

Section 1 – The Importance of Ethics in Insurance

Ethics may be defined as a system of moral principles or values. What is not so easily discerned is the correct ethical approach to a particular situation.

The foundation of ethics arose from the traditions of good behavior that people expect themselves and others to practice. Many of these ethical practices have become law. Ethics is a set of instructions for a way of life.

Ethics is also good business and in the insurance business it is a matter of utmost good faith.

Learning Objectives

1. Describe, define and explain the importance of ethics.
2. Define moral.
3. Explain how ethics is the law, good business and how insurance involves utmost good faith.
4. Define the concept of Utmost Good Faith.

Section 1 Topic A – The Foundation of Ethics

Learning Objective: Describe, define and explain the importance of ethics.

Ethics as a concept has its feet both in law and in acceptable human behavior. Early philosophers explored the bounds of human behavior to distinguish right from wrong. Early bureaucrats and religious scholars borrowed ideas from each other to create laws and religious canon.

The word “ethics” was coined in the 14th century. The 1999 Random House Webster's College Dictionary defines “ethics” as:

1. A system or set of moral principles.
2. The rules of conduct governing a particular class of human actions or a particular group, culture etc.
3. The branch of philosophy dealing with values relating to human conduct, with respect to the rightness and wrongness of actions and the goodness and badness of motives and ends.
4. Moral principles, as of an individual.



Learning Objective: Define Moral.

Definition of Moral

“Moral” is defined in the same dictionary as:

1. Of, or pertaining to, or concerned with the principles of right conduct or the distinction between right or wrong.
2. Conforming to accepted or established principles of right conduct.
3. Expressing or conveying truths or counsel as to right conduct.
4. Based on fundamental principles of right conduct rather than on law, custom etc.

Ethics then are guiding principles based upon moral values. These guiding principles usually have foundations in good behavior. We know that not everyone will practice good behavior and this is why laws are created to enforce ethical and moral code.

Ethics: A system or set of moral principles

Moral: of, or pertaining to, or concerned with the principles of right conduct or the distinction between right or wrong.



The Jones couple had a loss on their dwelling. The insurer has just offered a payment that you think is far too low for the amount that was lost. The Jones couple has come to you to ask you whether the claim settlement is fair. The couple has not hired a public adjuster or an attorney. This is your most competitive insurer, but your clients have had a number of claims lately and the regional manager has suggested that your contract may not be renewed unless your loss ratio improves. Should you:

- Tell the Jones couple that the settlement is fair.
- Suggest to the Jones couple that they look into hiring a public adjuster or attorney.
- Call the company adjuster and ask them to reconsider the amount of the claim payment.
- Advise your client that the adjuster and the insurance company may be in violation of an unfair claims settlement practices act provision

Advisory Response

The consumer comes first. The appropriate first step is to work with the insurance adjuster and management where necessary to make sure that the consumer will be indemnified for the loss to the extent that it is covered under the contract. If that does not work, many contracts have arbitration language that will allow the company and insured to come to a more equitable agreement on the amount of the loss. The insured can always hire an attorney to contest the claim.

The insurer has an obligation under unfair claims practices acts to settle the claim both promptly and fairly. However, the company is not permitted to make an inadequate offer just to settle a claim quickly.

As the agent, you may need to look separately at the book of business you are building with this insurer. Does everyone in the agency understand the business that this company wants? What active steps can you take to improve the loss ratio of the book of business?

Disclaimer: The advisory response is not a legal opinion. Different Federal and/or individual state laws may apply to this scenario or others with similar facts. Courts in different jurisdictions may interpret identical facts of the dilemma differently. Minor changes in the facts of the dilemma can produce different, legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolutions to the dilemma that have not been addressed.

Section 1 Topic B – Why is the Topic of Ethics Important to Me?

In the wake of recent corporate scandals, consumers, investors, and managers have begun to look closely at the decisions being made by businesses.

During a period where ever increasing sales meant higher stock prices, some business executives employed exotic schemes or manipulated numbers to make their company's performance appear greater than it was.

Many of these manipulations were illegal, but the decisions behind these acts were a matter of ethics. The decisions you make and the actions you take in your daily activities are not that different.

Why Do People Act Unethically?

People rationalize their actions:

- Greed is a factor - So what if the rules are bent just a little for profit
- The action doesn't hurt anyone except the person that is acting unethical
- Hey, I deserve "it"...
- It's ok to do it if I don't profit financially...
- The competition does it...
- I have competition so I must do it

Why is Ethics Important?

Management wants to increase revenue 20% this year and encourages everyone to "do what it takes" to get there. What do they mean and how far does this permission to "do what it takes" extend? Click on each example to see some of the rationale that people use to justify their decisions.

Example 1

To get the sale on the Smith account, I need to rate the cars as less than 3 miles to work when I know they drive 20 miles each way. Should I do it?

Example 2

To get the sale on the Jones account, I need to ignore the recent at fault accident because I know that the police records won't be updated before the policy is issued. Should I do it? I can always say to the underwriter I didn't know about it.

Example 3

The ABC companies have just increased commissions by 1% which is higher than anyone else in the market. Should I just move as much business to ABC as I can?

Example 4

I know my quote on the Wonderful Manufacturing Company contains coverage that my competitor has not included. I have pointed this out to the insured. Mr. Wonderful still believes he is getting a better deal from the other agent. Should I badmouth the other agent in order to make the sale?

Example 5

Your only large account insurance carrier has just had its AM Best rating lowered to B+ with negative implications. Management at the insurer gives vague assurances that all is well. Should you convey this message to your clients? You do not have another carrier that will write these large accounts.

Competing Objectives

Decisions involving ethical behavior often begin with competing objectives. If I bend the rules, I achieve my objective and I am rewarded. If I play by the rules, I don't meet my objective and in the worst instance, can lose my job.

However, bending the rules or taking the ethical low road can lead to adverse consequences including loss of accounts, cancellation of company contracts and regulatory action.

Often there are no easy answers. Managers who encourage or ignore unethical behavior do so at the peril of their business.

Section 1 Topic C – Ethics and Insurance

Learning Objective: Explain how ethics is the law, good business and how insurance involves utmost good faith.

Why Be Ethical?

First, it's the law.

State Laws

Each State has a series of laws designed to protect consumers from unscrupulous practices of agents, insurers and adjusters. These laws commonly deal with:

- Who is qualified to do business—licensing
- Rebating — illegal in most states
- Disparagement of a competitor
- Other unfair business practices
- Advertising practices—accurate and informative
- Privacy of customer information
- Commingling of funds—agent accounts and customer accounts
- Unfair claims practices

Federal Laws

In addition there are federal laws that deal with privacy, discrimination, credit practices, and unfair competition. We will discuss a few of these federal laws in lesson 2.

Second, it's good business.

Consumers want to do business with an agent and insurer that they can trust. Word of mouth advertising can be the greatest asset to the agent and also the greatest liability. Negative comments are regularly repeated six times more than positive comments.

Agents understand that the consumer who will agree to bend the rules in an application for

insurance may also be the individual who overestimates values or otherwise pads a claim. At the time of an uncovered loss, the once-willing co-conspirator may implicate the agent in the unethical or illegal act.

Learning Objective: Define the concept of Utmost Good Faith.

Third, insurance is a business of utmost good faith.

Insurance is a business of information—a series of questions asked and information provided that requires honest responses from everyone involved. Consumers expect that companies will pay what their contract covers and depend upon the agent for advice and counsel about the amount of coverage they need to buy. Insurers rely upon the agent to obtain accurate and complete underwriting information about the insured and to notify the company if there are changes that may affect the underwriting decision. Utmost good faith is broken by misstatements, incomplete answers and by unfair business practices of insurers, agents and others.

Fourth, social responsibility.

Simply put, “it’s the right thing to do”. People often do not need any more reasons than that to act ethically.

Fifth, to avoid public criticism

People avoid public criticism when they do the right thing and act in an ethical manner. Public criticism doesn’t have to mean finding a reporter from 60 Minutes knocking at your door. Public criticism can include the disfavor of peers, co-workers, family and others in the community you value and respect.

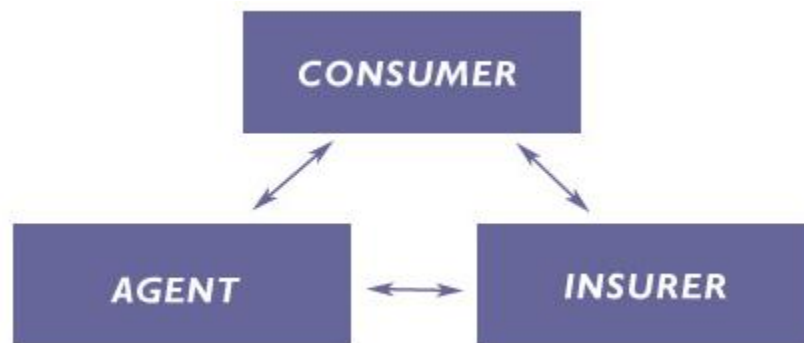
Sixth, economic success in an industry of utmost good faith.

One of the reasons why the insurance industry is so heavily regulated is that it is a business of utmost good faith. As a result, any perception of unethical behavior by or within the insurance industry can cause the public and their legislators to react with more laws. Trust and good faith lead to economic prosperity. The concept of good faith extends to the parties involved in the insurance transaction. Economic prosperity comes from all parties acting in good faith:

- The consumer supplies accurate and complete information necessary to underwrite the business and/or pay a claim.

- The agent works with the consumer to make sure that all relevant information has been obtained and then provides that information to an insurer(s) that can most appropriately handle the needs of the consumer.
- The insurer provides a non-ambiguous product and settles claims fairly within the letter and spirit of its contract.

If all these work in concert, the end result is a long-term relationship that is profitable to both the agent and the insurer and provides true piece of mind and indemnity to the insured.



Be sure to complete Self Quiz 1 at the end of Section 1.