CHAPTER 11

MARKETING AND SALES.

MARKETING AND THE MARKET IN CREDIT INSURANCE.
Marketing’s job is to exploit and protect the market to the best advantage of the credit insurer. The authors of *Walking the Talk* (36. Holliday, 2002: 42) suggest that there are the following ten ways by which the market can help us develop a sustainable business:

- It encourages efficient use of resources;
- It delivers the most cost-effective solutions;
- It offers freedom of choice;
- It encourages competition;
- It fosters innovation;
- It spurs human creativity;
- It offers flexibility;
- It promotes transparency of information;
- It helps in wealth creation and
- It opens up new opportunities for improving the quality of life.

In chapter 4 “The Impact of Ethics on Business” it was pointed out that ethics demands that a business keeps its own interest in mind and that a businessman’s ethics must be a
combination of doing what both serves his long-term interests whilst ensuring that most others involved with the business are not adversely affected.

As R.M. Hare said in his essay entitled *One Philosopher’s Approach to Business and Professional Ethics* (34. Hare, 1999: 192-200) the market is based on Utilitarian and Kantian theory including the Golden Rule: “That we should do to others as we wish they should do to us if we were in their situation”. Although the pursuit of one’s own interest very often coincides with the common good it does not always do so as is illustrated in the basic game-theoretic model “The Prisoner’s Dilemma” (3. Blackburn, 1996) where the dishonest will gain, or suffer less than the honest. How can we ensure a growing market in the light of the “Prisoner’s Dilemma”? How can we ensure that there is trust? Hare says through “custom”, “self-regulation” and “legislation”. Custom dictates that cheating is simply not done. Self-regulation and legislation will be made much easier if people in general behave ethically. Self-regulation, although preferred by business, has usually not enough teeth to do the job on its own and although government does not make the best legislation because it is often inflexible, expensive and not industry related, laws are needed to protect the market.

The credit insurer must use the market, as it is the only and a very efficient institution for commerce to create long-term wealth for his shareholders. The credit insurer does this by using the resources offered by the market and needed by the credit insurer, e.g., capital, reinsurance facilities, knowledge, intelligence, IT, clients etc. in a most efficient way.

Innovation and creativity are important ingredients for sustaining and growing a business and the market place (through market research, other market players, e.g., customers, brokers and financial institutions, and similar tools) can point the credit insurer in the right direction.

Without the existence of some form of private property and basic morality, e.g., keeping promises, honoring agreements, truth-telling, transparency and openness, markets could not exist and the business of, the reputation of and the trust in the credit insurer could not
be built. The standing of the insurer in the market is the basis of sound long-term stakeholder relations and the best source of competitive advantage.

Competition, freedom of choice and flexibility which a free market fosters and which are at the same time crucial to the market, force the credit insurer to offer a product that the market wants, that is competitive as far as quality and service is concerned and that is priced so that it - at best - allows the credit insurer an underwriting profit which is market related, e.g. exorbitant, unethically high profits are generally not permitted by the market. Even a monopoly will lose its dominant market position if it continue to charge unreasonably high prices. As the King Report (50. King, 2002: 98) points out: “The global awareness is growing that any company’s long-term commercial success is inextricably linked to the sustainable development of the social and economic communities within which it operates.” Such development can only take place within a free market system. Without markets there would be no trade; the individual would have to be self sufficient to survive. But the markets need to be free to provide the best advantage for all participants. It is therefore important and in his interest that the credit insurer fully supports the principles of competition, competitive products and the pricing mechanism and all the other conditions that go with the free market.

Markets continue to grow due to the ongoing development of specialization, productivity, innovation, industrialization, job and wealth creation and a growth in consumption and hence markets also support the growth of the credit insurer’s business. However, few markets are perfect. They can promote greed, stress, and too much competition and allow only the fittest to participate. Free markets are a natural phenomenon but they need to be regulated to a certain extent through robust competition, consumer protection, environmental and similar laws. Without such protection and law enforcement, justice, growth, improving standards and quality of living and development will all be impaired. Investments, job creation and the expansion of credit and thus the need for credit insurance will be weakened. That is why it is the credit insurer’s moral duty to help protect and support the free market, to comply with the relevant laws and help to generate relevant institutions, whether they are of a cultural, self-regulatory or legal nature. A
maxim by credit insurers supporting contrary action would be irrational (see pages 13 to 15). The market is a tool to combine ethics and sound business.

THE MARKETING AND SALES FUNCTION.
Marketing is not just promoting what you have to sell, but determining what you produce and how you sell it in terms of what people want. In this sense, marketing precedes sales. Sales and marketing are both important in their different ways. Selling is focused around the point at which the potential customer becomes convinced of the value being offered and commits to the purchase. The role of marketing is to prepare the ground for the sales function, particularly when the potential customer has a choice.

The ground needs preparing in a number of ways:

- **Defining** the product/service offer in terms of market wants and how these may change in the future.
- **Identifying** who the market is and what it consists of in terms of different groupings.
- Determining how far to go in **re-specifying** existing offers for different groupings or generating new specialized offers (including pricing).
- Determining how the end consumer is going to be made **aware** of the offer and its relative merits compared to the alternatives available.
- Determining how the product is most effectively **carried** to the market so that there is the opportunity to make the sale.

Once the ground has been prepared, then the sales function can be brought into play. In these terms, marketing is upstream of selling and it operates on a broad front, whereas selling is made up of a series of individual situations. Marketing also serves an internal, brand value building function.

Compared to other forms of insurance, credit insurance is expensive and complicated to administer. It also has more alternatives to compete against than say, fire insurance, e.g., factoring, documentary credits, invoice discounting and self-insurance. Marketing credit insurance involves working out what it does better. For example, the value added by
credit insurance: better knowledge of export markets, of buyers and industry credit conditions, dedicated customer service and advice as well as savings on bad debt provisions and debt collection expenses.

The credit insurer’s marketing and sales organization can be structured in different ways, e.g., the full sales task approach could include:

- Prospecting.
- Communication (including advertising).
- Quotation preparation.
- Selling.
- Servicing.
- Allocation of scarce capacity.
- Information gathering.
- Statistics.

A narrower approach is favoured by a number of insurers, for instance communications and advertising can be part of marketing as can be certain statistics. The preparation of quotations, the allocation of scarce cover and the servicing of clients is often part of underwriting. Due to these differences I have not attempted in the following discussion to sort the ethical issues involved in marketing and sales into specific compartments.

ETHICS AND MARKETING AND SALES IN CREDIT INSURANCE.

Like all insurance products, credit insurance is a promise, a promise to make good an insured loss. Promises are much harder to sell than a physical product such as a motorcar. Insurance is often referred to as the “ultimate grudge purchase,” i.e., no one buys it with pleasure. According to the Financial Services Loyalty Benchmark Report, the result of a survey by Markinor in South Africa, short-term insurance companies command the lowest level of loyalty among customers of the financial services sector.

Credit insurance is a complex product, often purchased by someone whose primary interest lies elsewhere and who is very busy, finds it a nuisance and is not an expert in the
field. But credit insurance offers much more than just insurance and is therefore a far more interesting product to buy than most other forms of short-term insurance. Through its credit limit and claims services (see chapters 12 and 13) the credit insurer offers in addition to insurance cover a complete quasi-credit management service and if aptly applied can succor the growth of a healthy business for the policyholder (see also pages 114 to 118 “Ancillary Services by the Credit Insurer”).

Because of the idiosyncrasies of credit insurance, the insurer has to know his clients well and cannot work only through a broker. A great deal of communication needs to take place between the policyholder and the credit insurer. Due to these peculiarities of the business the relation between client and insurer is a much closer one than in other types of short-term insurance where the customer often identifies more with the broker than the insurer and sometimes does not even know who the insurer is. While the usual short-term insurance market is very much driven by premium rates and brokers, where a broker may switch a whole portfolio of clients from one insurer to another just to save a few rand in premium cost, credit insurance is driven by underwriting capacity (see chapter 14 Reinsurance), professional and personalized service by the insurer to his client. Client loyalty therefore tends to be greater in credit insurance, provided of course the credit insurer has the capacity to write the business and supplies the client with the right kind of service.

The intricate nature of the credit insurance product and the knowledge gap between the parties can encourage the credit insurer (or his sales person) to:

a) Over-market his product, to make promises that he does not intend or that he cannot keep. It also induces the insurer to over-dramatize risks and to over-state the benefits (directly and indirectly) of a credit insurance policy.

b) Try and talk the prospective client into purchasing a type of cover that is easy to sell or that the insurer finds the most lucrative but that does not meet the real needs of the prospect.
c) Neglect his duty to design the credit insurance policy so that it gives maximum protection and service in accordance with the client’s needs at a reasonable and affordable price and yet produces an acceptable underwriting profit for the credit insurer.

d) Sell a credit insurance policy to a business that does not need credit insurance. For instance, if a firm’s debtors are individually small and if they are numerous and thus well spread and if the company has a good credit control system, it may be better off in self insuring its bad debt risk. Under such circumstances it is usually also not to the insurer’s advantage to cover the book because the administration costs, the work involved in dealing with many small claims, the effort involved in approving many small credit limits and the time spent in the daily communication with the policyholder would probably make such a policy unprofitable for the insurer or too expensive for the client.

e) Offer a non-viable service. Contrary to other types of insurances, credit insurance is a credit management tool in addition to providing an indemnity. The credit limit underwriting service (see chapter 12 for more details) demands continuous and efficient communication between the policyholder and the insurer. If not professionally handled by the insurer, credit insurance can become intrusive and hinder the policyholder’s business.

f) Lie to, deceive and manipulate the prospective client, to flight adverts that make false promises and misrepresent the merit of the credit insurance product. The credit insurer may also act irresponsibly and unprofessionally, not complying with promises and generally not caring for the customer. Such an attitude will lead to a totally unsatisfactory product and to an unhappy client.
g) Not paying attention to the importance of an efficient, professional administration and backup service (including reinsurance – see chapter 14). Such a situation will result in a poor product and lead to an inadequate and unacceptable credit insurance service.

h) Ignore proper quality control. Supervision and guidance are needed in addition to reliable, motivated, conscientious and committed staff.

i) Disregard the need to invest in training, education and development of his staff. As credit insurance is selling a promise and credit risk management expertise, both delivered by the insurer’s staff, untrained, unsuitable, unprofessional employees will destroy the product.

j) Disregard the need for good human skills in all the staff that have contact with clients and other stakeholders.

k) Remunerate staff inappropriately, e.g., encouraging counter-productive behaviour through the wrong type of bonus, commission or brokerage incentive systems.

l) Be careless in appointing insurance brokers authorized to sell and service the insurer’s policies.

None of these actions are in the interest of the insurer because they will lead to unhappy policyholders who are likely to cancel their policies at the first opportunity. It is particularly important in credit insurance to keep a client for as long as possible because the profitability of the insurer depends to a large extent on the economic cycles. It would be unsatisfactory for the credit insurer to keep clients only through recessions when claims are high and lose them in times of economic growth when the insurer has to recoup the losses sustained during economic droughts. Dissatisfied policyholders will tell others that the insurer’s product is not adding value; they will recommend to anyone who cares to listen that credit insurance is not worthwhile, or at least that the particular insurer is a bad business partner. The guilty credit insurer is therefore not only hurting his own
business, but he is also damaging the whole market for credit insurance. This applies ipso facto to unprofessional credit insurance brokers. The insured will also have been harmed and probably other innocent third parties, such as debtors. Actions of this sort by the credit insurer or by brokers are therefore hurtful to all. They are also unethical. From a Kantian point of view, they violate the credit insurer’s negotiating partner’s dignity and autonomy by misleading and trying to bulldoze him into accepting a policy without affording him the opportunity to take a well-informed and considered decision. It ignores the categorical imperative if the insurer does not listen to or take the prospective client’s wishes into consideration or when the insurer acts without care. If the insurer does not offer, within reason, all the plausible alternatives, he precludes the enquirer from choosing – he denies him the use of his capacity for practical rationality. Utilitarians would also consider such action by the insurer as unethical because they do not serve to deliver the greatest utility to all those concerned.

A market dominated by strong but professional competition will not allow an actor to perform in the manner outlined above. Such competition would very quickly ensure the demise of the bad operator. Because of the specialized nature of credit insurance and the comparatively small market for the service, competition in credit insurance is limited in many markets, with the exception of Europe. This fact combined with the complexity of the product, place special duties of care and ethical awareness on the credit insurer. The following suggestions will assist the insurer in avoiding the unsatisfactory behaviour mentioned above:

1. As already stated, the purchaser of credit insurance usually has insufficient knowledge about the product to be aware of all the benefits and drawbacks, the different types of cover and the fact that policies can be specifically tailored to the needs of a business. The credit insurer therefore has a moral duty to provide a prospective client with sufficient detail concerning these issues, so that the purchaser is able to take a well-informed decision – a decision not only as to whether to buy a policy but also what type of policy and service he should purchase in the light of his business’s circumstances. This goes back to the Kantian imperative of autonomy. Not to provide the correct
information or not to give all the needed details, to talk somebody into doing things he/she does not wish to do or the implication of which he/she does not understand, is clearly immoral. Some would say the duty to supply sufficient information is a difficult one to comply with, using the lame excuse: what is sufficient? Others will say that omitting to give some information is not as serious as deliberately giving the wrong information. If the omission is deliberate it is obviously a more serious immoral act than if the omission is the result of an oversight. Whatever the case, the omission of a relevant piece of information may lead to the purchaser making the wrong decision – his ability to chose, his autonomy, as Kant would say – has been impaired. And that is the crucial issue and is the reason why the credit insurer must ensure that all the needed information is provided. The excuse of an oversight is not good enough. Professionals in the credit insurance business can have no justification for not providing all the relevant information and I do not believe there is any way of universalizing a maxim that says otherwise. For instance, a maxim “it is in order to neglect to provide a party, whom one wishes to acquire as a good client, with relevant information if the neglect is the result of an oversight” could not be universalized because:

- Such a maxim could not be proven. How could one know whether it was really the result of an oversight that the relevant information was not passed on? Such a maxim could lead to the withholding of information dictated by expediency;
- The prospective insured could land up with an inappropriate policy to his and probably also the insurer’s detriment, i.e., the purpose of the maxim (to acquire a good client) would not be achieved (contradiction in conception – see page 13 to 15);
- Credit insurance sales people would not be trusted, the product and the insurer would lose integrity and the market would be skeptical about the value of the product and would not believe the credit insurer to be professional. It would lead to the credit insurer’s inability to successfully pursue his end, i.e., to build a growing business (contradiction in will – see pages 13 to 15).

2. Advising a prospective client is a particularly difficult area especially now where people are far more litigious. One credit insurer was taken to court by an exporter who
had decided not to purchase a credit insurance policy but subsequently, on sustaining a bad debt, submitted a claim which the credit insurer repudiated on the ground that there was no insurance contract. The court found in the exporter’s favour on the basis that the credit insurer had a duty of care towards the exporter and should have tried harder to convince the exporter to take cover. The credit insurer might well have given the wrong advice but it is doubtful that it was given with malicious intent or carelessly. This seems an extreme case but is not that different to recent cases against financial advisors, although in these latter cases the advisor benefited from their wrong recommendations. Ethically the credit insurer is obliged to give the best advice, but he must always point out the consequences of following such counsel.

3. Marketing must help to ensure that the insurer deals in an honest, trustworthy, legal and fair manner and that he honors the terms and conditions of the insurance policies he issues. It is vital for the credit insurer to be known as a reliable, trustworthy underwriter who offers a good product, and marketing’s aim must be to design a proper communications strategy. This strategy needs to ensure objectivity and honesty in the company’s advertising campaigns and the company must make certain that its products and services comply with their advertised qualities, add real value, and do what is promised. As has been pointed out in chapter 4 “The Impact of Ethics on Business”, the survival and success of any business depends on its moral relations with society. The market will punish the credit insurer, and most other operators in the financial field, who misinform, lie, deceive and try to coerce others into buying their products (this may not be the same for every type of product or service, e.g., when you buy a second-hand motor car you anticipate that you will be told at best half-truths and will have to haggle about the price, in real estate one does not as a rule purchase a house for the advertised price and in wage negotiations both parties start with very different offers and slowly bargain towards the finally agreed settlement). The relationship between the credit insurer and the client must be built on trust because it needs to be of a long-term and close nature, for otherwise it will not be mutually beneficial. This is the only basis for a sustainable, beneficial and long-term relationship (see also chapter 7 “Trust”).
4. Public relations activities, which aim to spread awareness of the credit insurer and hence establish the brand, are an important marketing activity. Knowledge by the market of the brand, which is perceived as synonymous with quality and other proprietary brand assets, is critical for the success of the credit insurer’s business. The need for honesty in public relations activities is just as crucial as in the insurer’s advertising policy. This also applies of course to any direct mail exercise the insurer undertakes. The communications strategy must track the effectiveness of any advertising and public relations activities and needs to ensure that it is cost effective.

5. Although the clients of a credit insurer want in the first place to receive a professional, reliable, quality and value-adding service, a coherent corporate social responsibility policy based on integrity, sound values, and a long-term approach, offers clear business benefits to all stakeholders. Such a policy will also positively contribute to the well-being of society as will a well thought out Sustainable Development strategy (see chapter 3 “Sustainable Development”). Marketing should help foster good community relations because this will raise the awareness and reputation of the company and its brand. This in turn will create a preferred employer status for the credit insurer, making it easier to attract good candidates into the company’s employ. As has been pointed out in chapter 4 “The Impact of Ethics on Business,” society has a right to expect a credit insurer to act morally, as a good corporate citizen. It will punish the company which does not do so.

6. Important in the South African context is the question of Black Economic Empowerment (BEE). The score card developed by government includes a score for purchases from BEE compliant sources. It is therefore important that the credit insurers in South Africa ensure that they comply and are accepted as BEE procurement sources so that their policyholders can in turn comply by being able to show that they are purchasing credit insurance services from a BEE approved firm.

7. The company’s ethics policy is a valuable part of the marketing programme. This presupposes that it is a carefully thought out policy which is firmly embedded in the
company as manifested by the every-day behaviour of the credit insurer’s staff. Such a policy contributes to competitiveness, efficiency and key relationships vital to the company (see Part III “Codes of Ethics”).

8. Where a credit insurer markets and sells policies in a number of countries, he must be familiar with the general culture and way in which business is conducted in each of such markets. The credit insurer needs to apply his mind to such cultural differences and be tolerant towards any divergences between the credit insurer’s moral policy and that followed in such other countries. However, as pointed out in chapter 5 “Cultural Relativism” this does not mean that the credit insurer should ignore his own code of ethics and blindly adhere to the cultural beliefs of the host country. Basic moral principles tend to be the same all over the world, even if they may be obscured by differences in culture and of implementation. Naturally, the credit insurer needs to know the laws in the respective country and comply with them unless he perceives them as unethical in which case he should not market his product in that country.

9. An excellent marketing tool for a credit insurer can be advertorials and newspaper articles about interesting business covered, important export projects, large claims and the credit insurer’s view on economic and sector developments. Well-trained financial journalists are needed to write such reports and it is therefore in the interests of the credit insurer to assist in the development of financial journalism and to make certain that the media has a good understanding of the profession and the role credit insurance plays in the economy. Such action also helps to make the business of credit insurance more transparent and understandable to the business community. But clearly, a credit insurer must not allow his name or logo to be used in any article or advertisement that does not deserve being linked with the insurer’s good name.

10. Useful sources of prospects are the credit insurer’s vast archive of status information on businesses and the lists of creditors in insolvent estates. The prime reason for the information records held by the credit insurer is to supply the basic information
required for underwriting purposes but it is clearly an excellent source to scan for potential clients. Creditors who have lost money in a liquidation are likely to be open to an approach by a credit insurer. However, a great deal of the information available to the credit insurer from these sources may be confidential and considerable care must be taken by the credit insurer not to disclose or leak any such classified details. The attendance of trade fairs and supporting credit management and export associations can also be a useful marketing/sales effort. Not only can the product be explained but the credit limit and other relevant services can be demonstrated via the insurer’s computer system.

11. Independent market research can be very valuable. In-house research is never entirely objective. Market research is particularly difficult in credit insurance and it is therefore important that the survey is very carefully prepared and analyzed. Feedback must be given to top management for them to initiate relevant action. The research report can make a significant input into new product development and service level improvements. Careful interpretation is required because the market does not always know what it wants and may therefore send misleading messages. Market research is the eyes and ears of the credit insurer and is also an ethical tool because it affords clients the opportunity to express their opinions, to be ends-in-themselves, to be listened to, and for their views to be respected.

12. It is also critical that the credit insurer segments the market carefully. Business must not be treated as a single/homogenous group. Segmentation should be done according to size, sector, and trade level, geographical area, spread/concentration of risks, credit control and market position. Different segments have different needs and require different treatment (product, service level, selling method, communication etc).

13. Marketing should be innovative and helpful in the development and promotion of new products and in the improvement of existing ones. Marketing needs to breathe enthusiasm for the company’s business into staff and brokers and into the market and
facilitate the building of the insurer’s reputation. It should not promote wiz kid actions because in credit insurance a certain amount of conservatism is needed.

14. New products in credit insurance are difficult to find. The supplier must as far as possible meet the needs of the customer (in line with the categorical imperative), rather than to attempt to seek buyers for products or services the credit insurer is prepared to offer. Great responsibility and care has to be shown in designing new products in this field. The long-term consequences and the effects that a number of economic cycles may have on the success of the new product have to be studied in depth. The wish to innovate and hit the market with a brand new credit insurance service has cost a number of insurers a lot of money, e.g., some years ago some credit insurers became involved in financial guarantees and mortgage bond guarantees. Millions were lost and a number of credit insurance companies were destroyed in often tragic ways. Carelessness in product development and marketing is unethical as it can seriously damage the insurer’s business and those that are connected with it. In credit insurance it is not so much a new product but rather the constant fine tuning and adjustment of the existing service to take care of changing circumstances. A major research and development effort goes into finding more efficient, effective and customer-friendly ways and means of delivering the service, e.g., sophisticated computer programming, reporting, client/broker connectivity and operational efficiency. Yet the insurer must carefully listen to the market to detect changing conditions and must understand what influence such change will have on the insurer’s business. The signals sent by the market must be used to direct the business’s product/service development, and its pricing policy. The market will also indicate what the nature of the key messages should be and it will reveal the identity of the key audiences that need to be reach. Only that company which is able to adjust quickly to market changes will survive – a moral duty for any business.

15. A credit insurer has to be careful with too aggressive a sales approach as this may lead to the acceptance of too much risk and the concentration of exposures in difficult market segments, e.g., the clothing and textile industries. The importance of spread over many dissimilar risks, different industry sectors and preferably also over a number
of geographical areas through export credit insurance must not be overlooked, as this is what gives the credit insurer stability and safety. The insurer must also keep in mind that it is very dangerous to sell his cover to a firm that seems dishonest, does not display integrity and might collude with risks or act fraudulently. All this the insurer should do in the interest of his own business and because it is to the advantage of all his stakeholders.

16. Competition, provided it is professional, is good. It helps keep the market honest, vibrant, customer sensitive and price conscious. It also forces the individual insurer to stay on his toes, focus his efforts and ensure a constant drive towards better added value delivery to the client. Competition provides the opportunity for comparison and enforces the need for operational efficiency. Although competition may be tough and must be fought hard, such fights must be fair and clean. No lies can be told about the competitor and his product/service. Corporate espionage and deceitful behaviour towards competitors should not be countenanced. A morally responsible business will not try, through unlawful means, to achieve a monopoly. Only in very exceptional circumstances will the market and the competition authorities allow such a situation to develop. As has been shown at the beginning of this chapter, generally a monopolistic situation is not healthy for all concerned.

17. But management should not be criticized on ethical grounds for striving to drive the competition out of business, provided it is done in an ethical manner, e.g., by selling a better product or providing a superior service rather than by coercion, deception or unlawful means. It is not the business of business to be the guardian of the competition; it is government’s job to see to it that appropriate legislation is in place to protect the consumer from monopolistic or other trade restricting practices.

18. The biggest competitor for the credit insurer is self-insurance. A business that has a good credit management department, operates in a relative low credit risk market, has a good spread of debtors and is well capitalized can do without credit insurance. Such business would set aside a bad debt provision to protect it against unforeseen bad debt
losses. The credit insurer can add value to such a business only by delivering a superior credit insurance service in an impressive way. The insurance cover would allow such a business to release its bad debt reserve, employing the funds more productively, to budget more accurately and to save some money in its credit management department (cost of information, better intelligence, and assistance in collections of over-dues and in liquidation cases). Clearly, such a business is a desirable customer for the credit insurer and this highlights again the importance of excellence of service and the relevance of professionalism in the credit insurer’s staff.

19. The underwriter will have designed a type of policy suitable for the prospective client, on the strength of the information provided by the salesperson. In addition to the duty of taking due care in putting such a cover together, the insurer’s personnel must explain to the client why they believe the proposed policy is the best type for the client. Should there not be agreement, the insurer must try to accommodate the client’s wishes as far as possible, always of course keeping in mind the insurer’s own requirements, such as profitability, spread of risks (between different industries, countries, domestic and export business etc.) and administrative efficiency. In short, one should strive towards a win/win position. This makes for a satisfied purchaser and a long lasting, mutually beneficial relationship between the parties which is in line with the insurer’s ethical duties. (Specially designed policies do not apply to very small credit insurance contracts because they are standardized products, often sold over the internet and serviced through the insurer’s call centre in order to keep costs to a minimum).

20. Close co-operation between marketing, sales and underwriting is necessary. The sales effort will not be successful without teamwork and prospective clients will not receive a satisfactory service. The end result will be a poor reputation and a damaged image of the insurer in the marketplace.

21. The insurer must also explain his expertise in credit and export management and what he will add to his client’s business. The credit limit, country underwriting and the overdue collection service, the insurer’s role in the co-operation with liquidators, in
assisting with creditors’ meetings and legal proceedings and the allocation of legal costs between the insured and the insurer, are all issues that need to be fully understood by the policyholder.

22. It is easy for a salesman to make all sorts of promises concerning the services that the underwriter and the claims assessor will deliver once the prospective client has bought a policy, particularly where the salesperson will disappear from the scene once the policy is sold. For this reason it is important that at least on delivery of the final policy, the insurer’s employees who are thereafter responsible for the administration of the cover and for the customer service, accompany the salesperson. This provides them an opportunity to introduce themselves to the relevant personnel in the policyholder’s office and to explain in detail the terms and conditions as well as all the administrative aspects of the policy. Any misunderstandings about the policy, the credit insurer’s service, and the manner he operates, when and how claims are paid and what is expected from the policyholder need to be ironed out as far as possible before the policy is finally handed over to the policyholder. The sales person should visit the new client after six months from inception of the policy to make certain that the client is satisfied with the service he receives. As mentioned elsewhere in this report, excellent communication, a good understanding of one-another’s needs and expectations and respect for and trust in one-another are vital for both parties to obtain satisfaction from the credit insurance facility.

23. From the above it can be seen that I believe the credit insurer has a considerable responsibility in providing information to the prospective client. The credit insurer should not rely on the “caveat emptor” principle, for the product is too complex. On the other hand, the purchaser is a business from which one can expect a certain amount of understanding of matters dealing with business credit. It might be considered paternalistic by the prospective client if the credit insurer would approach the sales activity from a “caveat vendor” stance. It seems to me therefore that the credit insurance sales person has to employ a mix of “caveat vendor” and the contractarian view, i.e., a limited paternalism, being the “buyer’s keeper” by identifying the needs of
the possible customer and disclosing the information which is essential to meet those needs. Further, the credit insurer has the duty to explain why he believes the suggested product is the best for the potential policyholder so that the buyer understands the issues involved and is thus treated not merely as a means but as an end-in-itself. Only then will the mutual exchange be maximized and the mutual advantage the greatest.

24. To assist the parties in ensuring that there is full understanding of all the important issues connected with a credit insurance policy, the insurer should have a booklet that explains in simple language all the relevant matters. Such a booklet must be designed so that it is of real help to the policyholder’s staff who have to work with the policy, but it must also point out that where there is conflict between the booklet and the policy, the policy wording will prevail.

25. Sales and service personnel need to be experts in credit management and export operations. They need to be knowledgeable about the policyholder, his product and his market if they are to understand the credit problems that the local or export client faces. Such knowledge is also necessary in order to build a professional and caring public image. The credit insurer can only be a virtuous (in Aristotle’s’ meaning) business and fulfill his ethical duties (according to Kant) if he possesses these insights.

26. Training of the insurer’s personnel in customer relations, in the ability to tease out the prospective client’s or customer’s real needs, in credit and export management, in the intricacies of the product and service and in being sensitive to the requirements of the market, is vital. As the categorical imperative indicates: only those who have the knowledge and ability to freely decide, who have the authority, autonomy and self-respect, can provide an outstanding service and can be held responsible for their actions. Sales people and brokers must be aware of the fiduciary position they hold vis-à-vis their clients and what the implications and their legal obligations are as a result of this position. The credit insurer cannot afford to ignore or neglect education in business ethics. Clearly, cutting down on or completely ignoring such training needs is a shortsighted view. But training cannot do the job on its own. If the character of the
employee does not display truthfulness, fairness, compassion, courage, respectfulness, enthusiasm and the required intellect, much of the training effort will be wasted. The recruitment of people with the right personality is therefore crucial.

27. By the same token it is the client’s duty to do everything to familiarize himself with the terms and conditions of the policy, and to ensure both that his staff is well trained in administrating the cover and that his operating procedures incorporate the administrative needs of the policy. The credit insurer can and should help by offering training courses for the policyholder’s staff and by auditing the policyholder’s compliance with the policy conditions from time to time in order to avoid repudiations of claims due to non-compliance.

28. Very important in all this is that the insurer’s remuneration system supports these client service requirements. If salespeople are given large bonuses dependent merely on the volume of sales they achieve, they are incentivised to sell at all cost, ignoring the prospective client’s needs. While a bonus system can be a very useful tool to motivate, it must ensure that it motivates in the right direction. Selling credit insurance requires considerable effort and care in:

- Eliciting and passing on information correctly and completely;
- Listening;
- Ensuring that the client receives what he needs (as far as the insurer can satisfy such need in a manner that is also profitable to him);
- Ensuring that the cover is not sold to an unsuitable candidate (either because he does not really need the product or because he is incapable of administrating it properly or because it is a dishonest business) and
- Dealing with the prospective client in an honest, trustworthy and open manner.

Sales commission should therefore be paid one year in arrear, once it has been established that the insured was sold the correct cover in a thoroughly professional manner. The insurer’s own audit of new clients and a market research of new customers by an independent agency can be useful ways of finding out how professional the insurer’s sales force is and how satisfied the new client is with his purchase.
In credit insurance it seems questionable whether it is correct to pay a commission only to the sales staff. As has been seen from the points made above and as will be seen in chapters 12 “Underwriting” and 13 “Claims,” a mutually satisfactory, long-term relationship between insured and insurer depends on the ongoing service that the insurer renders the policyholder. It seems therefore just as important that the insurer’s staff responsible for providing this ongoing service to the insured be motivated to supply an excellent service. Chapters 10 “Introduction to Credit Insurance” and 12 “Underwriting” demonstrate that the policy document is merely a shell that is worth very little without the credit limit, collection and claims services. These services are the heart of the credit insurance product and are the essence of what a policyholder has bought. Accordingly, the underwriting, claims and their support staffs are absolutely crucial to the delivery of a professional credit insurance service that will please the client and aid him in building a successful business. For these reasons I believe that the entire staff and not only the sales personnel should enjoy a remuneration package which is made up of:

- A fixed salary;
- A commission based on the individual’s performance;
- A bonus dependent on the underwriting profit of the credit insurer;
- Expenses (where applicable); and
- Fringe benefits.

Clear, agreed, written performance criteria and a fair performance appraisal system need to be the basis of the level of the commission payments to individual employees. The commission must encourage and reward the desired behaviour and performance. Distributive justice (see Social Justice, pages 24 to 27) in business means aligning benefits within the organization to the contribution made to achieve the company’s aim. Salaries linked to performance for all is an example of distributive justice, as is promotion on merit (keeping Rawls’s difference principle in mind).

29. Sales persons need to have a clear understanding of the company’s strategies, policies and code of ethics – they are in the front line and must demonstrate the “customer first” policy and the company’s commitment to ethical behaviour. Sales people must also be
involved in the development of the insurer’s marketing and sales strategies. Not only can they make valuable inputs because of their direct involvement in these activities, but the sales personnel’s involvement will also motivate them and ensure that they will support the finally agreed strategies. The marketing and sales managers should employ participative management styles, help their staff to develop their personal capabilities through training and mentoring and structure individuals’ jobs in such a way that they can show their own initiative and exercise relevant authority, being held responsible for their work. Such a management will ensure motivation and commitment in the employees.

30. Intermediaries such as insurance brokers, banks and other financial institutions can assist the credit insurer in his marketing and sales effort. It is the insurer’s duty to ensure that such intermediaries comply with the business policies and ethics of the insurer, that they are professional, knowledgeable and people of integrity. Where required, the insurer should offer training courses to such intermediaries in the technicalities of the product as well as in the credit insurer’s business philosophy and ethics policy. It will also be worthwhile to point out that intermediaries can be taken to court for faulty or inadequate advice to a client or prospective policyholder and for material non-disclosure to the insurer.

The credit insurer should never relinquish an existing client to a broker or neglect building good, close and direct relationships with a new client introduced through an intermediary. The continuous communication required between the insured and the insurer to service the insured properly demands that the insurer has immediate and direct access to his client. The insurer has to explain clearly its requirements in this regard to the intermediaries but at the same time the insurer must listen to the intermediaries in order to facilitate their co-operation and to hear the intermediaries’ views on the needs of the market and of individual clients. Clearly, a good working relationship between intermediary and credit insurer will be of benefit to all.

Policyholders often prefer to have an intermediary involved in order to fend for them in case of differences with the insurer. Intermediaries are seen by the market as independent and thus unbiased brokers, being specialists in all insurance matters and
therefore being able to represent the prospective client’s or the policyholder’s interests in cases of disputes between the insurer and his client. Here the insurer has the additional duty to do everything in his power to keep the broker independent. All remuneration and other perks that the insurer pays to the broker need to be made known to the policyholder. In fact it would be preferable if the broker would receive his compensation entirely from the insured because it is the policyholder who employs and relies on the broker and it is he who needs to be satisfied that the broker is not in the pocket of or a mere agent of the credit insurer. The present case in the US by Mr. Eliot Spitzer, the New York State Attorney-General, against the world’s largest broker, Marsh & McLennan is a good example. Underhand payoffs by insurers to induce the broker to place business with them rather than with the most appropriate insurer, the subject of the case, are unacceptable inducements and clearly unethical because they violate the fiduciary position of the broker vis-à-vis the client and because they undermine the free market system. It is not so much the issue of a broker receiving a higher commission from a particular insurer – he may be worth it because of a superior service delivered by the broker – but rather the fact that it is a secret payment which does not allow the market to play its role and does not permit the purchaser of the insurance service to make a decision based on all the relevant information. Such action violates the purchaser’s right to autonomy.

31. It is worthwhile to dwell a moment on the relationship between banks and the credit insurer because this can be a very diverse and contradictory one. Banks often are:

- Shareholders of the insurer;
- Suppliers of credit information to the credit insurer;
- Brokers selling the insurer’s product;
- Influencers of prospective credit insurance clients because they can advise or even oblige their clients to buy a credit insurance policy;
- Cessionaries taking the credit insurance cover as additional security over book debts on the basis of which they have provided overdraft facilities;
- Competitors, because they offer all kinds of documentary credit services and often own a factoring company;
• Partners, by offering “managed credit insurance policy services” to small businesses (see paragraph 32 below);
• Financiers of capital goods export projects, relying on the insurer’s credit cover; and
• Direct customers of the credit insurer for political risk and letter of credit cover.
These relationships between banks and credit insurers can produce conflicts. Is a shareholder of a credit insurer unbiased? Will such a bank be an independent broker or act more as an agent for the credit insurer? The bank as “influencer” can get involved in conditional selling, insisting that a client takes out credit insurance in order to obtain a line of credit. As a factor, a bank is a competitor although factors sometime employ the credit insurer as a “re-insurer.” Banks are usually the largest creditors in insolvent estates, and their interests may be contrary to those of the insurer in debt recovery actions. Clearly, these conflicting interests can lead to unethical behaviour – particularly the shareholder relationship.

32. One problem that credit insurers and brokers have is to provide a professional service to small business. Credit insurers have developed a small business policy which is a much simplified facility. It may provide for a fixed monthly premium payment via stop order (eliminating monthly declarations) or offer a less personalized service via the insurer’s call centre. Some insurers have designed together with the banks the so-called “managed policy.” This is a type of wholesale policy taken out by the bank for its small customers where the bank administers the credit insurance cover on behalf of a number of small businesses who are co-insured under the policy. In Rawls’ terms one might say this is in line with his maximin principle – it makes out of a potentially unprofitable situation for the insurer and intermediary the best and at the same time provides credit insurance to small business on a basis that maximizes the minimum outcome.

33. Sales persons are more prone to unethical behaviour under conditions of
• Fierce competition;
• Strong pressure on the sales person to sell;
• High sales commissions;
• Unregulated, dubious practices of disclosure;
• Sales managers being removed from actual selling practices; and
• Codes of ethics being non-existent or being widely disregarded in the industry.

For the credit insurance industry it would therefore be very useful if the two international credit insurance associations, the Berne Union and the International Credit Insurance and Surety Association, were to adopt a code of ethics (including marketing guidelines) for the industry which the associations would monitor and manage along the lines as set out in chapter 19 “Implementation and Management of a Code of Ethics.” If the credit insurance industry would adhere to such a code it would be considerably easier for all players to comply because such unanimity would remove the threat of losing business as a result of competitive pressures due to unethical behaviour.

ANCILLARY SERVICES BY THE CREDIT INSURER.

The objective of credit management is improved sales, reduced costs and higher profitability. Credit insurance can enhance these benefits considerably and protect a business from liquidation which may result from it having sustained major bad debt losses. The illustration on the following page gives an indication of the positive impact credit insurance has on a business.

A business needs a well thought out credit policy and it must be remembered when designing it that best practice should be heavily influenced by the customer. Such a policy is central to a good marketing strategy and can provide a powerful competitive advantage. Credit is an implied guarantee of quality – shoddy goods or services should not be sold on credit because the supplier may never get paid. An attractive offer comprises a package of product and finance, simply because it is cheaper and more convenient for the customer not to have to organize finance from another party. The credit insurer can help the company in drawing up a credit policy because of his specialized knowledge and experience. The insurer’s pre-delivery vetting (credit limit service – see chapter 12 “Underwriting”) enables the policyholder to offer a seamless solution (goods, service and credit) to credit worthy customers.
1. In order to make some profit, some risk has to be taken - line A to B
2. As more risk is taken so the potential for profit increases - curve A to C but the potential for loss - curve A to D - also increases.

3. Through careful risk management the potential for loss can be reduced - curve A to D.
4. As far as CREDIT MANAGEMENT is concerned, this risk of bad debt losses can be nearly eliminated through CREDIT INSURANCE, thus minimising the total risk curve - curve A to E.

(Adapted from Risk Model by Don Russel & Mike Corber.)
The credit policy of a company is an important ingredient of its market segmentation. A company must concentrate its marketing and sales efforts on firms with sound credit standing. Slow payers tend to be unsatisfactory customers, financially weak and far more costly to administer. They also produce the bad debts. In export business there is the additional risk on the importing country which needs assessing. Knowledge of the International Commercial Terms (INCOTERMS), their advantages and limitations, is needed when designing a credit policy for export trade. Again, these issues are the credit insurer’s every-day business. He will ensure, through the credit limit service, that sales efforts are not expanded on high, unacceptable commercial or country risks. The insurer’s experience with export business and his international network are at the disposal of the policyholder, aiding the decision process and guiding the company in its export efforts.

As the old saying goes: A sale is not a sale until the money is in the bank. The credit insurer can give advice on the design of an effective credit application form, on the wording of the sales contract, ensuring that all the contractual terms and conditions are taken care of. As the credit insurer will not be on risk where the policyholder has not met his contractual obligation, any alleged breach must be cleared up. It is therefore important that a dispute resolution clause is built into the sales contract. The payment terms should be very clearly stated, industry related and as simple and flexible as possible. A good credit policy will help a great deal towards maximizing sales and minimizing risk, and the company should therefore seek the advice of and make use of the experience of the credit insurer.

A well structured and staffed credit department is vital. A good credit risk assessment methodology is basic to any good credit management policy. Ready access to fast and reliable information sources is crucial and, where appropriate, relevant securities need to be evaluated and obtained. White-collar crime in the credit field is difficult to detect. The credit insurer must be able to assist the company with all these issues.

Billing and statement stationary needs to be simple, clear, complete and attractive and the payment process must be easy, quick, flexible and efficient. Good debtors’ accounting,
monitoring, collection and handing-over systems must be in place and the issue of credit notes needs careful control. Nothing can be more frustrating and time consuming than an inefficient query resolution system. Proof of compliance with every aspect of the sales contract must be available. The liquidation process and the rights of creditors when dealing with irregularities, negligence, collusion, short cuts and fraud, require expert knowledge. If not handled correctly, a great deal of money can be lost. Correctly established bad and doubtful debt reserves, together with a properly designed write-off policy, need to be in place. The credit insurer can provide guidance and direction.

An all round, expertly designed and managed credit policy will result in a lower credit insurance premium cost to the policyholder.

A well-managed debtors’ book represents the most valuable and usually the largest asset a business possesses. Because of the size and importance of this asset it should be credit insured. The rights under such a policy can be ceded to a financial institution, increasing the security afforded by a cession of book debts. This can lead to an increased financing facility, often at a lower interest rate than available for an overdraft based on an unsecured cession of debtors.

Other added value services that a credit insurer can sell at a profit are:

- Buyer information (through the purchase of an information bureau);
- Finance (through the purchase of a factoring house).
- Credit management consulting and credit staff recruiting services.
- Supply of country reports and surveys.
- Export promotion services;
- Debt collection services.

Only a credit insurer who is well qualified to supply such supplementary services should offer them. It would be unethical to advertise them or refer to them in the credit insurers’ brochures, if the credit insurer does not have the necessary specialist staff readily
available and thus does not have the ability to deliver these services in a truly professional manner.

MORALITY IN MARKETING AND SELLING CREDIT INSURANCE.
As has been shown in this chapter, there are many ethical issues involved in the honest marketing and selling of the credit insurance product. The main issue is undoubtedly the credit insurer’s duty to be truthful, to be transparent and to disclose vital information in all his dealings with potential clients. Lying, cheating, suppressing important information or employing coercive practices in order to sell a credit insurance policy would be in violation of Kant’s categorical imperative. The credit insurer needs to go out of his way in dealing with all his stakeholders in an ethical manner. If the insurer were to subscribe to Milton Friedman’s policy: “the social responsibility of a business is solely to increase its profits (see page 48), he would not only act unethically vis-à-vis his clients, re-insurers, staff and all other stakeholders except his shareholders, but would in fact in the end damage his own business because he would acquire a reputation as a rapacious, uncaring insurer who does not deserve normative trust (see chapter 7). As a utilitarian one could also not support such behaviour as it could not serve to provide the greatest utility to the affected people (certainly not in the long-term). Aristotle would ascribe such behaviour to the incontinent or intemperate person (see page 19). Actions as stated above would not be compatible with the Golden Rule and with Ross’s Common Morality Theory (see page 23). As Rawls has pointed out, fairness of circumstances under which agreement is reached transfers to fairness of the principle agreed to (23 Rawls, 2001).

But not all marketing and sales questions are that simple, e.g., is it unethical to promise a certain action in order to obtain the business from a very desirable prospect although you know that the credit insurer has to rely on a most unreliable third party to deliver what you have promised? Or is it moral to offer a premium that is too low in order to “get the foot in the door” with the intention of increasing the rate once the client has incorporated the credit insurance product into his administrative processes and has learned to rely on it and cannot easily cancel the service? I believe it would be deceiving a prospective client if action is promised that may be impossible to deliver – for what ever reason. I do not
have the same qualms with regard to the initially lower premium. The insured receives a definite advantage in the first year. If the business proves as desirable as the insurer thought, it is likely that the premium will not be raised in the second year. If it has produced losses, an increase is justified and probably acceptable to the client. In any case the policyholder will be strong enough to negotiate and will not have to accept the insurer’s premium rate.

As philosophers have pointed out, their theories are guidelines and do not present an unconditional, exact science. Moral dilemmas will always occur and the marketing or sales managers will have to carefully apply their minds – in a manner as outlined in chapter 8 “How to deal with Dilemmas in Business Ethics” – and in consulting the credit insurer’s code of ethics (see Part III ) to find solutions to such problems.

However, there is no doubt that a credit insurer who gives careful considerations to such dilemmas in an honest effort to find an ethical solution will display values and a behaviour that builds normative trust. Such trust will help to openly discuss and overcome problems that may have resulted from a wrong decision.