Life Insurance: Who Benefits, the Consumer or the Company?

Topic: Selling

Characters: Mark, Sales representative for a large life insurance company
Potential clients of Mark
The company Mark represents

Mark is a sales representative for a large life insurance company. He has been with the company for about 18 months. Things have been going well, or so he thinks. One concern he has is about the product he sells most.

This product is an insurance and savings plan bundled together. It provides protection for premature death, savings that can be used for retirement, or an emergency fund that can be accessed quickly without hassle.

The problem Mark faces is that this insurance product is more expensive to purchase, and for young families it provides the least amount of protection in case of premature death of the breadwinner. Another drawback is the low return on savings, somewhere between 3 percent and 6 percent net. The company pushes sales of this product because it is more profitable. The commission Mark earns is 110 percent of the first year's annual premium, so it is very profitable for him and his family.

Mark also has another product that is considerably cheaper, that can provide much greater insurance protection, and at the same time would let the insured invest the difference in another product (i.e., an annuity) that provides a greater return. But the commissions paid by the company are very low, and management frowns on too many of these policies being sold.

The quandary is: If Mark does what is right for the consumer, he can't provide for his own family; if he sells the more expensive insurance product, then the protection doesn't come anywhere near meeting the needs of the family should the breadwinner die prematurely. What should Mark do?

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Teaching Notes

What Are the Relevant Facts?

1. The company for which Mark works pushes the sale of a combined insurance and savings plan.
2. For most young families, this plan is expensive and would not adequately compensate for the loss of the breadwinner.
3. The company also offers an inexpensive insurance policy which would adequately cover a young family's needs in case the breadwinner died.
4. Mark earns considerably more money selling the combined insurance/savings policies than the inexpensive term insurance and annuity.

What Are the Ethical Issues?

1. Does Mark have a responsibility to sell the product that the company pushes?
2. Does Mark have a greater responsibility to his potential clients in the product that he presents to them?
3. How can Mark provide well for his family if he does what he believes is right for the consumer?

Who Are the Primary Stakeholders?

- Mark and his family
- The company and its management
- Mark's clients

What Are the Possible Alternatives?

1. Mark could choose to sell the more expensive product.
2. He could choose to work much harder and sell large quantities of the lower-priced inexpensive product.
3. He could go to another company that doesn't push the expensive product.
4. He could present both products and let the client decide.

What Are the Ethics of the Alternatives?

- Ask questions based on a "utilitarian" perspective (costs and benefits). For example:
  1. Which alternative would provide the greatest benefit to the greatest number of stakeholders?
  2. How would costs be measured? How much value could be placed upon the company's directives to an employee? How much value on the rights of the consumer? How much on Mark's integrity if he does what he believes is right for the consumer? How much on Mark's family's welfare as related to his income?
  3. Do the benefits of following the company's preference of product and, making more income outweigh the right of the consumer to know about a better product for his family?
- Ask questions based on a "rights" perspective. For example:
  1. What rights should a company have with respect to the choice of product that it sells?
  2. What rights do salespeople have with respect to the integrity of the products that they present to consumers?
  3. What rights do consumers have to know about alternative products which would benefit them, even if the company would not profit as much from that sale?
  4. Doesn't Mark have the right to make the best living possible for his family?
- Ask questions based on a "justice" perspective (benefits and burdens), such as:
  1. Which of the alternatives distributes the benefits and burdens most fairly among the stakeholders?
  2. Which stakeholder(s) will be burdened most if Mark continues to sell the more expensive product? Which one(s) if Mark chooses to sell the less expensive product?
  3. What obligations do insurance salespeople have to give consumers complete and accurate information?

What Are the Practical Constraints?

1. If Mark doesn't sell enough of the combined policies, he would not make enough for his own family.
2. He could put his job at risk by selling the other type of policy, because his company's management does not look favorably on low sales production.

What Actions Should Be Taken?

1. What actions should Mark take?
2. Which alternative would you choose in Mark's position, and why?
3. What ethical theories (utilitarian, rights, justice) seem to relate best to this situation?