

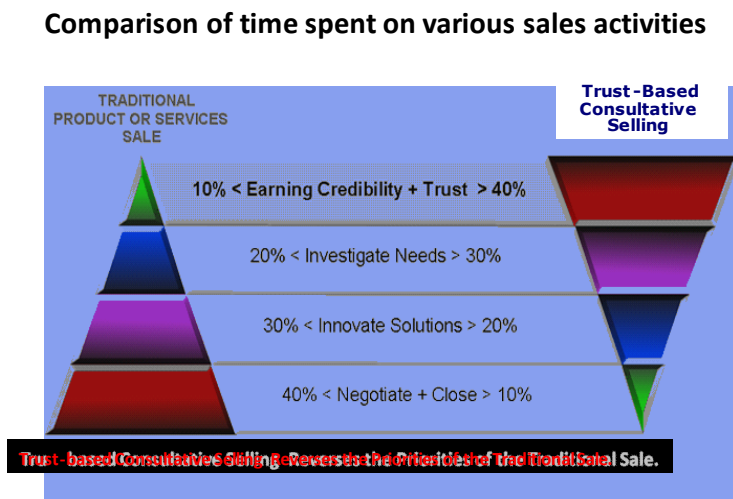
Ethics in Insurance Marketing: Moving from Product Pusher to Trusted Advisor

By James R. Jones, CPCU, AIS, ARM, AIC, and Michael Williams, Ph.D.

Almost all insurance professionals would agree that there are ethical implications to the way in which insurance products are marketed and sold. But what does it really mean to market insurance products and services ethically and is this the most profitable manner? Most people would probably answer this question what is ethical by listing examples of what is NOT ethical including activities such as taking advantage of certain groups of people (senior citizens), lying about a competitor, misleading customers about a product or service, commingling premium money and personal money, falsifying (or encouraging the insureds to falsify) information to the insurer, sharing confidential information, and rebating (in the states that prohibit rebating). These are all good examples of practices which are unethical, or illegal, but it doesn't address the question of what is ethical marketing?

Ethical marketing is defined as "practices that emphasize transparent, trustworthy, and responsible marketing practices and actions which exhibit integrity and fairness to consumers and other stakeholders." Based on this definition is there a particular marketing or sales approach that is more ethical than another? The traditional approach to marketing and selling insurance was to get a customer to buy insurance products that maximize the income for the producer or company. This is known as a transactional sale. The emphasis is on the single transaction and overwhelming the buyer with enough pressure to close the sale. Over the past years, this method of sales has been giving way to a more collaborative, trust-based approach known as consultative selling. Transactional selling is not illegal, and is not even unethical per se, but the consultative sales approach better meets the ideal of ethical marketing. Exhibit 1 compares traditional sales approach to the newer consultative approach.

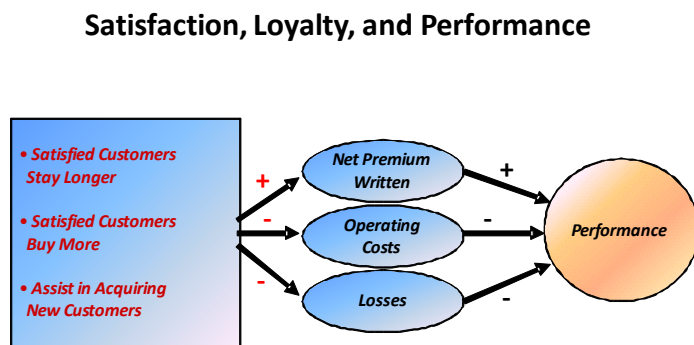
Exhibit 1- Comparison of Traditional to Consultative Selling Approach



Consultative selling requires spending about 90 percent of the time on developing rapport, determining the customers true needs, and coming up with innovative solutions. Traditional, transactional selling goes immediately to the product solution and more than 40 percent of the time is spent on tactics designed to close the sale. From this comparison it is easy to understand how the consultative approach is more transparent, engenders more trust, and ends up with a fairer result for the policyholder. The beauty of this approach is that besides being more ethical, it gives insurance customers more of what they want and it is a more profitable way of doing business in the long run.

The reason that this is true is because 63 percent of the insurance customer's satisfaction is based on need for certain psychological attributes in purchasing insuranceⁱ. Insurance customers look for courtesy, empathy, openness in communication, reliability, accessibility, trustworthiness, competence, and a good reputation. The consultative approach better addresses these attributes. Consequently, producers using this approach tend to get more loyal customers, and in insurance loyalty translates to profitability as illustrated in Exhibit 2.

Exhibit 2- How Satisfied Customers Drive Profitability.



This ethics and value of the consultative approach to selling should be considered as carriers move more toward online selling and should make sure that they do not take a step backward to the old approach of transactional selling when trying to win new customers.

Ethical Marketing of Insurance Quiz

1. Complete the sentence. Ethical marketing of insurance
 - a. Involves providing customers with occasional rebates
 - b. Was an idea practiced in the early 1970's but is no longer used.
 - c. Involves transparency, fairness, and integrity
 - d. Is best done online

2. Which of the following is NOT a true statement?
 - a. The consultative selling approach spends more time on investigating customer needs
 - b. The consultative selling approach spends as much time building rapport as the traditional approach does in negotiating and closing the sale
 - c. The consultative approach is more likely to lead to greater transparency and a sense of fairness for the customer
 - d. The consultative approach is harder on the customer and the producer.
3. Which of the following is a true statement?
 - a. The consultative approach better addresses the psychological attributes that insurance customers require for satisfaction.
 - b. The transactional approach better addresses the psychological attributes that insurance customers require for satisfaction.
 - c. Almost two-thirds of what drives customer satisfaction is price and policy attributes.
 - d. Trust and communication are developed better with traditional, transactional sales approaches.
4. Which one of the following is the best reason for using the consultative selling over traditional, transactional selling of insurance.
 - a. Consultative selling better meets the definition of ethical marketing
 - b. Consultative selling better addresses the psychological needs of insurance customers
 - c. Consultative selling is more profitable in the long run because of increased customer loyalty.
 - d. All of the above

Answers: 1. C; 2. D; 3. A; 4. d

About the authors.

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ⁱ Joint Katie School-RIMS study with QIC Scorecard.