ABSTRACT: Both public and private sector organizations are struggling with knowledge loss resulting from employee turnover. Moreover, costs of recruiting, of lost productivity and training to replace employees can reach huge values. Capturing knowledge inside an organization seems to be one of the main purposes of a knowledge management professional. In the insurance industry, trade secrets, confidential information and valuable ideas are part of the workforce knowledge. Recruiting, selecting, training and managing insurance agents constitute a real challenge for insurance companies all over the world, and a sensitive ethics-related issue is the case of insurance agents leaving their employer, in order to transfer to a competitor insurance company, while trying to take along as many clients as possible from the old employer.

Keywords: knowledge management, insurance companies, ethics

JEL Codes: G22, M12

Introduction

There can be no doubt that, in practical terms, the world is getting smaller, and whether the process of globalization is seen as a source of opportunity or as a destructive force that needs to be checked, it is clear that businesses are facing an array of new challenges. These in turn have only emphasized the importance of implementing an effective knowledge strategy.

The nature of work has changed enormously with the shift from an industrial economy, focusing on commercial products, to a knowledge based economy, where service and expertise are the main business outcomes. Rapid advances in technology, the growing importance of international business and increasing recognition of individual needs and expectations have been major drivers in changing this focus. In the industrial era, wealth was created by using machines to replace human labour. Many people associate the knowledge economy with high-technology industries such as telecommunications and financial services. Unlike capital and labour, knowledge strives to be a public good. Tacit knowledge is knowledge gained from experience, rather than that instilled by formal education and training. In the knowledge economy tacit knowledge is as important as formal, codified, structured and explicit knowledge.

The knowledge-based economy is characterized by change and a turbulent business environment. Through a knowledge management system, integrated with the core activity of the organization, it is possible to map the existing knowledge and expertise, manage the creation of new knowledge, and facilitate the transfer of the existing knowledge.

Both public and private sector organizations are struggling with knowledge loss resulting from employee turnover. In addition to retirements, critical knowledge loss occurs by job mobility and alternative work arrangements. In a recent Hay Group survey of 5000 executives, 46% indicated that they expect to remain in their position for only two to five years. The cost of this loss can be enormous. Sometimes, the departure of just one experienced sales manager could cost millions of euros due to the loss of critical sales and client knowledge. Moreover, costs of
recruiting, of lost productivity and training to replace employees can reach values above 50% of an employee’s salary.

Business costs and the impact of employee turnover can be grouped in four main categories:

- **costs due to a person leaving** (other employees must fill in for the person leaving, the lost productivity of the employee, the cost of training the company has provided, the cost of lost knowledge, skills and contacts, and the cost of lost customers the departing employee is taking with him)
- **hiring costs** (costs associated with identifying, recruiting, selecting and hiring a replacement, such as advertising, internet posting, costs in term of time spent arranging the interviews, or calling references) These costs also translate into lost productivity
- **training costs** (the replacement person’s orientation, product knowledge, industry knowledge, on the job training)
- **lost productivity costs** (the new employee will go through a few stages before becoming fully productive, he’s supervisor will spend time guiding him and correcting his potential mistakes)

Given that companies are increasingly gaining competitive advantages from intellectual assets rather than physical assets, organizations that do not implement effective knowledge capture strategies will face difficulties.

When an employee leaves an organization, its information, experience, contacts, relationships and insights also leave if no attempts are made to identify, capture and share this knowledge inside the company. As David DeLong (2004) says “Lost knowledge is an invisible problem, so companies don’t always see the threat.” In its 2002/2003 knowledge management survey of the top 500 organizations in Europe, KPMG found that while 80% of organizations recognize knowledge as a strategic asset, 78% of companies believe business opportunities are missed due to failure to successfully exploit available knowledge.

What a company and its employees know is its greatest asset, still, knowledge is the most difficult to valuate. Once with the increasing focus on the knowledge based economy, managing corporate information has begun to reshape business.

**Purpose of the Study**

While the challenge of capturing and transferring knowledge before an employee leaves an organization is not new to the knowledge manager’s agenda, the issue is receiving increasing attention. Knowledge managers, Human Resource departments or senior management are all focusing on this concern.

Institutional knowledge is lost when key people leave. New or existing employees may not benefit from their experience and knowledge, and may find it difficult to perform at the same level of effectiveness and efficiency.

Capturing knowledge inside an organization seems to be one of the main purposes of a knowledge management professional. This way, when people leave, the knowledge does not leave with them.

Taking into consideration the above statement, a question arises: how to prevent or minimize the loss of expertise, customer contracts and product knowledge when key employees leave.

**Knowledge Management in the Insurance Industry**

---

http://www.blissassociates.com/html/articles/employee_turnover01.html
The shift to a knowledge economy has increased the complexity of work activities. In a knowledge economy, risk managers will have to manage new classes of risk. The focus is already shifting from managing tangible assets to managing the intangible, permanently evolving area of knowledge.

Employers have recognized the value of identifying and accessing a diversity of expertise and knowledge from different sources to work on common goals. Knowledge is the competitive advantage in insurance underwriting and servicing. Bringing the right information to the right person is the key in the successful underwriting competition.

Some of the most desirable and best paid roles in insurance today are in risk management, claims, actuarial, product, operations, technology investments, real estate, finance, advertising, marketing, and, of course, in sales. Management career opportunities abound across the insurance spectrum because leadership in this function is key to sustaining the growth of today’s insurers and which go beyond policy sales.

Insurers are turning the wealth of information they possess into knowledge in more than one way. At a minimum, insurers are putting information on the Internet, but nowadays policy education is a key element for insurance customer service.

Nowadays, the financial results only cannot guarantee that the rest of the company’s assets are also going well, says Hubert Saint-Onge 2 “it might be possible to do well financially and yet, be negating the development of the capabilities that will ensure the future prosperity of the firm”.

Defining Insurance Intermediaries

Insurance intermediaries are divided into 2 groups, agents and brokers. The main differentiation is that the agent is a representative of the insurer, working for the insurer, at the insurer’s risk.

The insurance broker is defined as the representative of the customer, who has to compare and analyze insurance products on the market, and recommend the one which fits better the customer’s needs.

Losing Knowledge – an Example

The value of intellectual property and its associated risks has now taken up a large part of corporate operations. Trade secrets, confidential information and valuable ideas are part of the workforce knowledge, which is becoming more and more mobile. Recruiting, selecting, training and managing insurance agents constitute a real challenge for insurance companies all over the world, involving large amounts of money as costs for initial screening interviews, in-depth interviews, selection tests or references checking.

Part of an insurance agent’s daily routine would be locating clients, creating and developing a client database, and looking for new potential clients. The contacts are made through business and personal contacts, through telephone calls or public gatherings. Especially in the brokerage firms, the agents could have a list of contacts with whom their company did business in the past. One of the most important source of clients is through referrals from other clients.

This is how knowledge is created.

Still, the turnover rate during the first year is around 55% and almost 90% after 3 years, with retention rates for the 3 years of around 25% (Greenberg, 2000).

---

2 Hubert Saint-Onge, senior vice president of Clarica, an insurance and investment company in Waterloo, Ontario, developer of a model of “Knowledge Assets Framework”
In this context, the case of insurance companies courting rival companies’ agents is well known. What they are looking for is to bring over not only the competitor’s experience, but also the information and potential clients to their business.

In the year 2000, in USA, two insurance service high profile companies were in the public eye due to an existing lawsuit among them. The two companies were Yates & Associates, and R.E. Chaix & Associates, both managing general agencies that rely on relationship with local retail insurance agents.

On March 2000, Yates & Associates filed a suit against R.E. Chaix & Associates, after several Yates employees left and joined the competitor. The issue in question was the ability of a former employee to protect goodwill and brand recognition when an employee chooses to leave. "We’re all friendly competitors, but there appeared to be no firm definition of the right and wrong way to leave a former employer and books of business," James Yates, president of Yates & Associates, says. "Today's business environment is rapidly changing and we wanted to define fair and just compensation for all parties in the event an employee leaves...I pursued this suit because I wanted to send a strong message on behalf of other wholesalers who have been financially wounded by former employees."

Less than one week later, the Court granted Yates a temporary restraining order against R.E. Chaix, prohibiting employees from Chaix from initiating business with any of the approximately 400 agents that have done business with Yates in the past 12 months.3

As competition increases and employees move on to new ventures, having had the training, experience and access to confidential information of a soon-to-be-former company, there are many ways to cheat. And industry leaders say such lawsuits will increase in number, especially in cases that involve trade secrets and large client databases.

A possible solution would be to create thorough non-compete clauses to be signed by employees, restricting their options and possibilities of changing the employer with a competitor. According to the Glossary of Private Equity and Venture Capital, a non-compete clause is “an agreement often signed by employees and management, whereby they agree not to work for competitor companies or form a new competitor company within a certain time period, after termination of employment.”

Nevertheless, in the USA, while the majority of the states recognize and enforce non-compete agreements, in a few states, such as California, they are either totally banned, or prohibited.

**Ethics and the Insurance Industry**

The accent for a good business should be on ethics. For insurance companies, ethics should be an essential element in generating relations and maintaining them, on the long run, with clients, associated insurance companies or with the public.

The insurance industry, over the decades, has responded to unique and challenging situations, offering creative products, fit for the demand. It is an ongoing phenomenon, and brokers and agents are doing their best to fit these customer needs to the market.

From the clients’ point of view, ethics refer to the following (Gavriletea, 2008):
- punctuality during the meeting (time is extremely valuable and limited for all risk managers);
- presentation in front of the client, the first impression, behaviour and posture can be factors in the future decision making process;
- a clear and concise presentation of the offer to the client, saving as much time as possible (if the client travels to the insurance company’s headquarter);

---

the insurer’s prompt action in the case of an insured event, and the way it is solved;
- a permanent contact with the clients, regarding payments and contract evolution. The
majority of clients do not follow the payment dates, and appreciate being informed about
them.

Regarding the relationship with other parties, there are the contacts with colleagues, with the
insurance brokers, or with the state owned public institutions. As an ethics issue, among colleagues,
there is the unprofessional habit of client “theft”. This behaviour could harm the insurance
companies, since the clients noticing the fact that they are changing the agent every once in while,
or that they are approached by various agents from the same insurance company, could become
reluctant and question the company’s professionalism.

Another sensitive ethics-related issue is the above mentioned case of insurance agents
leaving their employer, in order to transfer to a competitor insurance company, while trying to take
along as many clients as possible from the old employer. And, given the fact that the client’s
decision in choosing a certain insurance company is based on the personal relationship with the
agent, it is highly possible that the client would also change the insurance company once with the
agent. Still, this tendency is not unanimous, and in some cases it can create negative reactions
coming from the insured person. The client can feel mistreated or even cheated on, if the same
agent would approach him again, but offering a different product, from a different company, and
presenting it as the best solution available on the market.

This strategy could harm not only the agent, but also the company’s image, possibly leading
to losing the client, the existing relationship or the referral source.

Suggestions

Conflicting loyalties and the battle to reconcile personal values with profit goals are at the
core of the insurance industry's ethical dilemma. Surveys that rank the public's perception of
integrity, for various industries, rarely show insurance at the top of the list.

Unethical practices which are resorted to in avoiding liability under insurance policies may
work in the immediate and short term to reduce the number of claims payable, however, such
practices undermine the confidence insured persons may have had in the integrity of the insurer, and
would inevitably bring about adverse effects on the reputation and performance of the industry in
the medium and long term. Good governance of the insurance industry requires the incorporation of
ethical practices to complement the demands of the law.

Standards are essential for the insurance industry because it is a business built on honesty
and trust, where agents with an ethical reputation are more likely to get referrals and repeat
business. Without trust, insurance cannot perform its proper function as a risk management device
for companies and individuals. No industry depends more on trust, and this trust comes from a
series of events in which ethical values are demonstrated - a life insurance policy might provide
coverage for decades, although it’s only a piece of paper.

The industry has to take the initiative in underlining trust, training all its people to act
ethically, honestly, and with integrity. In time, there will be a similar response from the clients.

Summary and Conclusions

Intellectual capital, a vital corporate asset, will melt away unless companies do something to
stop the brain drain and to retain critical knowledge. Possible options include:
- documenting invaluable critical knowledge from the top domain experts and key personnel,
before they leave the company;
- exit interviews
- building a knowledge-based system
One of the important implications of using knowledge-based systems (KBSs) will center around their impact on individual employees. This is especially true as more insurance employees leave the workforce as they retire or seek other employment. In this case, using knowledge management systems to capture the knowledge of internal experts will be crucial. Being able to extract corporate knowledge and distribute it consistently will ensure steady performance and efficiency in times of transition. KBSs also allow less experienced staff to operate at higher levels with less oversight, which frees up more senior personnel for more complex activities. Finally, and perhaps most importantly, the use of these systems increases consistency and compliance to internal and external policies and regulations.

But, in order to keep knowledge inside the organization, the solution could be:
- to analyze the workforce’s strengths, (analyzing their expertise and knowledge and categorize it so it could become accessible by other employees);
- to determine which employees are flight risks (open talks to determine how could some employees be retained);
- hiring retiring employees as consultants;
- establish practice communities where individuals could meet and solve problems;
- implement a mentoring program;
- building a culture that values expertise;

To address brain drain, a company must develop a strong vision and a stronger plan. From top management down, there must be a shared sense of urgency to this problem, because any critical initiative can go astray with the competition all organizations face in today's market.

References
4. Germond, N. - *Plugging the brain drain: with the fear in some quarters that intellectual capital is leaving the insurance industry faster than it can be replaced, here are some steps to reduce the impact of retirement and increase employee retention*, Risk & Insurance. at FindArticles.com. Retrieved 12 Oct. 2008, [http://findarticles.com/p/articles/mi_m0BJK/is_12_18/ai_n21041653](http://findarticles.com/p/articles/mi_m0BJK/is_12_18/ai_n21041653)
6. [http://www.bizjournals.com](http://www.bizjournals.com)
7. [http://www.insurancetech.com](http://www.insurancetech.com)