Chartered Insurance Institute

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Building trust through ethical culture – a guide for SME firms

Incentives and performance

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Introduction

Insurance is often said to 'be sold, not bought'. This means every insurance firm builds a strong sales team and makes sure they're both challenged and rewarded.

The result is a sales team whose performance is managed, incentivised and rewarded. How this is done has significant implications for the ethical culture of the firm.

How the firm structures its performance management sends signals to the sales team. They will notice what is expected and what is not; what is emphasised and what is ignored; and what is important and what is not. And the sales team will invariably adjust its work accordingly.

Get those signals wrong and the firm risks leaving a trail of mis-sold products that expose it to financial penalties and the loss of trust amongst clients. Get those signals right and the trust amongst clients grows, along with the financial rewards that go with such a relationship.

This guidance looks at four ways in which a small to medium sized insurance firm could think about its approach to performance management from an 'ethical culture' perspective.

Take account of the means as well as the ends

Does your firm’s approach to performance management encompass not only ‘what’ is accomplished, but also ‘how’ it is accomplished?

An example of the ‘what’ is where the sales team is asked whether they’ve achieved a revenue target or a conversion goal. An example of the ‘how’ is where the sales team is asked whether they’ve fully considered each client’s needs, or whether the sale was executed in accordance with the firm’s definition of ‘integrity’.

Clearly, the ‘what’ can often be more easily measured, compared to the ‘how’, and that is important for how salespeople perceive the fairness of what the performance management approach is asking them to achieve. The danger however is that the ‘how’ aspect of sales performance is often then dropped, which in itself a signal to salespeople on what is not expected of them.

Firms should be clear that both the ‘what’ and the ‘how’ of sales performance are important. They can measure the former using metrics and they can use performance appraisals to assess the latter. The incentives provided should be influenced by the outputs of both.

Set clear and reasonable expectations

A firm's approach to performance management must be fair for those to whom it applies. Targets must be achievable, even if challenging.

And they must be clear, even if not measured numerically. Get these wrong and an unintended consequence could be a rise in misconduct. Examples of this might be fraudulent records and mis-sold products.

Consider the use of ethical values such as integrity. Rather than just point to it and let salespeople interpret as they wish, the firm should be clear about what it means by integrity when it comes to sales. This should then form part of the salesperson's competences, which in turn allows each salesperson to consider how they personally deliver on it. Creating this mix of expectation, performance and reward moves ethics from the perimeter into the centre of the firm's sales culture.

This means that to strengthen the ethical side of the firm's sales culture, the human resources people must have a clear competence framework and a fair appraisal process. Even in relatively small firms, those expectations need to be clear and communicated in the absence of frameworks and processes. One simple approach would be to have the sales team discuss what ethical values and behaviours should be important for their work and how they can be best delivered.

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Talk about both actions and outcomes

It's all too easy for a firm's approach to performance management to focus on the actions that need to be taken, and to then let those actions frame the outcomes that are achieved.

This can happen both with the 'what' and the 'how' aspects of performance. The danger is that this detail causes firms to lose sight of the real outcomes that it is aiming for.

If the 'how' aspect of performance, or the use of values in competencies, is proving difficult for the firm to assimilate, then reverse the approach. Take two key performance outcomes that all insurance firms want to achieve, namely being a profitable firm that is trusted by its clients. Then take that trusted dimension and consider what builds trust in your firm (or if it's easier, what loses trust in your firm). Do this to the extent that a clear outcome is generated that the firm's sales team can understand and work to.

In this way, the firm is supporting its ethical culture by focussing not only on what its salespeople do, but also on what they achieve. The two need to be in sync, for a profitable firm that isn't trusted will not last long.

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Create new norms

The ethical culture in a firm's sales team does not exist in isolation to the ethical culture of the wider firm. They're the same, or at least hugely overlapping.

If a firm is making an effort to adapt its approach to performance management along ethical principles, make sure the rest of the firm knows about it. There's a strong message to be shared here, for if the sales team, surrounded as it is with potential conflicts of interest, can improve the alignment of its performance with the firm's ethical values, then surely everyone else in the firm can improve in like manner. Be sure to communicate why this is being done, and the outcomes in terms of trust that should result from it.

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Try this activity

Use one of the sales team meetings to get them thinking about trust. Start by asking them to be open about why it is important to their work.

Then ask them to talk about trust from a ‘how I work’ angle. Encourage them to be more and more specific – for example, by asking them ‘what do you mean by that?’ And encourage them to recognise where they concur and where they differ, and then get them to explore those differences. The aim is to have them vocalise what trust means to them personally, and to then connect that with how they go about their work.

You can end this exercise by asking them this question: do they think that a client could spot the difference between a salesperson acting in a ‘trust building way’ because their firm has told them to do so, and a sales person acting in a ‘trust building way’ because they wanted to do so?

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