Poaching of Agents

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Poaching is considered as a dispute that can be the subject of dispute settlement among life insurance companies under the current regulations. CL No. 2013-32, dated November 4, 2013 was issued to provide for the settlement procedures. In this circular, the word 'poaching' is never used. Instead, it is referred to as an issue on "Recruitment of Transfers of Employees and Sales Producers". The circular has been perceived to be ineffective and lacking in sufficient deterrent.

Poaching of agents is the transfer of significant number of insurance agents to rival insurance firms usually with monetary incentives and other perks. Poaching is costly and requires a deep pocket for the poacher. The detrimental effects of this induced agent migration both to the industry and the policyholders have been noted.

Agent poaching is fuelled by intense market competition and the need to expand and obtain the top producing sales force. It is difficult to grow an agency. It requires investment in training and recruiting the right people in the first place. The attrition rate in the insurance agency sector is high especially in the first year of recruitment. Most of the drop-outs are the non-performers. Indeed, the top producing sales force are rare species. These are the agents that are good at networking and can build good relationships with clients. Perhaps the issue is explained well by Mark Tay, executive director of Wen Consulting in Singapore, "life insurance sales is largely labour-intensive, so the more agents you recruit the more sales you get. In a mature market like Singapore it's very difficult to recruit in significant numbers. There's also a cultural aversion to sales and commission-based jobs so companies resort to poaching." No doubt, the regulator should issue guidelines regulating the recruitment of agents.

Insurance is a business driven by distribution. Distribution through agents is still the most prolific channel in the Philippines.

Agent poaching usually comes with monetary incentives such as upfront lump sum payment, and sign-on bonuses for the crossover agents. In other words, an insurance company "buys" the top performing sales force. It could also come with a 'bond' period where the monetary incentives could be retrieved or "clawed back" if sales quotas are not met. In other words, they will have to return the incentives given to them. This may be the trigger for the agents to engage in unethical sales practices.

While the agents may earn immediate financial rewards, it would not speak well of their reputation as it would seem that they market their wares to the "highest bidder". Poaching would usually involve the team leader and the members of the agency team.

Negative effects

Poaching of agents has been recognized as “unhealthy” for the insurance industry for various reasons. Paramount of these reasons is the damage to the interests of the policyholders. It is also unethical as insurance firms simply obtain experienced agents from other firms without having invested in their training and development. According to Roland Yeo, president of the Insurance and Financial Practitioners Association of Singapore (IFPAS), “The company which acquired the rival agents via poaching instantly has a pool of experienced agents with high motivation to perform, thus increasing its revenue and shareholder value.” The practice also “discourages investment in human resource training and impedes professionalism”. A poor investment in training results to sales agents with little knowledge about the product they are selling. And of course, there is the disruption caused to the company by the exodus of agents.

Mis-selling or Overselling

One of the negative effects of agent poaching is the possible resulting mis-selling by crossover agents who will be under pressure to meet sales targets in their new firm.

Higher costs

The monetary incentives themselves could be detrimental as it could drive up the insurance costs when they are passed on to the customers. One safeguard that should be in place is that these monetary incentives should be shouldered by the company’s stockholder and not sourced from the insurance funds.

Churning or Twisting

Another danger for the policyholder is when insurance policies are improperly replaced after the transfer of the agent to another insurance firm. In this instance, the policy issued by an insurer will be surrendered and ‘switched’ with another policy of the new insurer. Replacing the insurance policy may entail a re-underwriting which could mean an increase in premiums or a reduction in coverage. This is also known as “churning” or “twisting”. Also to be noted is that surrendering or terminating a policy before its maturity may incur penalties for early termination. This is natural consequence when agents are under pressure to sell.

Orphaned policies

When the insurance agent leaves the insurance company, the policy issued by that company will be left without a dedicated servicing agent. It will be an “orphaned” insurance policy. While a new agent will be assigned to service the affected policies, the absence of a relationship with the new agent will make the client a lower priority. Relationship and trust are two important elements in the role of the insurance agent.

Finally, competition based on poaching is not sustainable as each company can simply counter-poach or retaliate. It can also offer additional incentives or what is known as

the “golden handcuffs” to retain their sales talents. In the end, it is the industry that will suffer.

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