Ethical Sales Behaviour in Insurance Business-
A Study in Indian Context

Abhijit Chakraborty
Research Scholar, Department of Management Studies, NIT Silchar, Assam, India

Dr. Ashim Kumar Das
Assistant Professor, Department of Management Studies, NIT Silchar, Assam, India

Abstract

The Business of Business is Business. This famous quote gives rise to a long debated controversy on the responsibilities of Business towards the eco-system in which it exists. One of the many responsibilities that is expected from a Business includes the most important one-‘Ethics’. The importance of Ethics in a Business can never be exaggerated as it works as lubricant in the organisational machinery ensuring smooth and long uninterrupted running. This become all the more applicable in case of Financial Industry, including Insurance. The importance of Ethics escalates in Financial Industry due to its very nature of business, featured with products having complexity, intangibility, deferred maturity and information asymmetry. The Insurance Business is mostly carried out by field level salesman known as Insurance Advisors who are duly authorised by the Insurer and IRDA to represent and conduct the sale. And hence the Insurance Agents shoulder on the responsibility to carry out activities in a manner so as to have a positive impression on the Customer community not only about himself but of the Insurer as well.

Introduction

Ethical Sales Behaviour is mostly a situation specific concept and it is hard to define in an exact manner (Lagace, R.R. et al., 1991). The definition of ethics is not an universally accepted one, neither there exists a clear cut demarcation line between ethical and unethical actions (Turnipseed, D.L. 2002). The widely accepted basis of distinguishing ethical and unethical behaviour is the degree to which that particular behaviour is perceived as good or bad, fair or unfair, beneficial or harming, right or wrong etc. (Hunt, S.D. &Vitell, S.J. 1986).

The Oxford Learners Dictionary defines Ethics as a “system of moral principles, rules and conduct.” Ethics is a general term that finds its presence in every human behaviour, activity, efforts including Business. The importance of Ethics in business is all the more in the sense that business activities involves lot of persons in the form of employees, customers, suppliers, competitors, shareholders etc. and the entire society at large. Beside these set of external elements being affected by the existence of ethics in business, the business itself requires to adhere to ethical practices for the sake of its own survival in the long run. It has a become a mandatory practice on the part of the business units to adhere to a preset framework of Code of Ethics designed by the experts in the organisation itself which works as a self regulatory mechanism.

The significance of Ethics in relation to Insurance is of a very high degree especially because of the inherent unique features of insurance product which includes intangibility, complexity, future benefit, personal selling, after sales servicing, deferment of current consumption etc. Since majority of the insurance selling is undertaken by the Insurance Advisors, we will keep out study confined with the Sales Behaviour of Insurance Advisors only.

Literature Survey

Insurance agents are the most widely accepted medium of dealing in insurance for both the suppliers as well as the clients. The suppliers, Insurers prefer selling through Insurance Agents because of many reasons including requirement of personal selling, assurance of post sale service, better reach, personalised presentation of the product, maintenance of standard norms in selling process etc, whereas the clients feel like to buy through Insurance Agents mainly because of their dependability, trust factor, associated services,
help during maturity and claim etc. Insurance agents work as an authorised agent of the Insurer. But, the general perception about the insurance agent is negative and they are considered as dishonest since majority of them collect premiums based on promises that are never meant to be fulfilled (Batsirai W. Mazviona, 2014). This is a crucial area where Insurers need to develop in and create a trust base for the clients to depend on the people roaming in the market with an objective to make a deal by convincing the potential customers to buy a product from the respective insurer. The importance of Ethics has now been realised by the Insurers and started believing in the magic of trust factor in the market place. The importance of ethical behaviour by the Insurance Agents is now been considered as an inevitable element for the sustained growth and development in the global market. (Christie et al., 2003; Hoff and Pandey, 2005; Seshadri et al., 2007; Raja, 2008; LeFebvre, 2011; Tsalkis et al., 2008).

The rapid changes in the market place has compelled the organisations to be in the global race to increase wealth resulting from growing market share and profitability, which has become the primary objective of business that needs to be attained at any cost, even at the sacrifice of ethics (Biswas, N. 1998; Ruhe, J. and Lee, M. 2008; Birtchell, T. 2011; Jeffrey, C. 2010; Kanagasabapathi, K. 2007). The under writers who decide on the acceptance or rejection of an insurance application, are found to compromise with ethics in order to win a business, generally under organisational pressure. (Isimoya, O. 2014).

The importance of Ethics in Financial Sector is all the more, as because the products of this sector including savings, investment and insurance products carry some inherent unique features such as longevity, complexity and information asymmetry that widens the scope of unethical behaviour taking place and thus impede loyalty, trust building and customer satisfaction (Diacon, S.R. & Christine, T. E. 1996).

Ethics works as a lubricant that smoothens the longrun relationship with the customers and other stake holders on whom the long run sustainability of the business depends to a large extent. (Batsirai W. Mazviona, 2014).

The sphere of unethical behaviour is very big and it includes any and all activities that leads to benefit the agent at the cost of customer which includes wrong commitment, wrong statements about the product or the Insurer, wrong guidance by taking advantage of customer’s unawareness etc. (Talwar R and Wajid S Ali, 2016).

The remuneration process that includes Commission on every sales, makes insurance selling more vulnerable to unfair and unethical dealings, as Insurance Advisors, like any other commission agents, will try their best to increase their earnings through short-cuts in the selling process, which necessarily calls for unethical means (Diacon, S.R. & Christine, T. E. 1996).

The insurance agents generally works door to door and present the product at customer’s convenient place, away from the office and without any direct supervision. As such their activities are more likely to be oriented towards his own interest, i.e., to close a sale, leaving a large scope for unethical practices to creep in. (Futrell, C. M. 2002)

**Objective of the Study**

The study of literatures revealed that adherence to Ethics is a crucial requirement of the successful continuation of any business including Insurance. Due to the vulnerability of the Insurance Business due to its very nature, the concept of Ethics gets some extended role to play to ensure the sustained growth of insurance business. The insurance advisors are the widely accepted channel through which Insurance is dealt with. In this light, the primary objective of this study will be to understand the role of ethics in the Insurance Sales behaviour as demonstrated by the field level sales personnel, i.e., Insurance Agents.

**Ethics and Insurance Sales Behaviour**

Insurance Agents are the representatives who work at the field level to carry out the tough task of selling insurance policies by meeting the customer in person and convincing him/her to buy in the product offered by the Insurer. The Insurer recruits and allows the agent to represent him in the market on the prejudice that the agent will maintain the standard procedures that are framed for executing a sale. For an Insurer the importance of honesty, trustworthiness and ethical behaviour are of top most priority because it is known, believed and accepted that these will help the organisation to continue for a long term. The agent’s ethical behaviour is of utmost importance
as this will lead to Customer Trust, followed by Customer Loyalty ensuring continuity in the selling process (Chen, M.F. & Mau, L.H. 2009).

The maintenance of ethical standard during sales process by the Insurance Agent also call for some responsibilities to be undertaken at Insurer end which includes meeting the commitments made to both the policyholder and the agent as well. In majority of the cases, the insurance sale generally takes place between the agent and the client, in the absence of the Insurer in person. That vests the entire responsibility of ethical show on the shoulder of the Agent, and the Insurer has no other option but to solely depend and trust on the agent to carry on the deal demonstrating ethical behaviour.

Ethical Behaviour here includes the presentation of the insurance product in its truest form and disclosing all the pros and cons of the product. It also includes an accountability on the part of the agent to advise and guide the client in an honest manner so as to enable him buy the best product that suits his need. Towards the Insurer, the Agent needs to demonstrate Ethical Behaviour by helping the Insurer to avoid ‘adverse selection’ and disclosure of all the material facts about the customer basis his personal presence and communication with the client, so as to keep aside from potential financial, moral and physical hazards. The Insurance Agent holds a very important position in the entire sales process also because the client depends solely on the agent to get his services delivered especially in case of claim and maturity. And the exhibition of ethical sales behaviour shall definitely uphold the reputation of the Agent & the Insurer, resulting in sustained business development, and also protect both the Agent and Insurer from legal implications arising out of the unethical sales. (Mei-Fang Chen & Liang-Hung Mau, 2009)

The insurance agent appears as the Insurer to the Client as he does the entire dealing with the Agent who represents the Insurer in an authorised manner (Zeithaml, V.A. & Bitten, M.J. 2000) and as such, if the Insurance agent proves to be ethical, the Insurer is also perceived as Ethical (Ganesh, J. et al., 2000) The fruits of ethical sales behaviour are enjoyed not only by the agent and the insurer, but also by the other stake holders of the organisation including co-workers, competition, shareholders etc.

**Why Ethical Sales Behavior?**

An agent working on commission-only basis have sufficient reasons to focus on closing the deal and close the sale by convincing the customer in the beneficial aspects of his insurance product, ignoring the dark sides, the mention of which may result in rejection of the product by the customer, and thus losing his own earning. On the other hand, since agents are not tied to a particular insurer and has the flexibility to shift from one insurer to another, there is lack of lucrative incentive for him which may let him consider to prove his loyalty towards a particular Insurer by holding on the ethical norms prescribed. Holding this as true, the primary responsibility of convincing the agent itself on the long-run benefits of ethical conduct becomes a challenge to the Insurer. But proper training and guidance can resolve such a situation by making the agent base believe in the strength of ethical sales behaviour. The fruits of ethics are many including creation of brand loyalty, permanent client base, trust worthiness, building market reputation, and all leading to sustained development of the organisation. An insurer indulging unethical sales behaviour just for the sake of increased sale and a inflated balance sheet in order to attain short term benefits, falls into a trajectory and gets faded out sooner or later. This sometimes ends up with inevitable judiciary intervention. (McMurrian and Matulich, 2006). The adherence to stringent ethical norms along with an active Compliance Cell may influence the sales process in the short term, but it can ensure a long-term gain coming in the shape of sustained organisational growth (Talwar R and Wajid S Ali, 2016)

Although the Insurer and the Agent are expected to show up ethical sales behaviour in their dealings with the customer, but in practice, its no less than walking on a tight rope. Every Insurer has a limited variety of insurance products in its basket and the need of every customer is different. It is not also possible to customise each product to suit the need of each and every customer. And in those circumstances, the customer’s need needs to be moulded enough to fit the available product in Insurer’s basket. And in this sometimes, knowingly, the agents use to influence the customers by biased statements or by not disclosing some inherent features of the product that might not suit a particular customer. Also sometimes, the maturity amount as promised by the agent differs from the actual pay out, may be
because of certain losses incurred by the Insurer due to any catastrophic event causing huge payout. In such a circumstances the agent stands to be a failure to keep his commitment.

Factors in fluening Ethical Sales Behaviours

If we go searching for the causes that lead to adoption of unethical sales behaviour by the agent, we may conclude with a non-exhaustive list. Here we will try to focus on some major areas responsible for practice of unethical standards.

The short vision of the agent provokes him to close a deal anyway and get the remuneration in no time. The association of the agent with the Insurer is very important to make him feel a part of the organisation. In the absence of this, he will consider the Insurer as only a third party, to whom he holds no responsibility accountability.

Although there are set norms and standards for maintenance of ethical norms in every organisation, yet there are situations that call for compromising the ethical behaviours Lagace, R.R. et al. 1991).

The commission-only nature of an agent’s job encourages him to concentrate on increasing his earning by making more and more sales, and in this urge of maximum earning and continuation in the job, they, sometimes, adopt unethical practices. (Wotrub, T.R. 1990).

The race in the global market to acquire the position of a market leader by having larger market share results in constant pressure on the sales team to increase business. The pressure from higher ups flows down to the agent level in the form of targets, the achievement of which brings rewards and the failure brings in humiliation & insults, mixed up, sometimes, with a threat of termination. The agents are then left out to make a deal at any cost, keeping the ethical talks aside. (Bellizzi, J.A.& Hite, R.E. 1989).

The insurance agents generally work without any supervision especially when he presents a product to the customer. The lack of direct control over the presentation gives the ill-minded agents freedom to twist the truth in their favour.

Last but not the least, the attitude of the agent plays the prime role in directing him towards the right path. An agent considering “earning of money in short-run” will definitely take the short-cut route to close a sale which obviously will accommodate unethical practices. Contrary to this, an agent considering, “appreciation, acceptability to the customer, accountability towards organisation, responsibility towards customers etc” will show up ethical practices which ensures a smile on the face of both the customer and the Insurer.

Conclusion

The prevailing business condition in the global market geared up with technological innovations and up gradation has made “adherence to Ethics” a compulsion rather than a choice left with the Insurers. The increasing number of customer grievances leading to intervention of regulatory authorities resulting in financial penalty along with adverse impact on market reputation has made the Insurers put emphasis on this piece of business behaviour like never before. The morality, truthfulness, honesty, ethical accountability cannot be taught (Albdour and Altarawneh, 2012) to greater extent but otherwise can be maintained with strict provision and enactment of regulations with a clear mind to implement as and when needed. Though every insurer vouches to be ethical as per its mission and vision as depicted in the Memorandum & Article of Association, but it is the intent at the practical field which decides whether the organisation will fall prey to short term results sacrificing ethical standards or rise above vested interests and take a more stronger path of Ethical behaviour to ensure sustained growth in the long-run.

Once deviated from Ethical norms, the organisation gradually slips below further to find itself being disappear in the long run. (Kumar, S and Sharma, N.P, 2011). In order the reap the fruits of ethical sales behaviour, the company needs to extend its concept of ethics beyond board room and involve each and every staff, employee, labourer, supplier, sales representatives to understand and live the outcome of working on ethical standards. Though it might take a considerable amount of time, but once an ethical atmosphere is installed within the organisation, the fruits of ethical sales behaviour can be enjoyed by each and every stake holder of the organisation in the form of increased remuneration, increased bonus and quick settlement of claims and maturity.
References


