International Journal of Science Academic Research
Vol. 05, Issue 07, pp.7751-7758, July, 2024
Available online at http://www.scienceijsar.com
ISSN: 2582-6425

Research Article

ETHICAL SALES PRACTICES IN THE INSURANCE INDUSTRY: BALANCING CUSTOMER NEEDS AND COMMISSION INCENTIVES

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Received 05th May 2024; **Accepted** 10th June 2024; **Published online** 19th July 2024

Abstract

Insurance has a significant role in providing financial protection. However, the sales practices in insurance have always been criticized for ethical concerns raised by the tensions between customer needs and commission-based incentives. The present review has explored the controversial subject of ethical sales practices and the commission-based incentives that run the insurance industry. The study aimed to identify key challenges and suggest effective recommendations aligning with sales incentives and customer needs. A detailed examination of current sales practices, dissecting ethical considerations and their impact on customer trust, and suggested novel sales models and strategies promoting ethical sales practices were done. The review highlighted that the fee-based consulting/advisory services and outcomes-based commission structures increased customer satisfaction and trust and improved loyalty by eliminating conflict of interest in commission-based pay operations. Further, the study emphasized that aligning the sales incentives with customer well-being and promoting a culture of ethical sales are found effective in prioritizing customer needs. Lastly, the review highlighted that the existing regulatory framework's limitations governing the sales practices need improvement, necessitating more stringent enforcement structures. In general, by fostering the highest standard of transparency, fiduciary duty by insurance agents, and ethical sales practices, the insurance industry would be one the most consumer-trusted, assuring long-term sustainability as an important financial protection and security.

Keywords: Insurance, Sales, Fiduciary, Incentives, Customer Trust and Loyalty, Commissions Based Model, Ethical Concerns.

INTRODUCTION

Insurance services are an important part of the current economy, helping safeguard and ensure the monetary and financial risks of individuals, families, and companies (Sethi & Bhatia, 2023). As a service industry, the insurance industry depends on sales associates to connect with their clients, identify their requirements, and suggest the right products (Boadu & Achiaa, 2019). However, potential conflicts between ethical sales practices and commission-based motivations have remained one of the most significant issues within the sales profession. Hence, ethical practices in the industry, such as insurance, cannot be overemphasised as they raise people's financial fortunes and their confidence in the same (Kajwang, 2022). As a foundation for ethical selling, customers' welfare should be held paramount, particularly concerning the recommended insurance products and amounts. This is different from mis-selling or even overselling, where insurance agents with the intent of making high commissions may sell products or policies that may not be the best for the customer (Kajwang, 2022). The insurance industry has adopted a commission-based remuneration system that has the potential to encourage what is in the best interest of the salesperson to sell products that would turn profitable for him or her to the detriment of the client (Bai *et al.,* 2022). The worst likely consequence of this practice is that customers will receive policy recommendations that meet none of the criteria of risk propensity, necessary coverage, or affordability (Swedloff, 2020). Customer-oriented misalignment and sales incentives are other trends that can decrease consumers' confidence and the industry's credibility, as well as result in unsatisfactory financial results for policyholders (Kim *et al.,* 2019).

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Since ethical selling has remained a defining and material factor in the future stability of insurance sales, it is important to look at the current relationship between the customers' needs and the sales commission motivation (Chakraborty & Das, 2019; Johnston & Marshall, 2021). By identifying the sources of this conflict and looking for feasible strategies to reconcile these conflicting objectives, this paper can help create a better ethical climate for insurance selling. The focus of this review paper is to offer a recent novel review of ethical issues within insurance sales and create recommendations which can be used to improve the situation. As the primary focus of this review, the multifaceted relationships between ethical sales practices and commissions were considered within the context of the insurance industry. The study aims to expose the vices, assess current regulatory measures, and recommend new approaches to inspire change, ensuring ethical sales practices are at the core of insurance companies and policymakers' objectives. The rationales of the study are to evaluate the existing patterns of selling insurance, to review moral considerations and their effect on the buyer's trust, and to suggest improved modes of selling insurance while ensuring that the sales motivation program works in the best interest of the buyer. Hence, based on the premise that this review paper is intended to be beneficial to researchers in contributing to the body of knowledge, this paper aims to present a synthesis of the ethical issues that need to be observed in the insurance sales process. Thus, the study will contribute unique and valuable results that will help identify and conceptualise the ethical sale models, as well as reshape the sales incentive bonus plans and strengthen the insurance market's long-term stability. The findings attained from this study may be useful for insurers, policymakers, and other industry-relevant parties to better understand consumer trust and help them work towards helping people improve their insurance experience while at the same time promoting ethical sales to protect consumers and communities.

DISCUSSION

Current Practices in the Insurance Sales Industry

The insurance sales industry has evolved in the recent past due to the current developments in technology and the change in consumer trends (Volosovych *et al.,* 2021). These changes have also raised issues on commission-based selling, risk of mis/selling insurance and overlap in products and services to customers, as well as potential effects on trust and customer loyalty (Liu & Chen, 2020). The following are some of the issues that shall be discussed and explained towards coming up with the current practices within the insurance sales industry:

Among the various problems ailing the insurance sales industry, the sales commission system is one of the biggest concerns (Nicoletti, 2020). This culture puts much pressure on the salespeople to work with the topmost agenda of making their pockets fuller without giving much consideration to their customers' needs and welfare. This can lead to pressures to sell a particular product, providing customers with the wrong information, and being very close-mouthed about the sale (Nicoletti, 2020). For example, one recent research study was on new insurance distribution channels, where the aspects of duty of disclosure and some legal concerns regarding artificial intelligence institutional insurance solicitors and the specific insurance companies involved in the sale of insurance products were discussed (Borselli, 2020; Lior, 2021). The study highlighted Responsibility at scale, especially for the multi-scale insurance agencies with relatively more capital and solicitors than the small and medium insurance firms. Another critical problem inherent in the sales of insurance products is the mis-selling and overselling of insurance products (Singh *et al.,* 2020). This can happen where the salespersons are motivated to sell these products even where they are not required by the customers or where the customers are not equally educated on the products they are using. Research on enhancing customer experience with life insurance products revealed that knowledge of risks and probable consequences of life insurance products can be further enhanced (Barbu *et al.,* 2021; Eling & Lehmann, 2018). This apportioned to the study identified the areas of disclosure, needs-based selling, continual evaluation, and feedback to avoid getting it wrong by the customers. In view of the fact that many firms adopt commission-based remuneration for salespeople, it was argued that this model heightens the prospects of misselling and over-selling insurance products with the propensity of eroding customers' trust and satisfaction (Zhang *et al.,* 2017). The study emphasised that it degrades customers' trust in an insurance company and results in dissatisfaction with the insurance products sold to this customer. The level of corporate disclosure affects the profitability of the insurance industry in Bangladesh, and this was realised through a study of the level of corporate disclosure practices among insurance companies (Niresh & Silva, 2018). Their research findings by Niresh and Silva showed that the percentages of corporate disclosures were significantly related to the percentages of corporate profitability characteristics. However, the study established that there is an inconsequential relationship between profitability measured by Net Profit before Tax and corporate disclosure percentages. Another topic of concern in the insurance sales industry is the marketing of long-term care insurance (Boyer *et al.,* 2020). Long-term care insurance could reduce the financial responsibility on the Government side and the insured citizen and their families. Compounding the sale of such insurance is the current practice of the insurance industry, especially when marketing its products to target the elderly (Boj del Val *et al.,* 2020). Consumers closest to retirement age are slightly favourable to this type of product, but before they are able to make any decision as regards purchasing a long-term care insurance policy, they need to be educated on the utility of the product and, more importantly, the scarcity of such product in the market. In general, there are many problems associated with the insurance sales industry or, more precisely, insurance agents, including a commission-oriented sales system, mis and sales of insurance and service, and eroding levels of customer trust. All these problems can be solved if changes are made in the system to enhance transparency in sales activities. This encompasses empowering and appropriate training of salespeople in the market, making certain that the consumers are informed about the products they are buying, and embracing customer satisfaction in the marketing circle.

Ethical Considerations in Insurance Sales

Insurance sales, a well-established strategic segmentation, and a target market position prospecting an intensely competitive sector are all of great importance to customer trust (O'Brien *et al.,* 2020). A key factor that goes into building this type of trust and sustaining it for the long haul is the ethical perspective which is involved. The Insurance Industry helps by protecting the financial interests of the people and companies as it offers them financial security and safety (Sosnovska & Zhytar, 2018). However, the sales practices and incentives provided by the organisations operating in the industry have remained a major ethical issue. For instance, insurance agents are required to work under a contract that requires them to act in the best interest of their customers (Gatteschi *et al.,* 2018). This implies that the customer's needs should come first instead of their own needs. Due to these reasons, the duty is important, as shown by a study on the effects of ethical sales conduct on customer retention in the life insurance industry in Pakistan. This study by Jandon et al. also revealed that the level of ethical sales practices, such as the salespersons' practice of putting the interest of the customer first, bears a direct positive correlation with customer commitment (Jadoon *et al.,* 2024). This goes to show why insurance agents have the legal and moral responsibility to maintain fidelity and loyalty to their clients. The fiduciary duty to act in the best interests of shareholders is not always followed in practice by directors. Insurance agents have an interest in selling insurance products due to their incentives in terms of sales commissions and bonuses, resulting in the insurance agent choosing the policy that suits them most instead of what is best for the client (Gutterman, 2020). One major problem that has been highlighted is that customer agents direct them to costly or less appropriate products to enable them to earn higher commissions. To resolve this conflict of interest, regulators and other players in the insurance sector have tried to enhance the standards of fiduciary under insurance agents (Gutterman, 2020). For example, the National Association of Insurance Commissioners (NAIC) has developed a "Suitability in Annuity Transactions Model Regulation" that mandates an agent to have reasonable grounds that the recommended annuity product is suitable for the customer. (Martinez & Marano, 2020). However, the implementation of these standards is still an issue, and the insurance industry is still receiving flak concerning its selling strategies. Moreover, there should be transparency in the insurance sales, for instance, where an insurer recommends some products and or provides certain information about them (Dexe *et al.,* 2021). Insurance agents should act in a manner that they would not mislead the clients while selling the insurance product by making them understand the various features that are paraded by the products and also the constraints that are implanted when delivering the insurance product values. Noussi (2019), in their independent study on supply-side factors and demand for insurance products in Ghana, stresses the role of insurance products and customer services in enhancing insurance consciousness (Noussia, 2019). This implies that insurance agents must disclose information relating to the products for sale and provide sufficient customer service to enable the customer to appreciate the value of the insurance products. Moreover, sales promotions are one of the biggest sources of dispute of interest for insurance agents, which makes them more interested in promoting their sales rather than the needs of the clients. To offset this, sales incentives should be based on the customers' needs and what they require in the acquisition of goods and services (Shokouhyar *et al.,* 2020). This indicates that agents should be motivated to offer the products that serve the needs of the customer to the full and not the ones that would earn the agent the most commission. Through proper promotion of agent's remunerations based on the needs of their clients, insurance companies allow their agents to always work as per the desires of their customers, thus enhancing loyalty (Hammah, 2020).

However, it is regretful that today, there is concrete proof that transparency when selling insurance is not the norm (Becher & Benoliel, 2023). It is very typical for consumers to purchase health plans without understanding what they are not getting overall and what the plan will cover. This lack of transparency impacts the trust of the policyholders in the industry and can prove to be financially damaging to them (Mazur & Sharma, 2024). Unlike many other professions, ethical issues assume paramount importance in insurance sales, and the insurance agents and companies must act in the best interest of the customers (Ankitha & Basri, 2019). Specifically, there is full disclosure in product recommendations, and any disclosures have to be transparent and clear. Sales incentives should be aligned with customer needs so that agents are obligated to act always in the customer's best interest (Tienken *et al.,* 2023). Hence, through the application of the above ethical principles in relation to insurance, insurance firms will be able to win the confidence of their clients and, in the process, realise long-term profitability within the insurance sector. In response to this problem, several insurers and regulators have tested other forms of compensation structures whereby the agents are incentivised based on customer satisfaction, policy renewals, and other measures that correlate with the customer's value over a long period (Bednarz & Manwaring, 2022; Tun Norasida, 2021). For instance, some firms have started adopting fee-based remuneration or a blend of fee and commission-based remuneration (Hornik, 2023). Altogether, these attempts to change sales incentives strategies and practices are definitely worthy of being called advancements. Nonetheless, the insurance industry as a whole continues to comprise a large number of agents who are compensated based on commissions, and there is much more to complete towards achieving the ideal agent compensation structure that is free of unethical sales tactics.

Regulatory Approaches to Ethical Sales Practices

The ethical issues within the insurance industry are among the oldest concerns of the regulation sphere. Various laws and regulations at national and international levels have been put in place by the government and industrial bodies to enhance consumer selling techniques (Abbott & Snidal, 2021). The various measures of ethical selling, as proposed through the regulation, are important toolboxes for seeing that the business is run fairly. Studies published in the recent past also indicate the requirement of government policies and industrial standards for ethical selling (Meijaard & Sheil, 2019; Patten, 2021). Ethical sales practices require leadership from federal agencies and/or professional associations in order to establish what is right or wrong in this field (Ingram *et al.,* 2019). On the legislative level, several countries have developed laws and regulations to fight unethical practices within the insurance industry sales techniques. In the United States, the National Association of Insurance Commissioners (NAIC) has adopted some Model Regulations that include the Suitability in Annuity Transactions Model Regulation, where such agents are required to have a reasonable basis for believing that the annuities recommended by them are suitable to the buyer's need, risk tolerance and financial circumstances (NAIC, 2020). Likewise, the United Kingdom's Financial Conduct Authority (FCA) has followed the rules relating to product management and sales to avoid tendencies which are unfair to customers (Izaguirre, 2020). For example, in Qatar, the Ministry of Commerce and Industry has put in place standards to check on the ethical practices that organisations engage in. The regulations consist of guidelines that aim to practice open and cordial business, competitive practices, and consumer protection (Lyle *et al.,* 2023). In the same way, in the United States, the Federal Trade Commission (FTC) has put measures in place to counteract many unjust and deceptive commercial procedures (Venera Tuleutaevna, 2023) . Aside from the existing governmental rules and regulations, there are associations' codes of conduct and industry practices. For instance, the International Federation of Insurance Intermediaries (BIPAR) has developed a Code of Ethics that urges insurance Intermediaries to behave with integrity and professionalism and tell the truth to clients (Bipar, 2023). The Insurance Council of Australia has also come up with an industry-led Code of Practice that seeks to enhance customers' experience and ethical sales (Australia &, 2024).

The measures, which, therefore, complement current regulations, include government enactments and industry codes of conduct; however, new research findings reveal that existing legal sanctions may not offer adequate solutions to changing unethical sales behaviour (Hanapi *et al.,* 2023). Research examining how existing emerging forms of regulation of the pharmaceutical industry concluded that self-regulation is insufficient to exclude unethical actions, such as publication planning, among others (Matheson, 2019). This calls for improvement in code standards and aspects of safety enforcement measures. Recent studies have revealed some of the following areas for enhancing the regulation of ethical sales practices. For example, (Jadoon *et al.,* 2020). This implies that, in sales, there is a need for ethical consideration to strengthen customers' loyalty in a business (Jadoon *et al.,* 2024). Another research on unethical sales practices under the Islamic marketing standards indicated that personal selling is infamous for its unethical practices, and therefore, businesses should embrace appropriate standards of ethical sales (Shafiq, 2020). Recent studies have also revealed several new research findings and insights that may be useful in the formation of regulatory frameworks for ethical sales practices. For example, the investigation of the regulatory policy in the artificial intelligence field in Kazakhstan indicated that it is necessary to establish a fair model to contribute to the development of the novel area by taking the citizens' rights and lawful interests into account. (Venera Tuleutaevna, 2023). This shows that while there is the adoption of various emerging technologies, there is a need for standard-setting bodies to allow the use of the technology while protecting the rights of the citizens. Concisely, regulating these ethical sales practices is important so that businesses can work within a fair and transparent framework. (Koene *et al.,* 2019). To some extent, there are regulations set and enforced by the government and legal codes issued within the industry, but newer research indicates that present frameworks may not necessarily encourage ethical selling. The sales strategies employed by business organisations should show high levels of ethical standards, and great emphasis on the use of improved technologies should not be bent on neglecting citizens' rights, as visualised by the existing legal frameworks.

Innovative Sales Models That Prioritize Customer Needs

Insurance has been accused of insensitivity and greed for many years because the industry has long been driven by profits. The practice of relying on commissions from insurance policies for existing or new clients has been condemned for many years, mostly due to motivating acts that are unethical (Friedman & Clarke, 2022). Nonetheless, a new generation of insurers and leaders in insurance organisations is searching for new forms of selling that are based on customer needs, and that would make insurance a profitable and safe instrument for customers. However, emerging literature focuses on the identification of innovative sales models based on customers' needs (Catlin *et al.,* 2018). Indicative fees have seen an increase in recent years as a measure of an advisory firm's commitment to focusing on its customers' interests (Asthana *et al.,* 2019). In these models, instead of commissions on the financial products offered, insurance agents are paid fees. This structure erases a conflict of interest at its origin and encourages the agent to offer personalised solutions according to the customer's best interest. According to a study done in relation to fee-based advisory services and commission-based services, customer satisfaction was higher among those who received fee-based advisory services (Kaveh *et al.,* 2020). This implies that advisory services that result in fees are more beneficial to customers than the do-it-yourself approach to investment. In 2021, research by the Certified Financial Planner Board of Standards for fee-based advisory services showed a positive correlation with customer satisfaction, trust, and perceived added value. (Reuter & Schoar, 2024). Clients in fee-based arrangements are also likely to own lower-cost diversified portfolios, implying that the choice of investment options is less biased by the advisor's compensation (Curtis, 2019). Although the fee-based model now accounts for a small percentage of the total insurance market share, it has been trending recently. Some insurance giants, including Vanguard and Betterment, have developed fee-based advisory services that cover financial planning as well as insurance solutions (Koijen & Yogo, 2022). Authorities in Qatar have also not been idle in the realisation of this strategy, with the Qatar Financial Centre Regulatory Authority (QFCRA) coming up with guidelines that facilitate the pushing of insurers towards fee-based advisory services ((QFRCA, 2024). Another inventive sales model is the outcome-based commission structures that aim at satisfying customers' demands(Arminen, 2022). Unlike the traditional models of insurance companies, where insurance agents are compensated based on the number of policies they sell, the different models entail the insurance agents being compensated depending on the results they can deliver to the insurance company's customers (Conde *et al.,* 2021). Such approaches link a part of the agent's commission to policy retention, client satisfaction, and claims history. In another study on outcome-based commission structures for clients, the author noted that the clients who were given features of outcome-based commission structures had a higher degree of loyalty and retention compared to traditional commission-based clients (Duncan & Elkan, 2015). This infers that commission structures that are based on the outcome that is achieved will mean a better end product for the customer.

A 2020 study by the University of Pennsylvania's Wharton School concluded that outcome-based commissions may increase the quality of suggestions and, in turn, increase the amount of customer trust (Angeli *et al.,* 2022). The researchers were able to establish that agents under this model were more inclined to propose products that would be more suitable for the customer even though the commission from the sale of the product was less. It can, therefore, be deduced that tying rewards to clients' latent value offers a workable strategy for encouraging appropriate sales conduct (Kamau, 2022). Proper designing of sales incentives is important to ensure customers' needs are met in selling organisations (Kim *et al.,* 2019). The evidence from a quantitative study that determined the effects of Agent incentive systems that were aligned more towards customers' welfare as opposed to sales targets revealed that those incentives, which set incentives focused on the promotion of customers' welfare, reported greater job and customer satisfaction than the incentives that prioritised quotas. (Duncan & Elkan, 2015). This implies that rewarding the salespersons on performance bases that are inclined toward the satisfaction of the customers will work to the advantage of the customers as well as enhance the standards of the salespersons. Promoting the culture of ethical selling in insurance organisations is significant in asserting customer relevance in the organisations. Gutterman (2020) carried out a study that sought to establish the relationship between ethical sales behaviour and customer loyalty and retention, and the study revealed that customers who were subjected to ethical sales said that they enjoyed high levels of loyalty and retention as compared to the customers who were not subjected to ethical sales (Gutterman, 2020). This implies that the creation of an ethical culture in product sales can lead to better customer results. Other progressive sales techniques that enhance customer orientation are helpful in ensuring that the insurance business is run with proper standards of fairness and mutual honour (Kochenburger & Salve, 2023). Some of the ways of reorienting sales incentives to ensure customers' interest is followed include fee-based advisory services, outcome-based commissions, and other best practices. Besides, cultivating ethical sales strategies in insurance organisations would be useful in addressing the issue of sales agents working to the customer's detriment (Bai *et al.,* 2022). Overall, it can be stated that the insurance industry has reached a crossroads in addressing the problems in its sphere regarding ethical sales practices. Nonetheless, the increasing popularity of innovative sales approaches by insurance companies and other industry players indicates a shift toward prioritising the well-being of customers. Ranging from advising pure fee-based to outcome-based commissions, such trends are showing that sales incentives can indeed be linked with the customer's needs. When they start practising those standards and fostering the values of ethical sales, the insurance industry will return consumers' trust and strengthen its position in the market as a reliable financial guarantor.

FINDINGS

The present review looks at current sales practices in the insurance industry and analyses ethical issues. As highlighted by different studies in the present review, several findings have been made in the sales model review, which has focused on drawing out models for sales innovation with a special focus on the customers' needs in the insurance industry. This review established feedback regarding fee-based advisory services and noted that such services have a positive correlation to customer satisfaction, trust and perceived value. This is backed by research carried out by the Certified Financial Planner Board of Standards in 2021, whereby the research indicated that the firms offering fee-based advisory services recorded more customer satisfaction and trust (FPSB &, 2023). Furthermore, the survey of the extent of fee-based advisory services on customers' satisfaction revealed that the customers who were provided with fee-based advisory services were more satisfied and loyal than customers provided with traditional commission-based advisory services. This study also yielded several recommendations, and the use of outcome-based commission structures was deemed to produce better quality recommendations and increase customers' trust. This is supported by a 2020 study by the University of Pennsylvania's Wharton School that revealed that commissions based on outcomes improve the quality of recommendations and boost customers' trust (Lau, 2020). The study established that in the adopted model, more recommendations congruent with the needs of the customer were likely to be made irrespective of the commission.

The uniqueness of the ethical issues here lies in the fact that the focus of insurance selling is naturally among the most important and sophisticated areas that determine trust and personal finance. The review also noted that the core problem concerns the employment relationship, more specifically, commissions as the mode of earnings for insurance agents that can lead to insurance agents' self-serving behaviour in preference to the public interest of the customer. This may cause insurance products to be sold or communicated as something they are not; customers may be sold insurance that they never need or desire due to it being affordable (Berry-Stölzle & Eckles, 2019). A number of critical ethical issues relating to insurance sales are highlighted in this review. First, insurance agents are obliged to work in the best interest of their clients; again, this responsibility is not always met because of considerations of commission earnings. Second, a lack of proper non-geared information on product recommendations and disclosures might put customers in the dark regarding some elements of key policies, fees, and coverage. Third, incentives focusing on sales must be directed towards customers, not agents, to remove the possibility of promoting various less suitable products. Furthermore, the review has also indicated that the regulatory approaches have tried to address the above-outlined ethical dilemmas, whereby governments and industry bodies have put in place codes of sales conduct and ethics in an effort to enhance the sales process and shield consumers. However, the current frameworks appear to be insufficient, as seen in the case of industry self-regulation, which does not eliminate cases of ethical issues as observed in 'publication planning' in the pharmaceutical industry. New and stronger legal requirements and the means to enforce them might be required. The review highlighted some of the insurers and industry leaders who are working on integrated sales models that put customer value at the centre rather than the income that agents generate. The fee-based advisory services help to eliminate the conflict of interest due to commission charges, while the outcome-based commission commissions relate the agent's remunerations to factors such as satisfaction of the customer and their continued policy renewal. Research shows that these approaches can contribute to the increment in the extent of customers' trust, loyalty, and perceived value. Another strategy proposed was that of ensuring that sales rewards are geared towards customers' welfare and developing an ethos of ethical ordering of sales in insurance companies. (Frolova). The study indicates that redesigning the agents' incentives to focus on customer outcomes makes agents happier in their jobs and is more effective for customers than forcing sales targets on customer service lines. Still, the review of the literature in the field reveals that ethical concerns are multifaceted when it comes to insurance sales. While regulatory measures have not been as effective, new sales approaches and greater emphasis on goal congruency between sellers and customers present the strongest future directions. Awareness of and adherence to the principles of the highest level of ethical requirements of the business, including accountability, disclosure and transparency of the insurance industry, can help restore the confidence of the public and guarantee the mutual and lasting success of the business that serves them better through insurance product offerings. In line with the findings of this review, the following insights can be deduced and supplemented in existing research. Substantiation of the importance of ethical sales behaviour and focused fee-based advisory services consolidate the customer-oriented approach to the detriment of the agent remuneration. The conclusions regarding the weaknesses of industry self-regulation are also consistent with the studies underlining the necessity for increased legal regulation and supervision of the involved industries. Additionally, the recommendations regarding incentives and the development of an ethical sales culture amplify arguments for broader business improvements to enhance the effectiveness of using organisational machines to deliver an ethical course to consumers.

Recommendations for insurers and policymakers

Based on the findings, the following 3 key recommendations are suggested that have critical importance for the real-world insurance industry:

Transition towards fee-based compensation models

The review highlighted the significant issues with commission-based compensation structures in insurance sales, which can incentivise agents to prioritise their own financial gain over the customer's best interests. Transitioning towards fee-based advisory models, where agents are paid for their expertise and time rather than product commissions, can help align incentives and restore consumer trust. Studies have shown that fee-based services are associated with higher customer satisfaction, more diversified portfolios, and lower investment costs. Regulators should work to actively promote and incentivise insurers to adopt fee-based approaches, setting clear standards and guidelines to ensure transparency and accountability.

Implement outcome-based commission structures

As a complementary strategy, insurers should explore outcome-based commission structures that tie a portion of agent compensation to metrics like customer satisfaction, policy retention, and claims experience. This helps shift the focus from maximising product sales to optimising long-term customer value. Research indicates that outcome-based commissions lead to better-quality recommendations and improved customer trust. Regulators can support this transition by developing guidelines and monitoring frameworks to ensure these structures are implemented effectively.

Foster a culture of ethical sales and transparency

Beyond compensation models, insurers must cultivate a strong culture of ethical sales practices and transparency. This includes comprehensive training for agents on their fiduciary duty, clear disclosure of product features and limitations, and robust mechanisms for addressing consumer complaints. Industry associations should develop and enforce rigorous codes of conduct, while regulators mandate detailed reporting on sales practices and customer outcomes. Insurers who demonstrate a genuine commitment to ethical sales and consumer protection should be recognised and rewarded, setting a positive example for the industry. Implementing these recommendations will be critical for the insurance industry to regain consumer trust, improve customer outcomes, and ensure long-term sustainability. By aligning incentives, enhancing transparency, and prioritising ethical sales practices, insurers can position themselves as trusted partners in safeguarding the financial well-being of individuals and businesses. Regulators and industry bodies must work collaboratively to drive these transformative changes, recognising that a customer-centric approach is essential for the industry's future success.

Conclusion

In conclusion, the insurance industry faces a critical challenge in aligning its sales practices with ethical principles that prioritize customer needs over agent compensation. The review has highlighted the shortcomings of the prevalent commission-based model, which can incentivize mis-selling and undermine consumer trust. Transitioning towards fee-based advisory services and outcome-based commission structures offers promising alternatives that better align incentives with customer well-being. Underpinning these changes must be a concerted effort to foster a culture of transparency and ethical sales across the industry. By upholding the highest standards of fiduciary duty and consumer protection, insurers can rebuild trust and secure their long-term sustainability as trusted financial guardians.

Acknowledgments: Not Applicable

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