also HDI is excluded from further research because it arranges insurance in a different form (so-called all-risk insurance).

Chart 2: Written insurance premiums in 2012

Insurer	Abbreviation	Written insurance – business property insurance (thousands of CZK)	Percentage in the insurance market (%)
Česká pojišťovna a.s.	CP	3 917 099	32.75
Kooperativa pojišťovna, a.s., Vienna Insurance Group	KOOP	3 137 018	26.23
Generali Pojišťovna a.s.	GP	1 309 402	10.95
Allianz pojišťovna, a.s.	ALLIANZ	1 149 099	9.61
ČSOB Pojišťovna, a. s., člen holdingu ČSOB	CSOBP	710 099	5.94
UNIQA pojišťovna, a.s.	UNIQA	591 074	4.94
Česká podnikatelská pojišťovna, a.s., Viena Insurance Group	CPP	453 523	3.79
MAXIMA pojišťovna, a.s.	MAXIMA	251 430	2.10
Hasičská vzájemná pojišťovna, a.s.	HVP	174 814	1.46
HDI Versicherung AG, organizační složka	HDI	168 398	1.41
Triglav pojišťovna, a.s.	TRIGLAV	53 953	0,45
Slavia pojišťovna a.s.	SLAVIA	40 898	0.34
Wüstenrot pojišťovna a.s.	WUST	2 770	0.02
Pojišťovna VZP, a.s.	PVZP	633	0.01
Total		11 960 210	100.00

Source: Own work based on CAP's data (CAP, 2013)

3.2 Analysis and summary of information on characteristic “insured value”

Based on provisions in terms and conditions of insurers (KOOP, CP, GP, ALLIANZ, UNIQA, CSOBP, CPP, HVP, MAXIMA, SLAVIA, TRIGLAV, as of 2013) following summary is conducted, also specifying information on insured value. All insurance companies use terms “insured value” and “sum insured” and relations between these two. All insurance companies define the upper limit of the insurance benefit. Insured value can be defined by a new price, current price or customary price. The chart below summarizes whether or not insurers use the terms “new price”, “current price” and “customary price”.

Chart 3: Use of terms: new, current and customary price, or another price

Insurer	Definition of the terms			
	New price	Current price	Customary price	Another price
KOOP	YES	YES	YES	N/A
CP	YES	YES	YES	N/A
GP	YES	YES	YES	Defined by contract
ALLIANZ	YES	YES	YES	N/A
UNIQA	YES	YES	YES	N/A
CSOBP	YES	YES	N/A	N/A
CPP	YES	YES	N/A	E. g. Expert opinion
HVP	YES	YES	N/A	According to the provisions of contract
MAXIMA	YES	YES	N/A	Modified price / Agreed price / Another method
SLAVIA	YES	YES	YES	N/A
TRIGLAV	YES	YES	N/A	N/A

Source: Own work based on the terms and conditions of insurers

Looking at the chart above, it is obvious that the terms “new price” and “current price” are used by all insurers. The term “customary price” is not used by all of them and some even define other prices. Other prices are of a general substance and the term “customary price” may be included in it. However, this term is essential for full knowledgeablebleness of applicants for insurance.

Apart from full value insurance, i.e. with the sum insured, insurance with a limited benefit can be arranged, either as first risk insurance or partial insurance. All insurance companies also have, according to their terms and conditions, first risk insurance available.

First risk insurance is normally used when insured value cannot be determined. Partial insurance is a type of insurance used when the insured value can be determined but at the same time, a benefit limit is present. Some insurance companies present information in a different way. Comparison of these findings is presented in the following chart.

Chart 4: Providing information on first risk insurance

Insurer	Providing information on first risk insurance		
	Definition of first risk	Condition – insured value cannot be determined	Different view on first risk, explanation of first risk and explanation
KOOP	YES	YES	None
CP	YES	N/A	None
GP	YES	YES	None
ALLIANZ	YES	YES	None
UNIQA	YES	N/A	None
CSOBP	YES	N/A	YES Partial insurance is included in first risk insurance
CPP	YES	N/A	YES Partial insurance is included in first risk insurance
HVP	YES	Ambiguous	YES Deliberate reduction of insured value Two different explanations
MAXIMA	YES	Ambiguous	YES Partial insurance is included in first risk insurance
SLAVIA	YES	YES	None
TRIGLAV	YES	YES	None

Source: Own work based on the terms and conditions of insurers

As shown in the chart above, CP, UNIQA, CSOBP, CPP, HVP and MAXIMA do not state that the first risk insurance is used whenever insured value cannot be determined. CSOBP states that first risk insurance includes situations in which insured value cannot be determined and in which insured value can be determined but only a part of value is used, which is called partial insurance. Also CPP and Maxima subdivide the first risk insurance. HVP states that first risk insurance arises from a situation in which insured value (of an insured article or a set of articles) is deliberately reduced. It also states (within the terms of conditions regarding buildings) that first risk insurance should be arranged whenever insured value cannot be determined.

First risk insurance brings further important information. With this type of insurance, it is necessary to arrange a condition of waiving the underinsurance. This arrangement quite logically arises from the nature of first risk. Whenever it is not possible to determine insured value of property, underinsurance, in case of insurance payment, cannot be applied. Most insurers state this fact. Other essential information on first risk is progressive drawing of the sum insured in accordance with the height of benefits being paid out. The insured party has an option of taking supplemental insurance of the sum insured. Doing this is necessary at full value insurance with benefit limits to one or all insured events which would occur within one insurance year, or within a period of insurance. Whenever insurance companies, in their terms and conditions, draw attention to supplemental insurance, this is true for both situations. Maximum yearly benefit limit is applied in both situations. The following chart summarizes the analysis.

Chart 5: Providing other information on first risk insurance

Insurer	Providing other information on first risk insurance	
	Invalidity of underinsurance	Notice of supplemental insurance of the sum insured after insurance payment
KOOP	N/A	YES
CP	YES	N/A
GP	YES	YES
ALLIANZ	YES	N/A
UNIQA	YES	YES
CSOBP	N/A	N/A
CPP	YES	YES
HVP	YES	N/A
MAXIMA	YES	YES
SLAVIA	N/A	YES
TRIGLAV	YES	YES

Source: Own work based on the terms and conditions of insurers

The term “partial insurance” is defined by the Insurance Contract Act. Some insurance companies do not use this term (CP, ALLIANZ, UNIQA, CPP, HVP, MAXIMA and TRIGLAV). Partial insurance means a benefit limit is applied for an insured article and insurance is arranged only for a certain part of the insured value. In this case, provisions on underinsurance are used. The insurance company CPP, as the only insurer, mentions waiver of underinsurance also when a benefit limit is arranged for an insured article. The following chart compares definitions of partial insurance and definitions of insurance with benefit limits according to insurers including noting supplemental insurance of the sum insured (benefit limit) after an insured event.

Chart 6: Providing information on partial insurance

Insurer	Definition of partial insurance	Definition of insurance with benefit limit	Notice of supplemental insurance of the sum insured after insured event
KOOP	YES	YES	YES
CP	N/A, mentions benefit limit	YES	N/A
GP	YES, as a yearly benefit limit	YES	YES
ALLIANZ	N/A	YES	N/A
UNIQA	N/A	N/A	N/A
CSOBP	YES	YES	N/A
CPP	N/A	YES	ANO
HVP	N/A	YES	N/A
MAXIMA	N/A	N/A	N/A
SLAVIA	YES	YES	YES
TRIGLAV	N/A	YES	N/A

Source: Own work based on the terms and conditions of insurers

None of the insurance companies state procedure for determining the insured value of the insured property. The most detailed description of determining the sum insured can be found in the terms and conditions of the insurance company GP. Applicants for insurance can determine the insured value using terms as new price, current price and customary price. In the insurance practice, an employee of an insurance company usually appraises the property. Insurance companies use their own methodology to do this. When an agent is used to arrange insurance with a client, it is this agent who appraises the property, using methodology defined by the insurance company. It is the policyholder who is liable for the height of the sum insured (which should be in accordance with the sum insured). This liability is stated in the Insurance Contract Act itself. All insurance companies except MAXIMA include information on liability.

Determination of the insurance value and liability is linked to the terms underinsurance and overinsurance. Both terms are defined by the Insurance Contract Act. Dissimilarities in descriptions of these terms were found in the analysis of the terms and conditions which was previously conducted. Most insurance companies elaborate on the term underinsurance. Only

the insurer CP does not explain its meaning, however, it is mentioned in the terms and conditions. Overinsurance is not explained by most insurance companies although this information is essential for the fact that the insured party always obtains payment representing the true damage. Whether or not this information is states in the terms and conditions is showed in this chart.

Chart 7: Providing information on terms underinsurance and overinsurance

Insurer	Providing information on terms underinsurance and overinsurance			
	Definition of underinsurance	Definition of overinsurance	Definition or overinsurance based on the Ins. Contract Act	Notice of benefit in case of overinsurance
KOOP	YES	N/A	N/A	N/A
CP	N/A	N/A	N/A	N/A
GP	YES	YES	N/A	YES
ALLIANZ	YES	N/A	N/A	N/A
UNIQA	YES	N/A	N/A	N/A
CSOBP	YES	N/A	N/A	N/A
CPP	YES	YES	Partially	N/A
HVP	YES	YES	YES	N/A
MAXIMA	YES	N/A	N/A	N/A
SLAVIA	YES	N/A	N/A	N/A
TRIGLAV	YES	N/A	N/A	N/A

Source: Own work based on the terms and conditions of insurers

Based on the previous analysis and summary, we were able to identify policyholders' risks regarding the characteristic "insured value". Unawareness of any information represents a risk for the insured party. The risk of unawareness of information on "insured value" regards:

- definitions of the terms "insured value", "sum insured" and "upper benefit limit"
- definitions of the terms "new price", "current price", "customary price" or another price
- first risk insurance including underinsurance and drawing the sum insured
- partial insurance including underinsurance and drawing the sum insured
- liability for determining the sum insured
- definitions of the term underinsurance and supplement insurance

This information is further evaluated. It becomes a starting point for evaluation of knowledgeableness on the insurance market with business insurance against natural disasters. The following chart presents a basic set of information which insurers should include in their terms and conditions. This is called "STANDARD TaC Model" and it is based on the characteristic "insured value".

Chart 8: STANDARD TaC Model based on the characteristic „insured value“

Information connected with determining insured value of the insured property	
Information	Number of information
Definitions of the terms "insured value", "sum insured"	1
Definitions of the term "upper benefit limit"	2
Definitions of the terms "new price", "current price"	3
Definitions of the term "customary price"	4
First risk insurance availability	5
Waiver of underinsurance at first risk insurance	6
Supplemental insurance of the sum insured after insurance payment at first risk insurance	7
Partial insurance availability	8
Availability of insurance with benefit limit	9
Notice of additional insurance of the benefit limit after the insured event	10
Definition of "underinsurance"	11
Definition of "overinsurance"	12
Definition of "overinsurance" based on the Insurance Contract Act	13
Notice of benefit in case of overinsurance	14
Liability for determining the sum insured	15

Source: Own work

3.3 Evaluation of insurers' knowledgeableness

The chart below presents evaluation of insurers based on the previously defined set of information. Numbers of information are used based on what was presented in the chart above.

Chart 9: Evaluation of knowledgeableness based on the terms and conditions of insurers using the STANDARD TaC Method

Number of information	Sum of information according to insurers											Sum of information according to the insurance market	
	KOOP	CP	GP	ALLIANZ	UNIQA	CSOBP	CPP	HVP	MAXIMA	SLAVIA	TRIGLAV	Absolutely	Relatively
1	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	11	100 %
2	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	11	100 %
3	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	11	100 %
4	YES	YES	YES	YES	YES					YES		6	55 %
5	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	11	100 %
6		YES	YES	YES	YES		YES	YES	YES		YES	8	73 %
7	YES		YES		YES		YES		YES	YES	YES	7	64 %
8	YES		YES			YES				YES		4	36 %
9	YES	YES	YES	YES		YES	YES	YES		YES	YES	9	82 %
10	YES		YES				YES			YES		4	36 %
11	YES		YES	10	91 %								
12			YES				YES	YES				3	27 %
13								YES				1	9 %
14			YES									1	9 %
15	YES	YES	YES	YES	YES	YES	YES	YES		YES	YES	10	91 %
Absolutely	11	8	14	9	9	8	11	10	7	11	9	107	65 %
Relatively	73 %	53 %	93 %	60 %	60 %	53 %	73 %	67 %	47 %	73 %	60 %	65 %	

Source: Own work

The following chart evaluates information based on the set on the insurance market in the characteristic “insured value”. The left part of the chart ranks insurers according to premium arranged on the insurance market with business property insurance. The right part of the chart ranks insurers based on the amount of information presented in the terms and conditions regarding the characteristic “insured value” within business property insurance. Maximum amount of information is 15.

Chart 10: Evaluation of knowledgeableness regarding characteristic “insured value” by insurers

Ranking of insurers on insurance market based on premium arranged				Ranking of insurers on insurance market based on rate of knowledgeableness regarding their terms and conditions			
Rank.	Insurer	Amount of information		Rank.	Insurer	Amount of information	
		absolutely	in %			absolutely	in %
1.	KOOP	11	73	1.	GP	14	93
2.	CP	8	53	2.	KOOP	11	73
3.	GP	14	93		CPP		
4.	ALLIANZ	9	60		SLAVIA		
5.	UNIQA	9	60	3.	HVP	10	67
6.	CSOBP	8	53	5.	ALLIANZ	9	60
7.	CPP	11	73		UNIQA		
8.	HVP	10	67		TRIGLAV		
9.	MAXIMA	7	47	6.	CP	8	53
10.	SLAVIA	11	73		CSOBP		
11.	TRIGLAV	9	60	7.	MAXIMA	7	47

Source: Own work

Looking at the chart, it is obvious that GP is the insurer who informs the insured party, in the characteristic “insured value” in the best way, compared to other insurers. Out of total of 15 pieces of examined information, the terms and conditions of GP contain 14, which represents 93 %. On the contrary, the insurance company MAXIMA informs the insured party in the characteristic “insured value” the least sufficiently. The rate of knowledgeable is 47 %.

Total knowledgeable on the insurance market is 65 %, which means that out of 165 pieces of information (15 pieces of information and 11 insurance companies), 107 pieces of information are presented in the terms and conditions.

Chart 11: Evaluation of knowledgeable in the characteristic “insured value” by respective information

Number of information	Name of the basic information	Sum of inform. by insurers	
		absolutely	in %
1	Definitions of the terms “insured value”, “sum insured”	11	100
2	Definitions of the term “upper benefit limit”	11	100
3	Definitions of the terms “new price”, “current price”	11	100
5	First risk insurance availability	11	100
11	Definition of underinsurance	10	91
15	Liability for determining the sum insured	10	91
9	Availability of insurance with benefit limit	9	82
6	Waiver of underinsurance at first risk insurance	8	73
7	Supplemental insurance of the sum insured after insurance payment at first risk insurance	7	64
4	Definitions of the term “customary price”	6	36
8	Partial insurance availability	4	36
10	Notice of additional insurance of the benefit limit after the insured event	4	27
12	Definition of “overinsurance”	3	36
13	Definition of “overinsurance” based on the Insur. Contract Act	1	9
14	Notice of benefit in case of overinsurance	1	9

Source: Own work

The chart above represents evaluation of the rate of knowledgeable in the characteristic “insured value”. Each piece of information is included here and the ranking shows that knowledgeable reaches 100 % in case of:

- definitions of the terms “insured value”, “sum insured”
- definitions of the term “upper benefit limit”
- definitions of the terms “new price”, “current price”
- first risk insurance availability

Lowest knowledgeable (9 %), and thus the highest risk of unawareness of information is represented by “definition of “overinsurance” based on the Insur. Contract Act” and “notice of benefit in case of overinsurance”. In order to improve knowledgeable in the characteristic “insured value” and thus in order to reduce risks for the insured party, it is necessary to inform (unambiguously and completely) applicants for insurance (the insured party, the policyholder), in these areas:

- terms of underinsurance and overinsurance
- insurance with the sum insured or benefit limit
- partial insurance, or first risk insurance
- explanation of the term “customary price” and whether it can be negotiated

Improvement of knowledgeable will result in reduction of information asymmetry in the characteristic “insured value”. The higher the rate of knowledgeable, the lower the rate of information asymmetry.

4. Conclusion

The main objective of this article is to evaluate the rate of knowledgeable as regards the characteristic “insured value” within business insurance against natural disasters in the Czech

Republic. A standard set of information is defined (STANDARD TaC Model) and on its basis insurers and the insurance market in general is evaluated (STANDARD TaC Method). To achieve its aim, the article asks this research question: “*What is the rate of knowledgeableness on the Czech insurance market regarding the characteristic “insured value”?*” The research, based on the state of Czech insurance market as of Sep 1, 2013, leads us to conclusion that it is the insurer GP who represents the highest rate of knowledgeableness (93 %). On the contrary, the insurer MAXIMA (47 %) publishes information in the least sufficient way. The research also finds out that the insurance market does not provide complete knowledgeableness in the characteristic “insured value”. Lowest knowledgeableness (9 %) is connected with “definition of overinsurance based on the Insurance Contract Act” and with “notice of benefit in case of overinsurance”.

Applying the newly created STANDARD TaC Method, the current insurance market is evaluated, with STANDARD TaC Model being its pillar. This standard of terms and conditions itself improves the rate of knowledgeableness and thus reduces information asymmetry in the characteristic “insured value”. The STANDARD TaC defines some necessary information which should be presented in the terms and conditions of insurers, and adverts to attitudes of insurers to knowledgeableness. It also warns about information which is generally published insufficiently by insurers. Namely it is mainly “underinsurance”, “overinsurance”, “current price” but also insurance with the sum insured or with a benefit limit, partial insurance and first risk insurance. If this information was properly published, risk of financial loss threatening the insured party, arising from poorly defined insurance against natural disasters, would be reduced.

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