The CIP Society Ethics Series

If a company raises broker awareness of a product through incentives, does that cast doubt on a spike in sales production?

The CIP Society
Insurance Institute of Canada

The CIP Society represents more than 17,000 graduates of the Insurance Institute of Canada's Fellow Chartered Insurance Professional (FCIP) and Chartered Insurance Professional (CIP) Programs. The CIP Society, through articles such as this, is working to bring ethical issues to the forefront and provide learning opportunities that enhance the professional ethics of all insurance professionals.

THE ETHICAL DILEMMA

The owner of a suburban insurance brokerage reviews the firm's monthly production figures and is pleased with a recent spike in sales. Over the past several years, his brokerage has been very consistent in terms of premium allocation by carrier and by product line, almost to within three percentage points month after month. This past month, however, has been different.

He digs deeper into the origin of the sales, checking by product line and by carrier. He notices more sales than usual were allocated in favour of a smaller insurance company. What's more, sales peaked for a product that has not been a big seller historically.

After further investigation, he finds this specific insurance company had a sales campaign running last month with lucrative incentives available. He is instantly conflicted. He trusts his salespeople are ethical, honest individuals who would not do anything to harm clients or to provide an inferior solution for them. However, this previous month demonstrated a stark variance in the sales pattern.

He is concerned about what to do next. Should he allow carriers to offer incentives to his staff in the future? Is that fair to his team and to the clients?

THE ANALYSIS

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This is a challenging scenario for the owner, since it is unclear whether the insurer's campaign simply raised awareness of this product – and the salespeople realized how the product would

> *"Any potential conflict of interest, or a change in a brokerage's circumstances that may give rise to a potential conflict of interest, must be disclosed to the clients at point of sale."*

benefit their clients – or if the salespeople were motivated by the insurer's incentives.

Even if the salespeople were motivated by these incentives, it is doubtful they would admit it to the owner if asked. And if the salespeople are ethical and honest, the owner may still question the reasons behind the sales increase.

The owner must also consider difficult questions that may come from his clients should they become aware of this campaign and question the motivation behind the sale of this product.

To avoid any potential or perceived conflicts in the first place, I believe the owner should decline to take part in any sale campaigns in which additional incentives are offered for the sale of a certain product or certain insurer's products.

There is no harm if insurers educate brokers and raise awareness of their products and features. This should be encouraged. However, additional incentives will lead to doubt – either on part of the brokerage's owners or clients, or both – about whether the salespeople were solely looking out for the best interests of their clients, or whether they were instead using this as an opportunity to increase their own income.

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A sudden spike in the previous month's production with the insurer offering the sales incentives may be of concern to the brokerage owner. But it appears the owner has a lot more data to gather and analyze before determining whether the smaller insurance company played any part in the brokerage's production spike. There are many factors to be considered before an educated conclusion can be reached, including:

- the brokers' knowledge of the product;
- the product's availability from the smaller insurer;
- changes to the product offered by the smaller insurer;
- changes in business opportunities within the brokerage's service area;
- sales incentives from the other carriers in the office;
- policy benefits to the clients;
- newly imposed restrictions on the other insurance companies; and
- other brokerages in the area no longer offering similar products.

The above factors, however, would not play any part in the brokers' obligation to disclose the sales incentives to their clients at point of sale. The brokerage and individual brokers are obligated to provide the commission, as well as any potential conflict of interest disclosure – including any sales incentives – prior to the transaction taking place.

The owner may need to examine whether the individual brokers are doing this, and whether the brokerage's disclosure to its clients is adequate. Any potential conflict of interest, or a change in a brokerage's circumstances that may give rise to a potential conflict of interest, must be disclosed to the clients at point of sale or at the time of remarketing the policy.

There is of course no harm when insurers educate brokers and raise awareness of their products and policy features. To determine whether the brokerage or its brokers are engaged in any possible unethical behavior, the owner should examine whether:

- broker incentives and commissions are disclosed to clients;
- quotes from other carriers are provided to clients; and
- clients are allowed to make the final decision about which carriers will provide the coverage.

THE FINAL WORD

What is the purpose of a sales incentive? In a highly competitive insurance market, a sales incentive can create buzz about a product, helping to raise awareness about how it meets client needs. However, this scenario demonstrates how easily a sales incentive can also create ambiguity in the sales transaction.

The brokerage owner is facing a difficult task sifting through all the various factors contributing to the sales increase of the specific product. Although the owner may conclude his brokers acted in the best interest of the clients, he may also have to acknowledge that the sales incentive contributed to a perception of a conflict of interest. In an industry that relies so heavily on trust, that little bit of uncertainty can contribute to an erosion of that trust.

In an effort to promote a culture of transparency within the brokerage, the owner should be intentionally clear with his brokers about why the marginal sales increase is a potential concern. He must also ascertain whether his brokers are having frank conversations about compensation with clients; if required, he can provide additional support in the form of training or materials. Based on his experience, the owner can decide whether it's worth introducing that little bit of uncertainty in the future, or if it's best to decline sales incentives for his team in the first place.