Chapter 9 Ethics – General Insurance Basics

Elements of a Legal Contract

Insurance contracts are contracts of a specific nature, and are described as the following:

Aleatory Contract
An insurance policy is an "aleatory" contract, which means that performance depends on the occurrence of an uncertain event. Due to the nature of the contract, each party may not give and receive the same value. The insured who collects for a loss may receive more than the amount of premiums paid, while the insured who never has a loss receives only intangible security.

Personal Contract
Generally, insurance policies are personal contracts between the insured and insurer. Except for life insurance and some marine coverage involving transportation and cargo, insurance is not transferable to another person without the consent of the insurer. Fire insurance, for example, does not follow the property. If an owner sells an insured building and no arrangements are made for transferring coverage to the new owner, no insurance exists. The previous owner no longer has insurable interest, and the new owner has no personal coverage.

Unilateral Contract
Insurance usually involves unilateral contracts. Under a bilateral contract, a promise is exchanged for another promise, and both parties may execute the obligations in the future. Under a unilateral contract, an act is exchanged for a promise. Once the insured pays the policy premium, only the insurer makes promises about future performance.

Conditional Contract
Insurance contracts are also conditional contracts because when a loss occurs, certain conditions must be met to make the contract legally enforceable. For example, an insured might have to satisfy the test of having an insurable interest, and also satisfy the condition of submitting proof of loss.

An insurance applicant is required to exercise "utmost good faith" in providing information on which the insurer must rely. A material fact is an important fact that could change either the decision to provide insurance or the premium. Concealment or false statements about material facts may allow the insurer to declare the insurance void at a later date.

Agents also have responsibilities while forming an insurance contract. If they are not careful, or if they bend the truth, the insurer may lose certain rights, and the insured may gain rights more favorable than those spelled out in the contract provisions.

Ambiguities in a Contract of Adhesion
Any ambiguity must be interpreted in favor of the insured, because the insured has little or no control over policy content

Reasonable Expectations
The reasonable expectations doctrine can be stated as follows: The courts will honor the reasonable expectations of policyowners and beneficiaries, even if the strict terms of the policy do not support those expectations.

The implementation of the reasonable expectations doctrine has resulted in what one author termed "judge-made insurance." The claimant's expectation of coverage, the insurer's part in creating that expectation, and the unfairness of a policy provision are factors that can influence the court to grant coverage where the policy does not provide it.

Indemnity and Subrogation
Most property and liability insurance is written on an indemnity basis - the intent being to make someone “whole” again by paying actual losses while preventing any gain. Many policies also have a subrogation clause designed to prevent an insured from collecting twice for the same loss.

Subrogation is related to the concept of indemnity. It only applies when a third party caused the loss or was primarily responsible for it through negligence. A loss victim usually has legal recourse against the party at fault. Subrogation transfers this right to the insurer when a loss is paid, but only to the extent of the insurance payment.

Utmost Good Faith
The insurance contract requires utmost good faith between the parties. This means that each party is entitled to rely upon the representations of the other, and each party should have a reasonable expectation that the other is acting in good faith without attempts to conceal or deceive.

Representations/Misrepresentations
Most of the statements contained in the insured’s application for instance are representations - statements that the applicant believes are true. Under the law, a representation is not considered a matter to which the parties contract, so a policy cannot he voided on the basis of a representation.

Misrepresentation is a written or verbal misstatement of a material fact involved in the contract on which the insurer relies. Misrepresentation will only void the policy if it concerns a material fact. A material fact is a fact that would cause an insurer to decline a risk, charge a different premium or change the provisions of the policy that was issued.

Warranties
A warranty carries greater weight than a representation because it is part of the actual contract. When an application is made part of the contract, all statements on it become warranties. Promises contained in other parts of the contract are also warranties. Under a strict interpretation, any breach of warranty (whether or not material) provides grounds for voiding the insurance.

Concealment
A failure to disclose known facts is concealment. The insurance applicant has a duty to disclose material facts that the insurer could not be expected to know. Generally, an insurer may be able to void the insurance if it can prove that the insured intentionally concealed a material fact. In reality, it is difficult to prove such intent in a court of law.

Fraud
Fraud is a deliberate misrepresentation that causes harm. An act of fraud contains these four elements:

- Someone deliberately lies.
- The intent of the lie is for someone else to rely on that lie.
- Another person relies on that lie.
- The other person suffers harm as a result of relying on that lie.

Fraud differs from misrepresentation in that misrepresentation may be either intentional or unintentional. Fraud is always intentional and involves an effort by one party to deceive and cheat the other.

Waiver and Estoppel
The legal definition of waiver is the intentional relinquishment of a known right. Sometimes an Insurer or its representative knowingly overlooks a condition or exclusion that would normally

have been grounds for denying coverage, increasing the premium, reducing the benefits provided in the policy, or some other material change in the policy. When the insurer or its representative relinquishes the insurer's right of denial or refusal, the act becomes a waiver. Though any policy provision may be waived, the requirement of an insurable interest may not he waived, nor may facts be waived.

If an insurance company representative intentionally or unintentionally creates the impression that a certain fact exists when it does not, and an innocent party relies on that impression and is damaged as a result, the insurance company will be estopped (prevented) from denying this fact. For example, if an agent states or indicates by his or her actions that a particular loss is covered, the insurance company will be estopped from denying that coverage.

Ethical Issues

No matter what line of business we are in, the subject of ethics is important to both management and agents.

It is especially critical to those handling insurance products that in some facet deal with the financial, stocks and bonds industry. It is critical that we keep in mind what is right and what is wrong.

When a person applies for insurance or files a claim, he or she must be able to trust that the insurer is ethical. This is especially true in terms of claim settlement. After all, the only time insurance really matters to the insured is when he or she actually has to use it. If that process is compromised by an unethical agent, adjuster or insurer, insurance is pointless.

Ethical Decision-Making

Making an ethical decision is made simpler when one asks the following three questions: Is it legal? Is it balanced? How will it make me feel?

If an agent or adjuster answers "no" to either of the first two questions, chances are he or she is contemplating an unethical action. A decision that results in something illegal (whether on a civil level, or in violation of company policy) is not ethical.

In terms of balance, an agent or adjuster needs to ask if the result of the decision will benefit everyone involved now, as well as later down the road. If an adjuster approves an auto claim on the condition that the policyholder will use the adjuster's brother's auto shop for repairs, he or she needs to ask whether that little business to his brother is worth the possibility of losing his or her license.

When it comes to how a decision will make the agent or adjuster feel, it is simply a matter of pride and shame. Will the individual be proud of the decision? Would he or she want his or her family to know?

There are many opportunities for unethical behavior in the insurance industry – as with many other areas of finance and protection. An agent or adjuster cannot rely on the "Everyone else is doing it" motto. Ethics and honesty always matter, and there is truth to that other motto: "What goes around comes around."

What is Considered Unethical?

Both senior management and workers closely agree that unethical behavior, although not illegal, is grounds for termination.

Some examples of behaviors considered serious ethics violations by management include the following:

- -Supervisor access to employee health records
- -Using resumes to discriminate
- -Personal credit checks on employees
- -Making misleading promises to employees or contractors

Some examples of behaviors considered serious ethics violations by employees include these:

- -Using E-mail to harass co-workers
- -Use of drugs at work
- -Use of alcohol at work
- -Circulating pornography by E-mail
- -Falsifying experience on a resume
- -Revealing confidential information
- -Making misleading statements or promises to customers and clients

Because insurance companies and agents are in a position of trust, ethical behavior is paramount to perpetuating the industry and profession of each agent.

Both the insurer and the agent have an obligation to each other to be truthful and honest with each other through their agency relationship. In some cases, the agency relationship continues and a level of honesty and proper representation is required with the client.

State laws further enforce this requirement of honesty and proper representation through the various state Departments of Insurance.

The Topic of Trust
What is legal is not always ethical, and what is unethical is not always a violation of state or federal laws.

The insurance industry is a business of trust, and although most consumers feel they trust their agents, studies indicate that the average consumer does not have the same concept of other agents or the industry as a whole.

An interesting fact that is presented by consumer surveys and studies is that more than 50 percent of consumers rated trust and ethics higher than professional qualification, which comes in at the bottom of the list of the nine topics surveyed.

Over the years the insurance industry has earned the trust of the consumer, and perhaps more information and public exposure of the history of the industry would serve well to strengthen the public's perception of the industry.

During the great depression and the years that followed, although many individuals lost savings as bank and savings and loans closed their doors, the insurance industry remained solvent and in many cases became a source of funds for individuals.

Through the built up assets of life insurance policies, individuals were able to borrow money to carry them through these very difficult times.

Agent Ethics at Work
Because the industry is made up in a great percentage by independent agents, workplace ethics is critical to creating sound ethical behavior by agents as they deal with customers and clients. These behaviors must come from within the agent and must be reflexive in nature in order to avoid a dereliction of this responsibility when faced with everyday work demands.

Having to meet either employer work quotas, personally set quotas, or to satisfy a personal need to be the "best" must never stand in the way of meeting the clients' needs and the need to paint an impeccable image of the insurance profession.

Although individuals in every profession are there to serve the needs of supporting themselves or their families, because insurance agents are licensed they are put in a position of trust. Their needs of self preservation must be put aside, and the interest of the client must always be put first. This is also known as "altruism."

Taking Advantage of Consumers' Lack of Knowledge on Insurance
Ethical conduct can easily be violated by selling someone more insurance than they need in order to earn more commission. Or perhaps sell someone a higher commissioned product, even though another policy would serve hiss or her needs better. Although not necessarily illegal both these actions would be unethical, not consistent with meeting the clients' needs and perhaps to a knowledgeable observer be a source of mistrust of the insurance professional and the industry.

Because insurance is a product that requires a most skilled individual to interpret its benefits, an agent's knowledge and recommendations are held to a high level of accountability.

The average consumer has neither the skill nor the ability to interpret the information in a policy accurately or to realize the additional options that may be available to him or her in order to properly meet the needs of his or her situation. An insurance agent plays a vital role in the decision making process and this trust should never be violated.

Win-Win
Selling insurance must be a "win, win" situation for all parties involved in the transaction.

An agent can look at a situation as a one-time sale and try to maximize his or her gain from that transaction without regard for the client's needs or look at it from the point of view that it is the beginning of a long lasting professional relationship. The latter point of view will earn the agent many more transactions, future referrals and commissions, and it can only be accomplished through professional conduct and ethical behavior.

Ethical Principles

Ethical standards outlined by various groups and insurance associations set the standard for ethical behavior within the industry. In many cases these organizations were in place before even state licensing bodies and, as such, actually set the pace for legislation that now governs the industry in many states.

Organizations that have such ethical standards in place include the following:

-The National Association of Life Underwriters
-National Association of Fraternal Insurance Counselors (NAFIC)
-Code of Ethics of the Million Dollar Round Table (MDRT)
-The American College
-The American Society of Chartered Life Underwriters (CLU)
-The American Society of Chartered Financial Consultants (CHFU)
-General Agents and Management Association (GAMA)
-Independent Insurance Agents of America
-American Institute for Chartered Property and Casualty Underwriters

The National Association of Life Underwriters
The National Association of Life Underwriters prescribes to a belief that all members have a combination of professional duty to the client and company and to maintain a balance between these two as to avoid conflict that might injure either. As a result of this belief, they subscribe to a commitment of responsibility that requires the members the following:

-To hold the insurance profession in high esteem and strive to enhance its prestige
-To fulfill the needs of their clients to the best of their ability
-To maintain the confidence of their clients
-To render exemplary service to their clients and beneficiaries
-To adhere to professional standards of conduct in helping their clients
-To protect their insurable obligations and attain their financial security objectives
-To present accurately and honestly all facts essential to their client's decisions
-To perfect their skills and increase their knowledge through continuing education
-To conduct business in such a way that by example will help to raise the standards of life underwriters
-To keep informed with respect to applicable laws and regulations and observe them in the practice of their profession
-To cooperate with others whose services are constructively related to meeting the needs of their clients

The National Association of Fraternal Insurance Counselors
The National Association of Fraternal Insurance Counselors requires that its sales personnel adhere to a position of utmost professional standards to their clients and at the same time maintain a position of trust and loyalty to their society. The highest ethical standards are required of all its members.

Its members must do the following:

-Hold the life insurance profession in high esteem and constantly strive to advance the prestige of legal reserve Fraternal Life Insurance
-Improve their ability and improve their knowledge through regular study and encourage other underwriters to do likewise
-Respect their clients' confidence and hold in trust any personal information
-Present accurately and completely all of the facts essential to have their clients make informed decisions and to always place their interests and welfare above any personal consideration
-Refuse any person or persons any part of their commissions or earnings as an inducement to purchase life insurance
-Submit complete and accurate applications for memberships and insurance on only those persons whom are believed to have the proper moral and medical requirements that conform to the Society's underwriting rules
-Cooperate with all fellow associates in all insurance organizations in furthering the best interests of the Institution of Life Insurance

The Million Dollar Round Table
The MDRT, head-quartered in Park Ridge, Illinois, represents an organization whose members are comprised of individuals who must reach certain production and persistency objectives. Its members must do the following:

-Always place the best interests of their clients above their own direct or indirect interests
-Maintain the highest standards of professional competence and give the best possible advice to clients by seeking to maintain and improve professional knowledge, skills, and competence
-Hold in the strictest confidence, and consider as privileged, all business and personal information pertaining to their clients' affairs
-Make full and adequate disclosure of all facts necessary to enable their clients to make informed decisions
-Maintain personal conduct which will reflect favorably on the life insurance industry and the MDRT

-Determine that any replacement of a life insurance or financial product must be beneficial for the client
-Abide by and conform to all provisions of the laws and regulations in the jurisdictions in which they do business

American College Code of Ethics
The American College, a fully accredited institution of higher learning, offers courses to life insurance agents across the country. These courses lead to the coveted designations of Chartered Life Underwriters (CLU) and Chartered Financial Consultants (ChFC). The American College Code of Ethics is made up of a professional pledge and Eight Cannons. The Eight Cannons consist of the following paraphrased promises:

-Honor and dignity in the conduct of business
-Avoid practices that would bring dishonor to the profession
-Publicize accomplishments only in manners that enhance the integrity of the profession
-Maintain professional competence through continuing education
-Strive toward a career of distinguished professional service
-Support the institution and organization that strive for professionalism within the industry
-Assist others in the industry striving for professionalism
-Comply with all laws and regulations

Ethical Imperatives
The following imperatives have been established by the CLU and ChFU:

Competently Advise and Serve the Client
Both organizations require that their members provide both advice and service which are in the best interest of the client.

Because insurance agents, real estate agents and other professionals have an understanding about their product which is above the knowledge of their average client, professionals must take care to avoid using this knowledge to the detriment of their client. In other words, they are in a position of trust that cannot be violated in order to serve their own interest.

In a conflict of interest situation, the client's needs must be met ahead of an agent's own needs.

The agent must make a full and concentrated effort to both explore and ascertain through that information the needs of the client.

Consideration and courtesy must be undertaken in referring to other professionals who might also be serving the client. In other words, don't knock the competition whether you're trying to get the sale or discredit them.

An agent must give due regard the principal and agent relationship that exists between himself or herself and the companies they represent.

Agent to Client Confidential Relationship
The relationship between the client and agent is that of a confidential nature and all such information should be kept within that scope.

Because, in order to properly serve the client, the agent must sometimes inquire into areas that might require the strictest of confidence. The agent must keep this information confidential and use it only for the purpose it was intended, unless released of this obligation by the client.

Continuing Education Requirement
Members of these organizations must maintain and enhance their professional skills and

knowledge.

This enhancement can be formal or informal and must, not only include personal education, but also include knowledge of changing laws and legislation to properly inform clients.

Enhancement of Public Regard for Professional Designations
A member must obey all laws governing his or her business or professional activities. Business activities are defined as non-personal activities carried on outside the life insurance community. Professional activities are defined as non-personal activities carried on within the life insurance community.

Through the placement of the guide within the Code, an ethical obligation is created for a member to obey all laws applicable the agent's business or professional activities.

A member must avoid activity that detracts from the integrity and professionalism of the CLU and ChFC designation or other professional designations.

Personal, business and professional activities are encompassed within the scope of the Guide.

Things or actions that might be interpreted of a violation of the Guide include the following:

-Failure to obey a law unrelated to the member's business or professional activity
-A member harming the reputation of another practitioner
-A member unfairly competing with another practitioner
-A member performing activity that might discredit his or her own reputation
-A member discrediting life underwriting as a profession, the institution of life insurance, or the American Society of CLU & ChFC
-A member advertising the designations of the CLU or ChFC or American Society in an undignified manner or in a manner prohibited by the bylaws

Members of these organizations are encouraged to encourage others to obtain the designation.

Members cannot use the CLU & ChFC designation in a false or misleading manner. That is, members alone can use the designations and no advertising shall promote an entire organization as having the designation, when in reality the designation is individually bestowed.

The General Agents and Managers Association
The General Agents and Managers Association (GAMA) of The National Association of Life Underwriters codifies the ethical principles that general agents and agency managers should strive to maintain.

The organization encourages its members to practice the "Golden Rule" by the following:

-Using the best available techniques to select and place under contract only agents and managers that will enhance the professionalism of the profession
-Creating a sales organization made up of full time agents
-Providing adequate training and supervision to render proper service and advice to their clients
-Encouraging all associates to pursue additional and continuous education
-Encouraging all agents and contractors to participate and support the activities of the local
-Association of Life Underwriters
-Presenting fairly and honestly all facts regarding the agency to prospective agents or managers.
-Encouraging any prospective agent or manager to discuss his/her situation with his/her present manager before making a decision

-Taking a leadership role in the advocacy of the Life products as the best benefit to its policy owners

Independent Insurance Agents of America
Independent Insurance Agents of America is the nation's oldest and largest independent agent association. It is a highly regarded consumer advocacy organization and a powerful force within the insurance industry. The Independent Insurance Agents of America makes its presence known both in the media and on Capitol Hill. The association was founded in 1896 by a small group of local fire agents and now has grown to represent over 300,000 agents and their employees.

As it enters its second century of existence, the Independent Insurance Agents of America has expanded its activities to address the many challenges and opportunities that agents today have to face. Through its federation of 51 state associations, as well as its headquarters and Capitol Hill offices, the association provides advocacy, business tools and media visibility to its members.

The Independent Insurance Agents of America represents more than half of all the independent insurance agencies in the country. Its members range from small rural agencies selling personal lines to large commercial brokers handling major national accounts

Independent Insurance Agents of America strive to serve the public by promises to do the following:

-Serve the public through the honorable occupation of insurance
-Provide the full measure of service required of an independent agent
-Recommend the best coverage to meet the needs of the client
-Provide the public with a better understanding of insurance
-Work with national, state and local authorities to heighten safety and reduce loss in a community
-Recognize civic, charitable, and philanthropic movements which contribute to the public good of the community

Independent Insurance Agents of American strive to serve the companies they serve by these things:

-Respecting the authority vested in them by the companies they serve
-Using care in the selection of risks submitted
-Expecting the same from the companies served as is rendered to them

To fellow members, Independent Insurance Agents of America pledge to maintain

-Friendly relations with other agencies, with fair and honorable competition
-Strict observance of insurance laws
-Betterment of the insurance business
-Encouragement of others to subscribe to the same high standards

The American Institute for Chartered Property and Casualty Underwriters
The American Institute for Chartered Property and Casualty Underwriters (CPCU) is an independent, nonprofit organization offering educational programs and professional certifications to people in all segments of the property and liability insurance business. To help them provide professional service to the public, the organization responds to the educational needs of people in insurance and risk management.

The CPCU offers an online counseling system to help individuals inventory their personal background and interest, making suggestions for appropriate programs of study.

The American Institute for CPCU, through its canons and rules endeavors to maintain a high degree of professionalism and ethical conduct for its membership.

-CPCU members should at all times place the public interest over their own and should encourage non member agents to do the same.
-Members should maintain and improve their knowledge, skills and competence.
-Members should obey all laws and regulations and avoid conduct that would cause unjust harm to others.
-Members should be diligent in performing their occupational duties.
-Members should assist in maintaining and raising professional standards.
-Members should strive to maintain dignified and honorable relationships with others.
-Members should strive in assisting to improve the public understanding of insurance and risk management.
-Members should honor the integrity and respect the limitations placed upon their designation.
-Members should always assist in maintaining the integrity of the Code of Professional Ethics.

Ethical Concepts

There is an entire host of terms and concepts associated with ethics to which you should commit – and not just because you are an insurance agent. Making ethical decisions and behaving ethically is a characteristic beneficial in all areas of your life.

An Administrative Action - when a legal or ethical violation (of an unlawful nature) occurs and a Commissioner or Director takes actions. This includes investigations, hearings, censures, cease-and-desists orders, suspensions, revocations, monetary restitution, fines and referrals to other agencies for criminal prosecution.

An Agent - different from a salesperson in that an agent is regulated by a licensing body, assuming the responsibility of representing someone else, called a "principal." In doing so, an agent must put the principal's needs ahead of her or his own need.

Assumptions - factors used to illustrate values in insurance policies. It is important to understand that assumptions are not always guaranteed to re-occur and must be presented within a realistic scope in order to avoid ethical misrepresentation.

Authority - the power granted an agent to perform acts on behalf of the principal, such as in the case of an agent's ability to bind a policy or other power granted by either the insurer or the insured in an agency relationship.

Bait-and-Switch - the unethical, deceptive, and illegal act of inducing a consumer to a service or product that the salesperson has no intention or does not have the ability to deliver. The inducement is a method to get the consumer in the door in order to sell him another product.

A Buyer's Guide - a standardized disclosure designed to help consumers understand the product. Many states require agents provide this Buyer's Guide at some point during the sales process, especially in the areas of life or annuity products.

Churning - the unethical practice of inducing a client to replace an existing policy for a new one, even though the additional change is not to the benefit of the client.

Civil Liability-s the liability for monetary damages as a result of a lawsuit brought by a private party in a civil court. Individuals and corporations often use insurance to cover such exposure.

A Code of Ethics - a formal set of rules or statements of policy set by professional organizations and made part of the standards for acceptance of membership. Because ethical standards set by organizations often existed before state licensing, often these standards have been used by state regulators as guides to set the pace for legislation for a profession.

Cognosceat Emptor - the opposite of "buyer beware." Today's consumer must be "fully informed" before making a decision. An insurance agent is both ethically and legally obligated to provide both adequate and full disclosure.

A Commission i- what one collects after providing a service or sale. Under an agency relationship, such as the one that occurs in the sale of real estate and insurance, commission is also paid for advice. Therefore, it can never be put ahead of the needs of the client.

A Conflict of Interest - when an individual's self interest competes with the interest of a client or principal.

Continuing Education - a means of maintaining up to date knowledge of legal and product changes in order to best serve clients and maintain professionalism within an industry. It is required for license renewal in most states.

Degree of Care - the extent of legal duty owed by one person to another. In the case of an insurance agent, this degree of care is maximized through the agency relation with the client or principal.

Doctrine of Reasonable Expectations - a legal concept that basically states that an insurance policy will be treated as if it includes certain coverage that an average person would reasonably expect it to include, regardless of what the policy provides.

Dual Agency - a situation created when an agent represents two clients in the same transaction who have competing interests. Dual Agency is legal in most states under outlined procedures and full disclosure to all parties.

Errors and Omissions Coverage - professional liability insurance for insurance agents and real estate agents covering liability for mistakes an agent makes in the practice of his or her profession.

Fiduciary - a term used to describe an individual who is entrusted with certain responsibilities of trust. In an agency relationship, an agent has certain fiduciary responsibilities to his or her client. Among those responsibilities include the handling of client funds and the maintaining of confidential information.

Fraud - when an individual intentionally uses deception in order to induce another party to part with something of value or to give up a legal right to his/her detriment.

A Misrepresentation - an inaccurate statement of fact or an omission of a material fact. Misrepresentations are either unintentional or intentional. Unintentional misrepresentations usually result in administrative and civil penalties. Intentional misrepresentations can result in criminal prosecution as fraud.

Multiple Company Representation - a contractual arrangement that permits an agent to represent more than one company at the same time and choose which company will receive his or her policies at any given time. Multiple company representation can result in ethical issues if an agent choosing which company to place business with does not take into account the best interest of the client.

Negligence - not taking the reasonable proper steps to protect others from unreasonable chances of harm.

Rebating - the practice of paying a party to the transaction part of an agent’s commission as an inducement to purchase the insurance policy. Rebating is illegal in most states or strictly regulated with proper disclosure in the states that permit such activity.

Replacement - the practice involving the use of funds from one policy, either from an existing policy or the termination of a policy, in order to purchase other insurance. Ethical issues arise only if the use of funds to purchase the new policy is not in the best interest of the client or is motivated strictly by the agent’s need for commission.

Twisting - the illegal practice of convincing a client to switch policies with no benefit to, or to the detriment of, the client.

Unfair Discrimination - the practice of applying different standards to insureds that have the same risk loss. The practice is both unethical and illegal.

Many of these key words and concepts apply to the area of ethics. A thorough comprehension of these words and concepts will help you reach a better understanding of the ethical issues that face us each day in the exercising of the insurance profession.

Applying Ethics Benefits the Industry

Knowing what ethics are or what is ethical is one thing. Actually applying ethics in your life and in your work is something entirely different. What good would ethics be if we just talked about them? They must be applied in order to affect an industry or individual.

There are many obvious moral benefits to adhering to ethical standards, but there are other benefits of ensuring that ethics are followed in the industry and in the workplace.

Attention to business ethics has substantially improved society. A number of decades ago, children in our country worked 16-hour days. Industrial workers suffered debilitating injuries due to poor work environments, and disabled workers were condemned to poverty and often starvation.

Trusts controlled some markets to the extent that prices were fixed and small businesses were choked out. Price fixing crippled normal market forces. Employees were terminated based on personalities. Influence was applied through intimidation and harassment.

Then, society reacted and demanded that businesses place high value on fairness and equal rights. Anti-trust laws were instituted. Government agencies were established. Unions were organized. Laws and regulations were established.

However, ethics and regulation ride a swinging pendulum. Today it is arguable that government agencies created to fix a problem simply expand and become a problem. Labor unions have gained so much power that they themselves have been corrupted, and bargaining agreements have crippled employers’ capabilities for growth. Laws and regulations are established for a reason, but there is such a thing as over-regulation. Everyone knows that with regulation comes red-tape, and it’s up to the industry being regulated to do its best to maintain effectiveness and make an effort to ward off bureaucracy if it can.

Ethics programs help maintain a moral course in turbulent times. As noted previously, attention to business ethics is critical during times of fundamental change. During times of change, there is often no clear moral compass to guide leaders through conflicts about what is right or wrong. Continuing attention to ethics in the workplace sensitizes leaders and staff to how to act — consistently.

Ethics cultivate strong teamwork and productivity. Attention to ethics aligns employee behaviors with those values preferred by leaders of the industry. Usually the small office or organization finds surprising disparity between the preferred values of the industry and the actual values in the day-to-day business transactions. Ongoing attention to values and ethics builds openness, integrity and a sense of community for the individual—critical ingredients of a strong leader in the industry.

Ethical standards support individual growth. Attention to ethics in the industry helps an agent face reality, both good and bad, in the industry and in him or herself. In this regard, an agent may feel fully confident and can admit and deal with whatever comes his or her way.

Ethics programs are an insurance policy—they help ensure that policies are legal. There are an increasing number of lawsuits in regard to the effects of services or products on the consumer. Attention to ethics ensures highly ethical policies and procedures in the workplace. Analysts believe it is far better to incur the cost of mechanisms to ensure ethical practices now than incur the costs of litigation later.

Ethical standards help avoid criminal acts of omission and can lower fines. Ethical standards, such as an insurance agent's codes of ethics, tend to detect ethical issues and violations early on so they can be addressed. In some cases, when an organization is aware of an actual or potential violation and does not report it to the appropriate authorities, it can be considered a criminal act. However, ethics guidelines adopted on an industry-wide basis potentially lower fines if an organization or individual has clearly made an effort to operate ethically.

Ethical standards help manage values associated with quality management, strategic planning and diversity management. Ethics programs identify preferred values and ensure that the individual's behavior is aligned with those values. This effort includes recording the values, developing policies and developing procedures to align behavior with preferred standards, and then training personnel about the policies and procedures. Ethics standards are highly useful for managing strategic values, such as expanding market shares, reducing costs, and managing diversity. Diversity is much more than the color of a person's skin—it is acknowledging different values and perspectives.

Ethical standards promote a strong public image. Attention to ethics is also a strong public relations tool. Admittedly, managing ethics should not be done primarily for the reason of public relations. But, the fact that an organization regularly gives attention to ethics can portray a strong, positive image to the public. People see those organizations as valuing people more than profit, as striving to operate with the utmost of integrity and honor. Aligning behavior with values is critical to effective marketing and public relations programs.

The bottom line. Applying ethical standards legitimizes managerial actions, strengthens the coherence and balance of the industry, improves trust in relationships between individuals and groups and supports greater consistency in standards and qualities of products.

Qualities of the Highly Ethical Individual

What makes a person ethical? There are these four basic principles of a highly ethical individual (or organization):

> -The individual is at ease interacting with diverse internal and external groups, i.e., consumers. The "good of the consumer" is part of the individual's own philosophy and own good.
>
> -The individual is obsessed with fairness. The individual's ground rules emphasize that the other person's interests count as much as his/her own.

-The individual assumes personal responsibility for his actions, and he is responsible to himself first and then to his organization.

-The individual sees his actions in terms of purpose. This purpose is a way of operating that members of the industry or organization highly value. Purpose ties the individual to the organization, and the organization to the environment.

Qualities of the Highly Ethical Industry

Virtually every industry on Earth has its ethical challenges. Understanding the characteristics of an ethical industry supports such industries in drafting codes of ethics and levying expectations of companies and businesses within its arena. The following are characteristics of a highly ethical organization or industry:

-There exists a clear vision and picture of integrity throughout the industry.
-The vision is owned and embodied by top management in the industry, over time.
-The reward system is aligned with the vision of integrity.
-Policies and practices of the industry are aligned with the vision, giving no mixed messages.
-It is understood that every significant decision has ethical value dimensions.
-Everyone in the industry is expected to work through conflicting value perspectives.