INSURANCE ETHICS AND RESPONSIBILITIES
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CHAPTER 1

CONSUMER PROTECTION

INSURANCE REGULATION

State regulations governing the insurance industry are intended mainly to protect the consumer from fraud and/or willful intent and to promote fair competition among insurers. Regulations require a minimum standard of competence to ensure a proficient business environment.

With the passing of the McCarran-Ferguson Act in 1945, control of the insurance business was kept at the state level. The federal government will only interfere in the event that a state’s own governing regulations are proven to be insufficient. Supporters of state regulation believe that each state is better qualified to provide for the individual needs of its own populace. Since state regulations have little variation, it is typically believed that the implementation of a federal control system would be disconcerting to the general public. When regulating insurance industry practices, states examine the insurer’s financial stability, the contract’s standard provisions, licensing and rates.

FINANCIAL STABILITY

Of utmost importance is an insurer's financial strength. Annually, insurers must provide the state with a financial statement and state auditors perform evaluations on insurers on a regular basis. A reserve of funds must be maintained by the insurance company to pay future claims; however, such reserves cannot be considered assets of the company. Investment choices are regulated so that no risky investments are made, but rather made through more conservative financial means.

STANDARD PROVISIONS

Standard provisions and even standard policy formats are required in many states. Some require terminology used to be basic enough for the novice and terms to be the same from one provision to the next. Before sale, the proposed policy must be filed with the state insurance department for approval. If the policy does not meet the standards set by the state, the state has the right to prohibit the policy’s use.
LICENSING

The insurance department has the authority to issue, renew, suspend and revoke licenses. Every company must hold a state business license, and every agent must hold a license to sell insurance in the state. In many states, insurance adjusters must also be licensed. In this way, each state can keep track of and maintain its standards for companies as well as individuals. If any company or individual is found to be in violation of these standards, their right to do business can be terminated by the insurance department.

RATES

Insurance companies must submit their rate structure to the state insurance department for regulation compliance. The state insurance department governs how rates are determined and applied and specifies that rates must not be excessive, inadequate or discriminatory so as to overcharge consumers for their coverage; however, rates must be set at a sufficient amount to cover the insurance company’s risk and loss factors. Rates cannot discriminate in the respect that certain members of one group cannot be charged a higher rate in order to supplement lower rates for other members of the same group.
BUSINESS ETHICS DEBATED AND DEFINED

Business ethics are the principles of conduct governing an individual or group and conforming to accepted professional standards of conduct. In essence, learning what is right and wrong, and then doing what is right. But is there always a right or wrong, rooted in moral principle, or is it ultimately up to the individual depending upon the situation? Philosophers have debated the question for thousands of years.

Moral and ethical principles are based upon values such as integrity, honesty, justice and trustworthiness. How these values are applied is often referred to as moral or ethical principles. However, an ethical guideline can often become a law or regulation, depending upon legal interpretation.

During times of fundamental change in business, previous values can be questioned; therefore, attention to business ethics is critical. Relationships with stakeholders, services and products can be affected dramatically if the concept of knowing the difference between right and wrong, and doing what is right, is ignored. Not having a clear moral path for leaders to follow can lead to multifaceted difficulties.

A SERIOUS MATTER

When most people think of ethics, they think of the golden rule, “Do unto others as you would have done unto you.” However, during critical times, ethical statements such as this can go by the wayside. Therefore, adherence to a strict code of ethics can be a strong deterrent to disaster in business.

The 1960’s proved to be a movement toward social responsibility in the business industry. It became popular to believe that since businesses make a profit off of society, they have a moral obligation to help improve that society. Business leaders realized that only good could come from presenting a more positive image to the general public. As commerce becomes more complicated, moral values must be prioritized to ensure that business dealings are in support of the common welfare of the public and that no one is harmed. Any representative of the business must therefore embrace the same values.
ETHICAL DILEMMAS & THE CODE OF ETHICS

Certain conditions are involved in a significant value conflict between differing interests.

- Real alternatives that are equally justifiable
- Significant consequences on "stakeholders" in the situation

Complex business transactions can’t always be seen as black and white, but may often contain gray areas. A code of ethics is the ethical value system to which an organization aspires. They are normally quite similar to the codes of ethics that most people live their individual lives by. So why write them down and spell them out if they are as common as honesty, truth and fairness? Because a code of ethics is an organic instrument and can often change with the needs of society and the organization.

REGULATING MORALITY

There are no excuses for unethical behavior, yet an individual can often be unethical while remaining within the law. This often times occurs during stressful situations. However, breaking the law often starts with unethical behavior that has gone unnoticed. Small transgressions that do not break any laws can lead to larger acts that do. Therefore, it is imperative that all industry representatives support each other to maintain a high degree of ethics. The focus of ethics in business should include:

- The application of ethics to the corporate community
- A way to determine responsibility in business dealings
- The identification of important business and social issues
- A business critique

INDUSTRY BENEFITS

- Improved society;
- A moral course in difficult times;
- Creates strong teamwork and productivity;
- Supports individual growth;
- Keeping policies legal;
- Assists in avoiding criminal acts of omission and lowering fines;
- Helps manage strategic planning, quality and diversity; and
- Promotes a strong public image.
QUALITIES OF THE HIGHLY ETHICAL INDIVIDUAL

- The "good of the consumer" is part of the individual's own philosophy, in theory and practice;
- The individual's integrity stresses that the other person's interests are as valuable as his own;
- The individual assumes personal responsibility for his actions, and is responsible to himself first and then to his organization; and
- The individual sees his activities in terms of purpose, which ties the individual to the organization, and the organization to the environment.

QUALITIES OF THE HIGHLY ETHICAL 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; no mixed messages;
- It is understood that every significant decision has ethical value dimensions; and
- Everyone in the industry is expected to work through conflicting value perspectives.
CHAPTER 3

TRADE PRACTICES

CONSUMER PROTECTION

States require insurance agents to adhere to strict business practices in their everyday dealings with consumers as a method of consumer protection, and failure to do so can result in severe consequences. There are certain activities that are prohibited and it is the agent’s responsibility to adhere to the high ethical standards as well as the insurance company’s responsibility to do the same.

PROHIBITED ACTIVITIES

MISREPRESENTATION

Most misrepresentations are unintentional, usually through conversation between agent and customer. Such misrepresentations are not fraudulent as there is no malicious intent; however, penalties still apply.

Example

- Advising a client that an auto policy will cover liability when it only covers collision;
- Telling a prospective client that dividends are guaranteed when they are not;
- An agent telling prospects that he represents several companies when he represents only one; or
- Talking about a term life insurance policy in such a way to lead the prospective customer to assume that it will have cash value accumulation.

It is the agent’s responsibility to know his product and, if presented with an issue he is unclear about, it is his responsibility to seek clarification before giving any incorrect information.
ALTERING APPLICATIONS

Applications have been altered for many fraudulent reasons; however, any alteration is illegal.

- Change underwriting information to reduce premium rates;
- Change the type of coverage; or
- Add additional zeroes to the amount of coverage.

PREMIUM THEFT

Premium theft is the ultimate offense an insurance agent can commit and is severely punished by every state insurance department. This action is not a double-edged sword, but a triple-edge. It (1) robs the customer of his funds, (2) deprives the insurance company of its premium payment and (3) robs the customer of the insurance protection he believes he has purchased. Since no contract is in force until the insurer receives the premium payment, any inquiry made to the insurance company will quickly reveal that there is no effective policy.

UNLICENSED SALES

It is the agent’s responsibility to be in full compliance with state regulations regarding licensing requirements for all sales in which he participates. By licensing individual agents, the state can provide some level of assurance to the consumer that an individual capable of offering guidance and competency will meet their needs. Some states require separate licenses for the sale of separate products. The agent who is selling insurance products within the state he lives must hold a residence license. The agent who sells insurance products outside the state in which he lives must hold a non-residence license. If an agent is active in both states, he must hold both licenses. The sale of products other than life insurance, such as property and casualty or investments, also requires a separate license.

This governing process allows the state to maintain a high standard of consumer protection. Each member of the insurance industry strives to maintain the standards established; those who do not may damage the reputations of other members in the industry.

FORGERY

Forgery is subject to both state and federal prosecution. The technique of tracing a signature (or “windowing”) has been utilized to obtain an illegal policy loan or to obtain a change of dividend option, but it is nothing short of illegal and deserves severe punishment.
MISLEADING SALES TECHNIQUES

Sometimes referred to as the “bait and switch” technique, wherein a product is offered that is really too good to be true. In fact, it is not even available. When the prospective client makes an inquiry, the agent really has no intention of selling the product and leads the customer to another product. This technique violates the consumer’s trust, thereby harming the insurance industry as a whole. An ethical insurance agent never makes a promise or offers a product that cannot be delivered.

ILLEGAL REBATES

Only two states allow rebating (Florida and California) and their state insurance departments heavily regulate them. In all other states, the practice is illegal. It affords buyers of larger policies more financial leverage than buyers of smaller policies. The smaller policy buyers in some way usually pay for the difference in funds collected.

Examples

- Giving anything of value to the customer in exchange for buying insurance;
- Giving any portion of the premium back to the customer; or
- Advising the customer he will receive benefits or funds that are not specified in the contract.

UNTRUTHFUL POLICY REPLACEMENTS

If a policy has been in effect for a long time, the policyholder may not be eligible for the same coverage and rate on a new policy and therefore would not benefit from a replacement policy. Policies that have been building cash value may be undermined by replacement with a new policy that will take many years to accumulate the same level of cash value. The customer’s welfare is the agent’s top priority.

This ethical standard disappears when an agent advises a policyholder to surrender his policy so that a new policy can be purchased, just so that agent can collect a commission. This technique is known as “twisting.” For policy replacement to be legal, there must be proof that the new policy would be to the policyholder’s benefit, not just the agent’s. State procedures require that the policyholder be provided with a written explanation that defines exactly what the replacement means, and that the insurance company has been notified that the policy is to be replaced.

DISCRIMINATION

It is illegal to discriminate against individuals in the same class regarding the availability, terms, benefits, premiums, rates or dividends pertaining to any policy of life, health, or property-casualty insurance.
UNTRUTHS IN ADVERTISING

Sales and sales practices are directly affected when public attention is called to a product. Therefore, states set their own regulations to govern insurance advertising.

- Advertisements must not be misleading to the consumer either by being untruthful or by omission of information.
- The subject matter (insurance) must be clear to the consumer.
- The publication or promotion of higher than normal claims settlements are usually considered misleading unless the ad specifically states that the amount is unusual. Such ads may imply that claims settlements will be generous beyond the terms of the policy, or that a policy owner will receive special treatment that is not specified in the policy.
- Technical terms, illustrations and disclosures must be displayed in such a manner that their meaning is clearly understandable to the individuals who might purchase the product.
- Statistics used must be relevant and factual, with their source identified.
- No offer that is in violation of public policy or law may be used.
- Nothing of value that is outside the express terms of the policy advertised may be used.
- Unfair comparisons of policies or any of their terms is prohibited.
- Third party testimonials must be of the true opinion of the third party and relate precisely.
- Premium rates stated must be for the exact coverage described.
- Ads may not give the reader the impression that the company or the policy advertised is approved and/or backed by government officials, without disclosing that all policies and companies are.
CHAPTER 4

RESOLVING ETHICAL DILEMMAS

METHODOLOGY – THE ETHICAL CHECKLIST

THE TEN-STEP METHOD

The following ten-step method can be used to improve decision-making abilities.

- What are the facts in the situation?
- Who are the key stakeholders, what do they value and what are their desired outcomes?
- What are the underlying drivers causing the situation?
- In priority order, what ethical principles or operating values should be upheld in this situation?
- Who should have input to, or be involved in, making this decision?
- List any alternative and action plans that would prevent or minimize harm to the stakeholders, uphold the priority values for the situation and be a good solution to the situation.
- Build a worst-case scenario for a preferred alternative to see how it affects the stakeholders. Rethink and revise the preferred alternative, if necessary.
- Add a preventative ethics element to the action plan that deals with the underlying drivers causing the situation listed in Step 3.
- Evaluate the chosen decision and action plan against the Ethics Checklist.
- Decide upon and build an action plan, and implement and monitor it.
KEY QUESTIONS TO ADDRESS ETHICAL DILEMMAS

Use these 12 questions to address ethical dilemmas:

- Has the problem been defined accurately?
- If you were the other party, how would you define the problem?
- What caused this situation?
- As an individual and a member of the corporation, where does your loyalty lie?
- What is your objective in making this decision?
- How does this aim compare with the probable outcome?
- Could your decision or action injure anyone and, if so, whom?
- Prior to making your decision, can you discuss the problem with the affected parties?
- Are you convinced that your position will be as valid over a long period of time as it seems now?
- Could you disclose your decision or action to your boss, CEO, Board of Directors, family and society without trepidation?
- What is the symbolic potential of your action if understood? Misunderstood?
- Would you allow exceptions to your decision and, if so, under what circumstances?
CHAPTER 5

THE INSURANCE PROFESSIONAL

ETHICS ARE THE TOP PRIORITY

Since the insurance agent is a representative of the insurance industry as a whole, his role is vital to public relations. An agent should maintain a level of professionalism not only toward his insurance company, but toward competitors as well. Any criticism, whether just or not, can be perceived negatively by the consumer and, therefore, an agent’s license is subject to revocation if found guilty of any such behavior.

LOFTY GOALS

A professional in the insurance industry must not only comply with the minimum legal standards established by the state, but adhere to a set of high personal ethical standards as well. Because of the very nature of the insurance business, clients must have trust in their agent. If that trust is violated, both parties suffer. The agent loses business and the client loses trust in the agent that can adversely affect the business in general. Agents who are tempted by an individual or a situation to act in an unethical manner must consider the long-term results of those actions, for both the consumer and himself as well.

MAKING A DIFFERENCE

- An agent may provide the financial planning tools necessary to enable a child to go to college;
- Assist business partners in designing a buy-sell agreement or business continuance plan that will save the company in the event of a partner’s death, or casualty to the business;
- Assist a couple plan their retirement years, for a worry-free retirement; and
- Provide a comfortable lifestyle for policyholder survivors, by providing a product that was designed to enable them to remain in their home, and continue their normal standard of living.
THE RIGHT STUFF

The agent has the responsibility of being as knowledgeable as possible about the products and advice he presents to the consumer and therefore must:

- Understand the intricacies of insurance companies and their products;
- Be able to analyze individual needs and continue to support the policyholder;
- Make appropriate recommendations to the client;
- Motivate people to take action; and
- Understand contractual obligations.

An agent is under constant demand to keep up with the changes in situations, rules, regulations and products in order to stay on top of his profession and enjoy a lucrative and successful career.

CODE OF CONDUCT GUIDELINES

- Place the interests of the customers first;
- Strive for a high level of personal integrity;
- Strive to constantly improve your professional skills and knowledge in the industry;
- Maintain a professional level of conduct with all associates in the insurance industry;
- Make it your personal responsibility to know the laws and rules that regulate the insurance business, and follow them in both spirit and letter of the law;
- Do not make claims you cannot support, or make untrue or exaggerated statements; and
- Be aware of the factors that influence your customers, and provide them with the same service, advice, compassion and skill with which you would serve your own family.
LIABILITY

Just as in one’s personal life, an agent must assume responsibility for any mistakes made and make every effort to rectify the situation. Protection from liability exposure may be provided through:

- Awareness and observation of applicable laws and insurance regulations;
- Awareness of company standards and procedures;
- Performing such services as needs analysis, policy delivery, claims investigations, etc., with extreme care and due diligence;
- Keeping the lines of communication open between customers and the company, and quickly responding to their needs; and
- Continuously improving knowledge and skill.

On the other hand, an agent is most likely to encounter problems with errors and omissions liability by failing to obtain the adequate and correct coverage for a client and/or failing to maintain that coverage. However, if an agent stays current on products and procedures, analyzes the needs of the customer, and properly services the customer, these problems are likely to be avoided.

AVOID LEGAL REPRESENTATIONS

Agents are not attorneys and must therefore avoid giving legal advice. The following guidelines are suggested for review and clarification.

- Defer to the client’s attorney when presented with questions about how specific legal concepts may affect the client;
- Agents must not draft legal documents such as wills or trusts, or even make addenda or notes on such documents; and
- Agents may gather information about their clients and discuss general principles of law, but avoid trying to apply law to their client’s situation.

CLIENTS FOR LIFE

As an individual’s needs change, so do their insurance requirements. An agent has the responsibility to provide his client with continual service throughout the lifetime of the client. Such long-term relationships benefit the client as well as the agent by providing future client referrals.
FEES AND COMMISSION

An agent earns commission on the sale of specific insurance products. An insurance counselor makes recommendations about many products and collects a fee for his general advice.

An agent must be careful not to make unduly influences on a client to purchase a certain product just so that agent can collect his commission. Most agents recommend their own company's products when the products are suitable for the client. Many states prohibit agents from charging fees at all, and some states prohibit charging fees and collecting a commission on the same policy. However, some states allow collection of both a fee and commission, but these states have strict guidelines governing the practice. It is an agent’s obligation to serve his client’s best interest by making objective recommendations and analyses and therefore, if that agent receives both a commission and a fee from the same policy, services provided to the client must go above and beyond just the sale of the policy.
CHAPTER 6

THE AGENCY

THE AGENCY RELATIONSHIP

Agency is a legal term that describes the relationship between two parties. The principal (the first party) authorizes the agent (the second party) to perform certain legally binding acts on behalf of the principal.

The agent’s ethical behavior is tantamount to the insurance company as he is the principal’s representative and acts upon its behalf. The agency relationship gives the agent the power of representing the principal in all business dealings with the consumer. Therefore, in the eyes of the law, the agent is as responsible for his behavior as is the principal.

HOW IS AGENCY CREATED?

An agency relationship is created through appointment, estoppel or ratification.

• Agency by appointment is made through a written contract between the two parties wherein the duties and obligations of each are specified.

• Agency by estoppel is when the principal permits the implication to be made to the consumer that the agent is representing the principal.

• Agency by ratification takes place when an agent falsely represents himself as being affiliated with a principal to a third party, a transaction is made and that principal accepts the contract. Failure to notify the consumer that the initial representation of the agent was false could result in an agency by estoppel with the insured.

HOW THE AUTHORITY OF AN AGENT IS CREATED

• Expressed consent is established through either a verbal or written venue and spells out the agent’s ability to solicit, initiate applications and collect initial premiums when acting on behalf of the principal.
• Implied consent is established through verbalization and occurs when appropriate actions are taken to carry out the authority granted to an agent in expressed consent in order to fulfill the principal’s goals.

• Apparent consent occurs when a principal permits an agent to act on its behalf without either expressed or implied authority. The agent’s authority is in most cases limited and even though he may make decisions on behalf of the principal, often these decisions have limitations and are subject to the principal’s review.

LIMITATIONS AND RESPONSIBILITIES
An agent’s relationship with the principal can be restricted from performing certain duties on behalf of the principal. The agent’s ability to adjust premium rates, to waive exclusions or to accept the risk involved can be limited. Serious legal and ethical issues can be raised if the agent were to step beyond his appointment boundaries.

Since the agent is licensed by the state and employed by the principal, the agent’s business conduct is subject to scrutiny by both the state and the principal. He is expected to maintain the highest level of trust and ethical conduct for both parties as well as for the consumer he services. The agent thus becomes a fiduciary, an individual whose position or responsibility is dependent upon public trust and confidence.

THE AGENT AS A FIDUCIARY
When an agent enters into a contractual agreement with a principal, both have agreed to a mutually beneficial relationship. We have already talked about what the principal owes the agent; now let’s talk about what the agent owes the principal.

LOYALTY
A fiduciary always acts on behalf of the client’s best interest. An agent cannot represent more than the interest of one principal, unless previously authorized. An agent cannot represent the interest of more than one insurer without the full knowledge and consent of all parties involved. He cannot receive personal financial gain other than that specified in his agency agreement.

SKILL AND CARE
The agent’s responsibility is to handle the principal’s needs in a proficient and scrupulous manner, thus enabling the principal’s goals to be reached. In order to accomplish this, he must represent the principal to the insured in a skilled manner. Should a subject arise in which the agent is unskilled, he must refer the client to another source, thereby caring about and servicing the client’s needs above his own and, at the same time, insuring the principal’s best representation.
DISCLOSURE

Full disclosure is critical to the welfare of the client. Should any information remain undisclosed, the client cannot make a fully informed decision, therefore the client’s needs are not serviced appropriately. Even if disclosure of an item could deter the client from acting upon the agent’s recommendations, it is best to avoid any potential conflicts of interest. It is the fiduciary’s responsibility to keep his ethics and motivations unquestionable and intact.

TIMELINESS

The insurer’s obligations to the consumer are based on time schedules. Therefore, it is imperative that all paperwork be submitted on a timely basis to limit the principal’s risk in the case of a denial and to avoid delaying the underwriting process for acceptance of a purchased product.

ACCOUNTABILITY OF FUNDS

According to the law, funds that are submitted to the agent are the same as if they had been delivered directly to the insurance company. The insurance company is responsible for those funds as soon as they are placed into the agent’s hands. Most states require premiums to be held in premium funds trust accounts for a time specified in the agent’s contract with the insurer (usually no more than 90 days). The agent can then submit the premiums to the insurer, less his portion of commission earned.

SOLE INTEREST

An agent must act in all transactions to avoid any potential conflict of interest between himself, the insurer or the insured. An agent has an obligation to the insurer to represent the product in a skillful and honest manner. Should there be any misrepresentation wherein the insured’s decision was based on the misrepresentation, intentional or not, the agent is liable for losses to the insurer, the insured, or both.

In the event an agent receives compensation in a transaction for performing related services in the same transaction, the insurer must be made aware of this compensation and it must in no way conflict with the agent’s contractual obligation with the principal.

DILIGENCE IN SOLICITATION OF BUSINESS

It is the obligation of an agent to solicit business that represents the risk element that his insurer is willing to take. To solicit higher risk business and omit or alter the application in an effort to conceal the risk factor is unethical and not in keeping with the fiduciary responsibility owed the principal.
COMPETITIVE FAIR PLAY

When the subject of a competing firm is brought up, it is in the best interest of the industry not to defame the competitor, but stick to the issues of one product verses another.
CHAPTER 7
CAPTIVE AGENTS VS. INDEPENDENT AGENTS

AGENT TYPES

CAPTIVE AGENT

A Captive Agent is one who represents the interest of one or more companies and sells their exclusive products for a commission and/or salary. The insurer owns and maintains control of all accounts serviced by the agent and the agent must disclose his interest in any similar business or service. It is up to the principal to determine if there is a conflict of interest among the companies represented.

INDEPENDENT AGENT

An Independent Agent usually represents several companies and receives a commission. The agent owns all clients and looks for the best premium available. Should the agent terminate his relationship with an insurer, he still owns the right to rewrite the insured with a different company, with the permission of the insured. Dual agency guidelines are set forth to avoid possible conflicts and ethical violations. The agent services his client during the selection of an appropriate plan, one best suited for the client; and services the insurance company during the application, underwriting, record keeping, claims settlement or other insurer-related activities.

PRINCIPAL’S OBLIGATIONS TO THE AGENT

THE EMPLOYMENT AGREEMENT

The employment agreement covers the minimum production standards, product-types that may be sold, form of compensation, timeframe and non-performance recourse.
THE PRINCIPAL'S OBLIGATION OF COMPENSATION

Compensation is usually dependent upon the nature of the business and whether it is new or renewal business. It outlines the different rates for different lines of product sold and a higher commission rate on new business as opposed to renewal business. It is tempting sometimes to shift policyholders from one company to another at renewal time for the higher commission rate, but the code of ethics would prohibit any agent from doing so at the expense of his client.

INDEMNIFICATION OF AGENT

The principal indemnifies the agent from any costs and/or claims made against him in the carrying out of his duties under his agency relationship with the principal. However, if the agent is found guilty of breach of duty or is lacking in due diligence, the agent would be subject to a potential lawsuit and or disciplinary action.
CHAPTER 8

POLICY ILLUSTRATIONS

ETHICAL PRACTICES REGARDING POLICY ILLUSTRATIONS

If all assumptions upon which an illustration is based are correct, a policy will pay the values projected through a mathematical formula. However, if the illustration is based on several different assumptions, the actual experience will, more likely than not, differ. It is only appropriate to use life insurance policy illustrations when there is an explanation of how certain concepts work and a demonstration on how a particular product works. However, it is inappropriate to predict impending values or compare competing proposals with a policy illustration.

DISCLOSURE

Agents must be fully versed in understanding the figures in a policy illustration, as it is the agent’s responsibility to make sure that prospective clients understand also. Interest rates, returns, dividends, mortality, expenses and vanishing premiums must be fully understood and explained.

INTEREST RATES IN POLICY ILLUSTRATIONS

EXTERNAL GUIDES

An indexed rate is the interest rate that may be tied to an average rate paid on certain treasury bills, or the average rate of corporate bonds.

DECLARED RATES

The interest rate is dependent upon the insurance company's investment experience.

RATE CHANGES

A client must be advised about how often the rates may change.
RETURNS: METHODS OF CREDITING

PORTFOLIO METHOD

Long-term investments are emphasized. The variability of a company’s rate of return earnings is combined to establish one single rate of return that will be disbursed to all policies.

NEW MONEY METHOD

Short-term investments are emphasized and fluctuation occurs.

THE COMBINATION METHOD

Policies are divided into blocks, each block beginning with the current rate at policy issuance time, then blending with current rates as new premiums are received, policies mature and/or are reinvested.

DIVIDENDS

The distribution of surplus earnings on policies that pay dividends is usually accomplished by the contribution principle, whereby surplus is divided and distributed to class of policy owners on a pro rata formula equal to the contribution each class made to the surplus. The client should be advised if the insurer under consideration uses the contribution of another method of distributing surplus earnings.

MORTALITY

The client must be advised whether or not mortality charges are based on current experience or improvements in current experience.

EXPENSES

The client must be advised of the expenses associated with different types of policies.

VANISHING PREMIUMS

There comes a time in the life of a policy when premiums can be paid by dividends and/or other accumulated cash values.
GUIDELINES FOR DEVELOPING A CODE OF ETHICS

• Relevant laws and regulations are reviewed;

• Values which produce the top three or four traits of a highly ethical and successful service or product in the industry are reviewed;

• Values needed to address current issues in the industry are identified—descriptions of major issues in the workplace or industry are collected;

• Evaluate the industry's strengths, weaknesses, opportunities and threats;

• Consider the top ethical values that might be prized by the consumer; and

• The top five to ten ethical values, which are high priorities in the industry, are collected.

⇒ Trustworthiness, Respect, Responsibility, Caring, Justice and Fairness, Civic Virtue and Citizenship.

• Behaviors are associated with values;

• Solicit input from members of the industry;

• Review the code regularly; and

• Goals are refined.

GUIDELINES FOR DEVELOPING A CODE OF CONDUCT

• Identify key behaviors needed to adhere to the proclaimed ethical values;

• Declare that all members must conform to the specified behaviors in the code of conduct;

• Obtain review from key members of the organization;

• Announce and distribute the code of conduct; and

• Include examples of topics typically addressed by codes of conduct.
CHAPTER 10

INDUSTRY CODES OF ETHICS SAMPLES

NATIONAL ASSOCIATION OF LIFE AND FINANCIAL UNDERWRITERS

PREAMBLE

It is the agent’s inherent role to combine professional duty to the client and to the company.

Therefore, I Believe It To Be My Responsibility:

To hold my profession in high esteem and strive to enhance its prestige,

To fulfill the needs of my clients to the best of my ability,

To maintain my clients’ confidences,

To render exemplary service to my clients and their beneficiaries,

To adhere to professional standards of conduct in helping my clients to protect insurable obligations and attain their financial security objectives,

To present accurately and honestly all facts essential to my clients’ decisions,

To perfect my skills and increase my knowledge through continuing education,

To conduct my business in such a way that my example might help raise the professional standards of those in my profession,

To keep informed with respect to applicable laws and regulations and to observe them in the practice of my profession.

To cooperate with others whose services are constructively related to meeting the needs of my clients.
NATIONAL ASSOCIATION OF HEALTH UNDERWRITERS

NAHU Code of Ethics

- To hold the selling, service and administration of health insurance and related products and services as a professional and public trust and do all in my power to maintain its prestige.

- To keep paramount the needs of those whom I serve.

- To respect my clients’ trust in me, and to never do anything which would betray their trust or confidence.

- To give all service possible when service is needed.

- To present policies factually and accurately, providing all information necessary for the issuance of sound insurance coverage to the public I serve.

- To use no advertising which I know may be false or misleading.

- To consider the sale, service and administration of health insurance and related products and services as a career, to know and abide by the laws of any jurisdiction Federal and State in which I practice and seek constantly to increase my knowledge and improve my ability to meet the needs of my clients.

- To be fair and just to my competitors, and to engage in no practices which may reflect unfavorably on myself or my industry.

- To treat prospects, clients and companies fairly by submitting applications which reveal all available information pertinent to underwriting a policy.

- To extend honest and professional conduct to my clients, associates, fellow agents and brokers, and the company or companies whose products I represent.

THE AMERICAN SOCIETY OF CLU AND CHFC

The Code is founded upon the crucial ethics of competent advice and service to the client and enrichment of public regard for the CLU and ChFC designations. The purpose of the Code is to provide standards of professional conduct by those involved in providing insurance, financial planning and economic security.
The Code is supported by Guides, which give specificity to the imperatives, with interpretive comment to assist in understanding. A member is in violation of the Code when a member has breached an ethical imperative through failure to adhere to one or more of the Guides. Those who have chosen to enter into membership in the American Society voluntarily bind themselves to the Code of Ethics of their professional organization and any violation would expose a member to sanctions, which range from reprimand to membership revocation.

**CLU & CHFC CODE OF ETHICS**

*First Imperative: To competently advise and serve the client . . .*

**Guide 1.1:** A member shall provide advice and service, which are in the client's best interest.

**Guide 1.2:** A member shall respect the confidential relationship existing between client and member.

**Guide 1.3:** A member shall continue his education throughout his professional life.

**Guide 1.4:** A member shall render continuing advice and service.

*Second Imperative: To enhance the public regard for professional designations and allied professional degrees held by members . . .*

**Guide 2.1:** A member shall obey all laws governing his business or professional activities.

**Guide 2.2:** A member shall avoid activities which detract from the integrity and professionalism of the Chartered Life Underwriter designation, the Chartered Financial Consultant designation, or any other allied professional degree or designation held by members.

**Guide 2.3:** A member shall encourage others to attain the Chartered Life Underwriter and/or the Chartered Financial Consultant designations.

**Guide 2.4:** A member shall avoid using the Chartered Life Underwriter or Chartered Financial Consultant designation in a false or misleading manner.
MILLION DOLLAR ROUND TABLE

MDRT CODE OF ETHICS

Members of the Million Dollar Round Table should be ever mindful that complete compliance with and observance of the Code of Ethics of the Million Dollar Round Table shall serve to promote the highest quality standards of membership. These standards will be beneficial to the public and the life insurance industry, and its related financial products. Therefore, members shall:

I. Always place the best interests of their clients above their own direct or indirect interests.

II. 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.

III. Hold in the strictest confidence, and consider as privileged, all business and personal information pertaining to their clients' affairs.

IV. Make full and adequate disclosure of all facts necessary to enable their clients to make informed decisions.

V. Maintain personal conduct which will reflect favorably on the life insurance industry and the Million Dollar Round Table.

VI. Determine that any replacement of a life insurance or financial product must be beneficial for the client.

VII. Abide by and conform to all provisions of the laws and regulations in the jurisdictions in which they do business.
GENERAL AGENTS AND MANAGERS ASSOCIATION (GAMA)

STATEMENT OF PRINCIPLES

BECAUSE the institution of life insurance renders an economic and social service that is unique and of great benefit to society, because it is a trusteeship that requires constant service, and because matters that affect its progress are of vital concern to all, and because the representatives of life insurance constitute its most important liaison with the public which it serves; and because it is of the utmost importance to maintain the high ethical standards of the institution of life insurance;

THEREFORE, I believe it to be my responsibility:

• To select my sales associates and managers carefully, using the best available techniques, so that only the qualified shall be placed under contract.

• To build a sales organization by recruiting people new to the business who intend to make life insurance, in one or more of its branches, their full-time career.

• To provide adequate training and supervision, using the best available methods and materials, so that the sales associates placed under contract give sound advice, render quality service to policyholders, and achieve financial success at the earliest possible moment.

• To encourage my associates to continue their development with sound self-improvement programs from year to year, such as LUTC, CLU, and other similar courses, to the end that they may reach the highest level of proficiency, and achieve prestige and maximum satisfaction in their work.
• To encourage membership in and support the local Association of Life Underwriters by attendance and participation in meetings and activities and to follow their rules of conduct.

• To present fairly and honestly, and without exaggeration, all facts which a prospective sales associate or manager should have in determining whether to accept a contract with my field organization.

• To urge any sales associate or manager with whom I am discussing potential employment to review the sales associate's or manager's current employment situation with the sales associate's present general sales associate or manager before reaching a decision.

• To take a leadership role in advocacy of the field organization distribution system and in the fundamental belief that life and disability insurance are upon death, disability, old age and during emergencies the best products to provide cash and income when most needed by my fellow citizens who seek self-determination and personal freedom.

• In general, I shall endeavor and encourage others to practice the "Golden Rule" in all aspects of our professional lives and, in so doing, strive to gain the respect of our contemporaries and lift our profession to the highest level of public esteem.

NATIONAL ASSOCIATION OF PROFESSIONAL INSURANCE ADJUSTERS

RULES OF PROFESSIONAL CONDUCT AND ETHICS

• The members shall conduct themselves in a spirit of fairness and justice to their clients, the Insurance Companies, and the public.

• Members shall refrain from improper solicitation.

• No misrepresentation of any kind shall be made to an assured or to the Insurance Companies.

• Commission rates shall be fair and equitable, and strictly in accordance with the prevailing custom in the locality, and must, where laws or regulations of insurance departments exist, comply fully with such laws or regulations.

• Members shall conduct themselves so as to command respect and confidence. They shall work in harmony with one another, with their clients, and the Insurance Companies' representatives, so as to foster a cordial and harmonious relationship with all branches of the insurance business, and with the general public.
• Members must be fitted, by knowledge and experience, for the work they undertake. They must not endanger the interests of the public adjusting profession, or risk injustice to assureds or to the Insurance Companies, by attempting to handle losses or claims for which they are not qualified, and for which they cannot find competent technical assistance.

• Members shall not engage in the unauthorized practice of law.

• Members shall not acquire any interest in salvaged property or participate in any way, directly or indirectly, in the reconstruction, repair or restoration of damaged property, except with the knowledge consent and permission of the assured.

• Members shall be cooperative and assist one another in every possible way.

• Members shall not disseminate or use any form of agreement, advertising, or any printed matter that is harmful to the profession of public adjusting, or which does not comply with the rules and regulations of the Insurance Department of the state in which such member is professionally engaged, or which might subject public adjusting and public adjusters to criticism or disrespect.

AMERICAN INSTITUTE FOR CHARTERED PROPERTY AND CASUALTY UNDERWRITERS CODE OF PROFESSIONAL ETHICS

CANONS AND RULES

CANON 1

CPCUs Should Endeavor at All Times to Place the Public Interest Above Their Own.

Rules of Professional Conduct

R1.1 A CPCU has a duty to understand and abide by all Rules of Conduct, which are prescribed in the Code of Professional Ethics of the American Institute.

R1.2 A CPCU shall not advocate, sanction, participate in, cause to be accomplished, otherwise carry out through another, or condone any act which the CPCU is prohibited from perform by the Rules of this Code.

CANON 2

CPCU’s Should Seek Continually to Maintain and Improve Their Professional Knowledge, Skills and Competence.
**Rules of Professional Conduct**

R2.1 A CPCU shall keep informed on those technical matters that are essential to the maintenance of the CPCU’s professional competence in insurance, risk management or related fields.

**CANON 3**

CPCU’s Should Obey All Laws and Regulations, and Should Avoid Any Conduct or Activity Which Would Cause Unjust Harm to Others.

**Rules of Professional Conduct**

R3.1 In the conduct of business or professional activities, a CPCU shall not engage in any act or omission of a dishonest, deceitful or fraudulent nature.

R3.2 A CPCU shall not allow the pursuit of financial gain or other personal benefit to interfere with the exercise of sound professional judgment and skills.

R3.3 A CPCU will be subject to disciplinary action for the violation of any law or regulation, to the extent that such violation suggests the likelihood of professional misconduct in the future.

**CANON 4**

CPCU’s Should be Diligent in the Performance of Their Occupational Duties and Should Continually Strive to Improve the Functioning of the Insurance Mechanism.

**Rules of Professional Conduct**

R4.1 A CPCU Shall Competently and Consistently Discharge His or Her Occupational Duties.

R4.2 A CPCU shall support efforts to effect such improvements in claims settlement, contract design, investment, marketing, pricing, reinsurance, safety engineering, underwriting and other insurance operations as will both inure to the benefit of the public and improve the overall efficiency with which the insurance mechanism functions.

**CANON 5**

CPCU’s Should Assist in Maintaining and Raising Professional Standards in the Insurance Business.
Rules of Professional Conduct

R5.1 A CPCU Shall Support Personnel Policies and Practices Which will Attract Qualified Individuals to the Insurance Business, Provide Them with Ample and Equal Opportunities for Advancement and Encourage Them to Aspire to the Highest Levels of Professional Competence and Achievement.

R5.2 A CPCU Shall Encourage and Assist Qualified Individuals Who Wish to Pursue CPCU or Other Studies, which will Enhance Their Professional Competence.

R5.3 A CPCU Shall Support the Development, Improvement, and Enforcement of Such Laws, Regulations and Codes as will Foster Competence and Ethical Conduct on the Part of all Insurance Practitioners and Inure to the Benefit of the Public.

R5.4 A CPCU shall not withhold information or assistance officially requested by appropriate regulatory authorities who are investigating or prosecuting any alleged violation of the laws or regulations governing the qualifications or conduct of insurance practitioners.

CANON 6

CPCU’s Should Strive to Establish and Maintain Dignified and Honorable Relationships with Those whom they Serve, with Fellow Insurance Practitioners and with Members of Other Professions.

Rules of Professional Conduct

R6.1 A CPCU shall keep informed on the legal limitations imposed upon the scope of his or her professional activities.

R6.2 A CPCU shall not disclose to another persona any confidential information entrusted to, or obtain by, the CPCU in the course of the CPCU’s business or professional activities, unless a disclosure of such information is required by law or is made to a person who necessarily must have the information in order to discharge legitimate occupational or professional duties.

R6.3 In rendering or proposing to render professional services for others, a CPCU shall not knowingly misrepresent or conceal any limitations on the CPCU’s ability to provide the quantity or quality of professional services required by the circumstances.
CPCU’s Should Assist in Improving the Public Understanding of Insurance and Risk Management.

**Rules of Professional Conduct**

**R7.1** A CPCU shall support efforts to provide members of the public with objective information concerning their risk management and insurance needs and the products, services and techniques which are available to meet their needs.

**R7.2** A CPCU shall not misrepresent the benefits, costs or limitations of any risk management technique or any product or service of an insurer.

CPCU’s Should Honor the Integrity and Respect the Limitations Placed Upon the Use of the CPCU Designation.

**Rules of Professional Conduct**

**R8.1** A CPCU shall use the PCU designation and the CPCU key only in accordance with the relevant guidelines promulgated by the American Institute.

**R8.2** A CPCU shall not attribute to the mere possession of the designation depth or scope of knowledge, skills and professional capabilities greater than those demonstrated by successful completion of the CPCU program.

**R8.3** A CPCU shall not make unfair comparisons between a person who holds the CPCU designation and one who does not.

**R8.4** A CPCU shall not write, speak, or act in such a way as to lead another reasonably to believe the CPCU is officially representing the American Institute, unless the CPCU has been duly authorized to do so by the American Institute.

CPCU’s Should Assist in Maintaining the Integrity of the Code of Professional Ethics.

**Rules of Professional Conduct**

**R9.1** A CPCU shall not initiate or support the CPCU candidacy of any individual known by the CPCU to engage in business practices which violate the ethical standards prescribed by this Code.
R9.2 A CPCU possessing unprivileged information concerning an alleged violation of this Code shall, upon request, reveal such information to the tribunal or other authority empowered by the American Institute to investigate or act upon the alleged violation.

R9.3 A CPCU shall report promptly to the American Institute any information concerning the use of the CPCU designation by an unauthorized person.