INSURANCE ETHICS

#2
The Success Family of CE Companies

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CODE OF ETHICS – THE BASICS

Professional ethics is no different than personal ethics

Professional ethics is not a separate kind of morality or moral conduct. “Ethics are ethics.” However, professional ethics is an extension of our basic personal moral and ethical beliefs. It is the process or system of implementing that moral code into the professional workplace. Most of us learn a basic ethical code from our parents, or how we were raised. However, some things are not inherent to all. That’s one of the reasons why it is so important for businesses to publish a professional Code of Ethics in their by-laws. This Code of Ethics should be published for all employees’ information and should be adhered to by all employees. A Code of Ethics is an organic instrument that changes with the needs of society and the organization.

Think about how many hours you spend at work, how many hours you spend sleeping and how many hours you spend for recreation.

Consider an average basic 9 hour day, 1 hour travel time to and from the office, and 8 hours sleeping. In theory, that should leave you 6 hours of recreational time every day. What do you think? Do you think you spend 6 hours a day at recreation? First of all, most people do not work a basic 8-9 hour day; they work more. Then there are chores, of course; and errands to run - Shopping, running the kids here and there, cooking, eating, mowing the lawn, paying bills, etc. All of these things add up so that you actually have very little time for recreation. And you find that you spend the majority of your life “working.” This is a big chunk of time out of our lives and, unfortunately, it is necessary for the majority of us. So it stands to reason that if you live your professional life (the majority of your life) in an ethical and moral manner, you will also live your personal life in the same manner. Our work typically defines what we are and what we will become. After all, one of the first sentences a child hears about growing up is, “What do you want to be when you grow up?” Not, “How do you want to pay your bills when you grow up?” or, “What are you going to do for recreation when you grow up?” It is, “What do you want to BE…..” Our work has become a core for defining ourselves in this day and age. Even the majority of our friends have started out as business acquaintances.

In today’s society of computers, a code of ethics is imperative. Computers and internet surfing enables us access to more information in a shorter amount of time than ever before. Computer users should be aware both that they have access to valuable and sensitive resources, and that their computing practices can adversely affect others. Open access to computers is a privilege and should be treated responsibly and respectfully.
MORAL CONDUCT

Unfortunately, small transgressions that do not break any laws can lead to larger acts that do. In order to maintain a high degree of ethics, it is imperative that all industry representatives support each other. Acting in an unethical manner doesn’t necessarily mean that a law has been broken; however, breaking the law often starts with unethical behavior that has gone unnoticed. Stressful situations could lead someone to make a “gray” decision, which in normal circumstances would be seen as “black” or “white.”

The application of ethics to the corporate community lends a way to determine responsibility in business dealings. The identification of important business and social issues leads to an improved society.

It is crucial that industry representatives maintain a moral course thereby creating strong teamwork and productivity. Adhering to a strict code of ethics supports individual growth and, as a result, tends to promote a strong public image. The "good of the consumer" is part of the individual’s own philosophy; not only in theory, but also in practice.

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; and
• A business critique.
ETHICS IN THE WORKPLACE

BUSINESS ETHICS MYTHS

Business ethics in the workplace is about prioritizing moral values for the workplace and ensuring behaviors are aligned with those values -- it can be considered "values management." Yet, myths abound about business ethics. Some of these myths arise from general confusion about the notion of ethics. Other myths arise from narrow or simplistic views of ethical dilemmas.

- **Business ethics is more a matter of religion than management** - Altering people's values or souls isn't the aim of an organizational ethics program; managing values and conflict among them is.

- **Our employees are ethical so we don't need attention to business ethics** - Most of the ethical dilemmas faced by managers in the workplace are highly complex. One knows when they have a significant ethical conflict when there is presence of:
  - Significant value conflicts among differing interests;
  - Real alternatives that are equally justifiable; and
  - Significant consequences on "stakeholders" in the situation.

- **Business ethics is a discipline best led by philosophers, academics and theologians** - Lack of involvement of leaders and managers in business ethics literature and discussions has led many to believe that business ethics is a fad or movement, having little to do with the day-to-day realities of running an organization. They believe business ethics is primarily a complex philosophical debate or a religion. However, business ethics is a management discipline with a programmatic approach that includes several practical tools.

- **Business ethics is superfluous** - Many people react that codes of ethics, or lists of ethical values to which the organization aspires, are rather superfluous because they represent values to which everyone should naturally aspire. However, the value of a code of ethics to an organization is its priority and focus regarding certain ethical values in that workplace.

- **Business ethics is a matter of the good guys preaching to the bad guys** - Some writers do seem to claim a moral high ground while lamenting the poor condition of business and its leaders. However, those people well versed in managing organizations realize that good people can take bad actions, particularly when stressed or confused. Managing ethics in the workplace includes all of us working together to help each other
remain ethical and to work through confusing and stressful ethical dilemmas. Stress may be a reason, but it is not an excuse.

- **Business ethics is the new policeperson on the block** - Many believe business ethics is a recent phenomenon because of increased attention to the topic in popular and management literature. However, business ethics was first written about around 2,000 years ago. Business ethics has gotten more attention recently because of the social responsibility movement that started in the 1960s.

- **Ethics can't be managed** - Actually, ethics is always "managed;" but, too often, it is managed indirectly. For example, the behavior of the organization's founder or current leader is a strong moral influence or directive if you will, on behavior or employees in the workplace. Strategic priorities (profit maximization, expanding market share, cutting costs, etc.) can be very strong influences on morality. Laws, regulations and rules directly influence behaviors to be more ethical, usually in a manner that improves the general good and/or minimizes harm to the community. Some are still skeptical about business ethics, believing you can't manage values in an organization.

- **Business ethics and social responsibility is the same thing** - The social responsibility movement is one aspect of the overall discipline of business ethics. Madsen and Shafritz refine the definition of business ethics to be:
  - An application of ethics to the corporate community;
  - A way to determine responsibility in business dealings; and
  - The identification of important business and social issues.

- **Our organization is not in trouble with the law, so we're ethical** – As stated previously, one can often be unethical, yet operate within the limits of the law, e.g., withhold information from superiors, fudge on budgets, constantly complain about others, etc.

- **Managing ethics in the workplace has little practical relevance** - Managing ethics in the workplace involves identifying and prioritizing values to guide behaviors in the organization, and establishing associated policies and procedures to ensure those behaviors are conducted.

**BENEFITS OF MANAGING ETHICS**

Many people are used to reading or hearing of the moral benefits of attention to business ethics. However, there are other types of benefits, as well. The following list describes various types of benefits from managing ethics in the workplace.

- **Attention to business ethics has substantially improved society** - A matter of decades ago, children in our country worked 16-hour days. Workers’ limbs were torn off and disabled workers were condemned to poverty and often to starvation. Trusts controlled some markets to the extent that prices
were fixed and small businesses 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.

- **Ethics programs help maintain a moral course in turbulent times** - 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 complex conflicts about what is right or wrong.

- **Ethics programs cultivate strong teamwork and productivity** - Ethics programs align employee behaviors with those top priority ethical values preferred by leaders of the organization. Usually, an organization finds surprising disparity between its preferred values and the values actually reflected by behaviors in the workplace. Ongoing attention and dialogue regarding values in the workplace builds openness and integrity. Employees feel strong alignment between their values and those of the organization. They react with strong motivation and performance.

- **Ethics programs support employee growth and meaning** - Attention to ethics in the workplace helps employees face reality, both good and bad, in the organization and themselves. Employees feel full confidence they can admit and deal with whatever comes their way.

- **Ethics programs are an insurance policy; they help ensure that policies are legal** - There is an increasing number of lawsuits in regard to personnel matters and to effects of an organization’s services or products on stakeholders. Attention to ethics ensures highly ethical policies and procedures in the workplace. It’s far better to incur the cost of mechanisms to ensure ethical practices now than to incur costs of litigation later. An employer can be subject to suit for breach of contract for failure to comply with any promise it made, so the gap between stated corporate culture and actual practice has significant legal as well as ethical implications.”

- **Ethics programs help avoid criminal acts “of omission” and can lower fines** - Ethics programs tend to detect ethical issues and violations early on so they can be reported or addressed. In some cases, when an organization is aware of an actual or potential violation and does not report it to the appropriate authorities, this can be considered a criminal act.

- **Ethics programs help manage values associated with quality management, strategic planning and diversity management** - Ethics programs identify preferred values and ensuring organizational behaviors are aligned with those values. This effort includes recording the values, developing policies and procedures to align behaviors with preferred values, and then training all personnel about the policies and procedures. Diversity is acknowledging different values and perspectives. Diversity
programs require recognizing and applying diverse values and perspectives; these activities are the basis of a sound ethics management program.

- **Ethics programs promote a strong public image** - The fact that an organization regularly gives attention to its 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. Bob Dunn, President and CEO of San Francisco-based Business for Social Responsibility, puts it best: “Ethical values, consistently applied, are the cornerstones in building a commercially successful and socially responsible business.”

**GUIDELINES FOR MANAGING ETHICS**

The following guidelines ensure the ethics management program is operated in a meaningful fashion:

- **Recognize that managing ethics is a process** - Ethics is a matter of values and associated behaviors. Values are discerned through the process of ongoing reflection. Therefore, ethics programs may seem more process-oriented than most management practices. Managers tend to be skeptical of process-oriented activities, and instead prefer processes focused on deliverables with measurements. However, experienced managers realize that the deliverables of standard management practices (planning, organizing, motivating, controlling) are only tangible representations of very process-oriented practices. For example, the process of strategic planning is much more important than the plan produced by the process. The same is true for ethics management. Ethics programs do produce deliverables, e.g., codes, policies and procedures, budget items, meeting minutes, authorization forms, newsletters, etc. However, the most important aspect from an ethics management program is the process of reflection and dialogue that produces these deliverables.

- **The bottom line of an ethics program is accomplishing preferred behaviors in the workplace** - As with any management practice, the most important outcome is behaviors preferred by the organization. The best of ethical values and intentions are relatively meaningless unless they generate fair and just behaviors in the workplace. That's why practices that generate lists of ethical values, or codes of ethics, must also generate policies, procedures and training that translate those values to appropriate behaviors.
• **The best way to handle ethical dilemmas is to avoid their occurrence in the first place** - That's why practices such as developing codes of ethics and codes of conduct are so important. Their development sensitizes employees to ethical considerations and minimizes the chances of unethical behavior occurring in the first place.

• **Make ethics decisions in groups and make decisions public, as appropriate** - This usually produces better quality decisions by including diverse interests and perspectives, and increases the credibility of the decision process and outcome by reducing suspicion of unfair bias.

• **Integrate ethics management with other management practices** - When developing the values statement during strategic planning, include ethical values preferred in the workplace. When developing personnel policies, reflect on what ethical values you'd like to be most prominent in the organization's culture and then design policies to produce these behaviors.

• **Use cross-functional teams when developing and implementing the ethics management program** - It's vital that the organization’s employees feel a sense of participation and ownership in the program if they are to adhere to its ethical values. Therefore, include employees in developing and operating the program.

• **Value forgiveness** - This is probably the most important component of any management practice. An ethics management program may at first actually increase the number of ethical issues to be dealt with because people are more sensitive to their occurrence. Consequently, there may be more occasions to address people’s unethical behavior. The most important ingredient for remaining ethical is trying to be ethical. Therefore, help people recognize and address their mistakes and then support them to continue to try to operate ethically.

• **Note that trying to operate ethically and making a few mistakes is better than not trying at all** - Some organizations have become widely known as operating in a highly ethical manner. All organizations are comprised of people and people are not perfect. It's the trying that counts and brings peace of mind -- not achieving a heroic status in society.

**CODES OF CONDUCT**

Codes of conduct specify actions in the workplace and codes of ethics are general guides to decisions about those actions. Therefore, it’s a good idea for published codes of conduct to contain examples of appropriate behavior to be meaningful.

Different departments within an organization frequently have their own codes. An organization could be sued for breach of contract if its practices are not in accord with its policies. That’s why legal departments should review codes of conduct and other ethics policies. Also, that’s why it’s critical for organizations to review their policies at least once a year to ensure they are in accordance with laws and regulations.
RESOLVING ETHICAL DILEMMAS

The vast importance of ethics is indicated by the fact that much of life consists of a series of choices. Choices are made between alternatives, and one alternative will have to be favored over others in the practice of choosing. This means that there is right and wrong conduct. The choice may involve matters that do not strike us as significantly moral (e.g., "Should I have another piece of cake?"), yet reflection will disclose that there is no fundamental difference between moral and supposedly non-moral choices. All choices have to do with ethics; it is only in their relative importance that they differ.

Perhaps too often, business ethics is portrayed as a matter of resolving conflicts in which one option appears to be the clear choice. For example, case studies are often presented in which an employee is faced with whether or not to lie, steal, cheat, abuse another, break terms of a contract, etc. However, ethical dilemmas faced by managers are often more real-to-life and highly complex with no clear guidelines. Following are some examples of everyday real-to-life ethical dilemmas:

**Example 1**

"A customer (or client) asked for a product (or service) from us today. After telling him our price, he said he couldn't afford it. I know he could get it cheaper from a competitor. Should I tell him about the competitor or let him go without getting what he needs in hopes that he'll raise his price limit and purchase from us anyway?"

**Example 2**

"Our company prides itself on its merit-based pay system. One of my employees has done a tremendous job all year, so he deserves strong recognition. However, he's already paid at the top of the salary range for his job grade and our company has too many people in the grade above him, so we can't promote him. What should I do?"

**Example 3**

"Our company prides itself on hiring minorities. One Asian candidate fully fits the job requirements for our open position. However, we're concerned that our customers won't understand his limited command of the English language. What should I do?"

**Example 4**

"My boss told me that one of my employees is among several others to be laid off soon, and that I'm not to tell my employee yet or he might tell the whole organization which would soon be in an uproar. Meanwhile, I heard from my employee that he plans to buy braces for his daughter and new carpet for his house. I know this will leave him with expenses he soon will not be able to afford. What should I do?"
**Example 5**

"My computer operator told me he'd noticed several personal letters printed from a computer that I was responsible to manage. While we had no specific policies then against personal use of company facilities, I was concerned. I approached the letter writer to discuss the situation. She told me she'd written the letters on her own time to practice using our word processor. What should I do?"

**Example 6**

"A fellow employee told me that he plans to quit the company in two months and start a new job which has been guaranteed to him. Meanwhile, my boss told me that he wasn't going to give me a new opportunity in our company because he was going to give it to my fellow employee now. What should I do?"
CREATING A CODE OF ETHICS

It is more complicated than one might think to write a Code of Ethics for the professional

CORPORATE REPUTATION

Corporate reputation is a company's most important intangible asset. Best understood as how a company's customers, employees, and other stakeholders view an organization, corporate reputation has a tremendous effect on business success. Companies with strong reputations deliver higher than industry-average profits and stock performance; they also have increased employee support and productivity, as well as greater sales and customer loyalty.

CREATION

As in the creation of anything, there are steps to be taken to establish a Code of Ethics for a professional business. Usually the writing of a Code of Ethics is done by committee. The committee might utilize another company's Code of Ethics or utilize their State Insurance Department for guidelines.

Following is an example of some steps that could be followed in order to create a professional Code of Ethics:

- Define “Professional;”
- Define “Ethics;”
- Determine what it means to perform professional ethics;
- Establish a foundation for moral professionals;
- Create moral explanations;
- Justify and explain moral reasons; and
- Create moral theories (values are interpreted by means of theories).

DEFINE “PROFESSIONAL.”

If you don’t know what it is, you can’t elaborate on it or work with it. According to Webster’s Collegiate Dictionary, a professional is “characterized by or conforming to the technical or ethical standards of a profession,” which leads to “profession.” The definition of profession is “a principal calling, vocation or employment requiring specialized knowledge and often long and intensive academic preparation.”
However, a person who practices a profession (professional) is not necessarily morally superior to one who does not practice a profession. Hence, a profession is merely a type of occupation that gains moral significance through the way in which it is accomplished, professionally or nonprofessionally.

**Define “Ethics”**

Again, according to Webster’s Collegiate Dictionary, ethic is defined as “a theory or system of moral values and principles of conduct [ethical behavior] governing an individual or a group,” which leads to “ethical.” Ethical is defined as “conforming to accepted professional standards of conduct; involving or expressing moral approval or disapproval.”

Hence, the development of a Code of Ethics would mean including a system of rules and values that are universal.

**Define “Professional Ethics”**

Now that we have “professional” defined and “ethics” defined, the next task is to actually put “professional ethics” to work. This is where history, experience and general knowledge become invaluable. What has been proven as ethical behavior in the past and what has been proven as unethical behavior must be studied.

**Foundation**

Now that the framework has been done, the foundation must be laid. Professional morality consists of taking the moral structure that governs our lives in general and incorporating that structure into the business atmosphere. It is the process of taking the same moral (ethical) commitments that we use in our everyday lives and applying it to the workplace.

**Moral Explanations**

Moral explanations would be the reasons supporting those ethical rules that are being established. Every ethical conduct should be inherently beneficial to society. As the general public is being served appropriately by the company, the company will benefit. As the company benefits, the individual employee will benefit.

**Example**

An insurance agent advises a client that it is not in the client’s best interest to purchase a certain product. The agent complies with his moral obligation to put the client first (even though the agent would get a commission on the sale) by explaining exactly why that particular product would not be in the client’s best interest. The client’s trust in the agent builds and therefore, when he wants to purchase another product that would be appropriate for him, he would call on that same agent. The agent would continue his relationship with the client and get future sales and more commissions and, of course, the company would reap the financial rewards as well.
**MORAL THEORIES**

Value commitments are interpreted through moral theories. The theory is the belief that supports the rule. To establish ethical rules, there must be commitments to the precedent values, reasons for the rules and the moral theories behind them.

**CONTINUOUS IMPROVEMENT**

Organizations should use their own customized approach to developing a corporate responsibility program that is ultimately based on their specific needs and objectives of corporate integrity and company values.

Continual changes in markets and corporate policies necessitate periodic review of corporate codes and training programs supporting its business ethics initiatives. As an organization evolves, its values may change; its employees’ needs may change; the way it communicates its values and standards to employees may change. Employees may need additional training or refresher courses. The environment may have changed so that it may be necessary to provide training and materials in multiple languages for its employees. Organizations should continually strive to improve their ethics initiatives and programs.

**NATIONAL ASSOCIATION OF HEALTH UNDERWRITERS (NAHU)**

The NAHU is a non-profit organization founded in 1930, incorporated in October, 1942, and located in Arlington, Virginia.

**HISTORY**

“The National Association of Health Underwriters (NAHU) is a professional association for men and women who are active in the health insurance industry. Founded in 1930, NAHU is dedicated to the advancement of those in the health insurance industry through information, education and leadership. Although the association's membership represents all segments of the health insurance business, the nucleus of the organization has always been the salesperson.”

**MISSION STATEMENT**

“Serving the public by promoting the activities and ethical conduct of insurance professionals through communication, education and legislative representation.”

**BYLAWS**

According to their bylaws, the objectives of NAHU are:

**Section 1**

- “To promote the common business interests of those engaged in disability and risk management.”
• To advance public knowledge for the need and benefit of disability income and/or health insurance products.
• To promote the adoption and application of high standards of ethical conduct in the health insurance industry.
• To provide and promote a program of continuing education and self improvement of NAHU members.
• To coordinate the efforts of the various state and local Health Underwriter Associations of the United States.
• To create, organize, encourage and charter, on a local and state level, associations for membership in NAHU.
• To increase the knowledge of members concerning the principles, functions and applications of health insurance and disability income products.
• To promote education, legislation, regulation and practices which are in the best interest of the health insurance industry and the insuring public.
• To encourage adequate protection against the hazards of disability as part of a well-rounded insurance program.
• To do such other things and to carry out such other programs so as to further the purposes of the association.

**Section 2**

The association and its members recognize an obligation to present accurately, honestly and completely every fact essential to the client's decision as expressed in the associations Code of Ethics, which are considered a part of these bylaws.”
SAMPLES OF DIFFERENT CODES OF ETHICS

Following are three published Codes of Ethics for your study as quoted from their respective bylaws.

NATIONAL ASSOCIATION OF HEALTH UNDERWRITERS (NAHU)

- “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.”
JAPAN INFORMATION SERVICE INDUSTRY ASSOCIATION (JISA)

“Aiming at high and reliable position in the Japanese industry, every member of the Japan Information Service Industry Association (JISA) has committed itself to abide by the following code.”

GENERAL DECLARATION

“Every member company should realize the mission of the information service industry and fulfill its social responsibility not only to the region it belongs to, but also to society as a whole.”

BUSINESS CONDUCT

“Every member company should understand that its prosperity could be inseparably linked to its clients and make every effort to win their confidence of partnership by:

- Entering into a contract with clear and exact terms and implementing them faithfully;
- Strictly adhering to the client's need to keep its project, its strategies, and any other related information confidential; and
- Constantly providing the clients with quality service.”

INTERNAL IMPERATIVES

- “Member companies should not make trouble to other member companies by acting against the rules of competition;
- Member companies should not hire an employee away from another member company in order to gain confidential information and/or win away a contract;
- Member companies should strictly abide by the law and any contacts entered into regarding intellectual property rights;
- Member companies should participate in the association's activities as often as possible in order to exchange technology and experience, and raise the level of the whole industry;
- Member companies should make every effort to provide a satisfactory work environment for their employees, as well as provide them with good and safe working conditions; and
- Member companies should try to develop their employees' technological faculties, to help them cultivate themselves and to teach them to have pride in their work and professional conduct.”
CANADIAN INFORMATION PROCESSING SOCIETY (CIPS)

CIPS Code of Ethics

“The following statements are agreed to by all members of CIPS as a condition of membership.”

“I acknowledge that my position as an information processing professional carries with it certain important obligations, and I will take diligent personal responsibility for their discharge.”

• “To the public: I will endeavor to protect the public interest and strive to promote understanding of information processing and its application, but will not represent myself as an authority on topics in which I lack competence.

• To myself and my profession: I will guard my competence and effectiveness as a valuable possession, and work at maintaining them despite changing circumstances and requirements. Furthermore, I will maintain high personal standards of moral responsibility, character, and integrity when acting in my professional capacity.

• To my colleagues: I will treat my colleagues with integrity and respect, and hold their right to success to be as important as my own. I will contribute to the professional knowledge of information processing to the best of my ability.

• To my employer and management: I will give faithful service to further my employer's legitimate best interests through management's direction.

• To my clients: I will give frank and careful counsel on matters within my competence, and guard my client's confidential information and private matters absolutely. In my capacity of provider of product or service, I will provide good value for my compensation, and will endeavor to protect the user of my product or service against consequential loss or harm.

• To my students: I will provide scholarly education to my students in a sympathetic and helpful manner.”

CIPS Standards of Conduct

“The Code of Ethics is a set of ideals to which CIPS members aspire. The Standards of Conduct is intended to be more practicably enforceable. The following statements are agreed to by all members of CIPS as a condition of membership.”

“Due to my obligation to the public:

• I will not unreasonably withhold information pertinent to a public issue relating to computing;
• I will not disseminate, nor allow to go unchallenged, false or misleading information that I believe may have significant consequence;
• I will not offer information or advice that I know to be false or misleading, or whose accuracy is beyond my competence to judge;
• I will not seek to acquire, through my position or special knowledge, for my own or other's use, information that is not rightly mine to possess;
• I will obey the laws of the country, and will not counsel, aid, or assist any person to act in any way contrary to these laws;
• I will endeavor to enhance public understanding of information processing, particularly its current capabilities and limitations, and the role of the computer as tool, not an authority.

Due to my obligation to myself and my profession:
• I will not knowingly allow my competence to fall short of that necessary for reasonable execution of my duties;
• I will conduct my professional affairs in such a manner as to cause no harm to the stature of the profession;
• I will take appropriate action on reasonably certain knowledge of unethical conduct on the part of a colleague.

Due to my obligation to my colleagues:
• I will not unreasonably withhold information pertinent to my work or profession;
• I will give full acknowledgement to the work of others.

Due to my obligation to my employer and to my management:
• I will accept responsibility for my work, and for informing others with a right and need to know of pertinent parts of my work;
• I will not accept work that I do not feel competent to perform to a reasonable level of management satisfaction;
• I will guard the legitimate confidentiality of my employer's private information;
• I will respect and guard my employer's (and his supplier's) proprietary interest, particularly as regards data and software;
• I will respect the commercial aspect of my obligation to my employer.

Due to my obligation to my clients:
• I will be careful to ensure that proper expertise and current professional knowledge is made available;
• I will avoid conflicts of interest and give notice of potential conflicts of interest;
• I acknowledge that statements E1 to E5 [above bulleted information], cast in the employee/employer context, are also applicable in the consultant/client context.

Due to my obligation to my students:

• I will maintain my knowledge of information processing in those areas that I teach to a level exceeding curriculum requirements;
• I will treat my students respectfully as junior scholars, worthy of significant effort on my part.”
CHAPTER 5

PURPOSE OF INSURANCE

Everyone would benefit by having a means of guaranteeing protection and safety

THE BASICS

The purpose of insurance is to provide protection from potentially large financial losses. Whether the consumer is looking at health, dental, disability or long-term care, the insurance agent should be able to help consumers identify the benefits of the products that will satisfy their needs or the needs of their company. Agents not only look out for the bottom line, they work to make sure the client gets his money's worth.

EXPERTISE MATTERS

Whether a client manages a successful business or works for one, or is retired or unemployed, one thing is certain - everyone needs solid insurance coverage for some reason.

Professional insurance agents provide the expertise needed to make the right choices. They are experts who are:

- Familiar with the market - the best products from the merely adequate;
- Familiar with the law - state and federal regulations; and
- Familiar with the industry - by completing continuing education courses.

The competent insurance agent should be able to help the consumer:

- Review his unique needs;
- Learn about carriers and products that can satisfy the customer’s specific concerns;
- Ease the burden on the customer’s time by doing the legwork; and
- Get the most from the coverage after the client has purchased the right product.

Independent agents and brokers work for their client - not an insurance company. This ensures that the customer’s ongoing needs are their priority.
Each state has its own insurance department regulatory body

STATE INSURANCE DEPARTMENT

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.

Few other industries are as heavily regulated as insurance. Even though the majority of rules and regulations are enforced at the state level, a competent agent will keep up with the federal government’s rulings also. Your success, and that of your clients, is directly affected by the actions of Congress.

It is important for insurance agents to keep up to date with issues concerning clients. Changes in tax laws, government benefits programs, and other state and federal regulations can affect the insurance needs of clients and the way in which agents conduct business.

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.

F INANCIAL S TABILITY

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.

LICENSEING

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.

MISSION STATEMENT

State insurance departments fulfill their missions and duties through regulatory bureaus and administrative groups consisting of the director's, officers and supporting service bureaus.

Each department of insurance has its own Mission Statement. They may contain different words, but their meaning is the same. In essence, the purpose of each State Insurance Department is to:

- Be responsible for supervising and regulating all insurance business through fair and efficient regulation of the insurance industry and to equitably, effectively and efficiently administer the Insurance Code.

Inside each Department of Insurance are regulatory bureaus and administrative groups consisting of directors and supporting services bureaus. It is their overall mission to:

- Ensure the continued sound and prudent conduct of insurers’ financial operations;
- Provide fair, timely and equitable fulfillment of insurer obligations;
• Protect policyholders from financially impaired or insolvent insurers;
• Eliminate fraud, other criminal abuse and unethical conduct in the industry; and
• Foster growth of the insurance industry in the State.

State regulations are imposed that require a minimum standard of competence to ensure a proficient business environment, protect the consumer from fraud or willful intent and promote fair competition among insurers. All of these items add up to an ethical relationship between insurers and the consumers they serve.

**SUPERVISORY FUNCTIONS**

The Department carries out its supervisory functions by:

• Issuing licenses to agents, brokers, consultants, reinsurance intermediaries, adjusters, and bail bondsmen;
• Conducting examinations of insurers to determine their financial condition;
• Treatment of policyholders and claimants;
• Underwriting practices; and
• Auditing each insurance company’s annual reports.

**REGULATORY FUNCTIONS**

The Department carries out its regulatory function by:

• Determining qualifications of insurers;
• Regulating rates, certain retirement systems and pension funds;
• Reviewing policyholders’ complaints;
• Supervising the liquidation, rehabilitation, and conservation of insolvent insurers; and
• Approving corporate formations, mergers, and consolidations.
CHAPTER 7

AGENT OBLIGATIONS

Continuing education is an ongoing obligation

CHANGING WITH TECHNOLOGY

Technology has greatly impacted the insurance agency, making it much more efficient and giving the agent the ability to take on more clients. Agents' computers are now linked directly to the insurance companies via the Internet, making the tasks of obtaining price quotes and processing applications and service requests, faster and easier. Computers also allow agents to be better informed about new products that the insurance carriers may be offering.

The growth of the Internet in the insurance industry is gradually changing the relationship between the agent and client. In the past, agents devoted much of their time to marketing and selling products to new clients; however, this is changing. Increasingly, clients obtain insurance quotes from a company's website and then contact the company directly to purchase policies. This gives the client a more active role in selecting a policy at the best price, while reducing the amount of time agents spend actively seeking new clients. Because insurance sales agents also obtain many new accounts through referrals, it is more important than ever for agents to maintain regular contact with their clients to ensure that their financial needs are being met. Developing a satisfied clientele who will recommend an agent's services to other potential customers is a key to success in this industry.

Agents who incorporate new technology and better customer service into their existing business will remain competitive. Call centers are the primary way companies and agents are offering better service because customers are demanding greater access to their policies. Call centers and customer service representatives are also being utilized to increase the volume of contact with potential clients.

Call centers and customer service representatives are also being utilized to make the initial contact (cold calling) with customers and obtain basic information in much less time than if the agent tried to contact the same people personally. When the customer service representatives have obtained enough information that leads them to believe the potential client may need some products that the agent provides, this information is passed on to the agent for his personal follow-up.
CODES OF CONDUCT

Responsibility for the policies and actions of business and respect for the dignity and interests of its stakeholders is fundamental. Carrying on the profession of insurance demands integrity, competence and objectivity in the conduct of its agents while fulfilling their professional responsibilities to:

- The Client;
- The General Public;
- The Employer;
- The Profession; and
- Fellow Agents.

Being an insurance agent is an important and learned profession. As members of this profession, insurance agents are expected to exhibit the highest standards of honesty and integrity. Insurance has a direct and vital impact on the quality of life for all people. Accordingly, the services provided by agents require honesty, impartiality, fairness, and equity, and must be dedicated to the protection of the public health, safety, and welfare. Agents must perform under a standard of professional behavior that requires adherence to the highest principles of ethical conduct.

Codes of conduct alone do not effectively promote responsibility and integrity in the workplace; nor does it sufficiently communicate the company’s commitment to integrity. Comprehensive development of educational and training programs will increase employees’ abilities to understand and to apply the values and standards of the organization directly to situations that may arise in the workplace.

In keeping with high standards of competence and ethical conduct, the ethical individual develops admirable attributes. Such attributes include:

- Honesty – Be forthright, unbiased and objective;
- Loyalty – Serves the community as well as the company and himself;
- Integrity - Stresses that the other person's interests are just as valuable as his own; Must not knowingly engage in or be associated with dishonest or fraudulent practices;
- Personal Responsibility - For his (or her) actions and work. Responsibility should be to the community first, then himself first and then to the organization;
- Purposeful Activities - The individual sees his activities in terms of purpose, which ties the individual to the organization, and the organization to the environment;
• Competence – Work competently and diligently for clients and employers; act with intention to increase the competence and prestige of the profession; assist with only those practices for which you are qualified by personal experience and by training or education;

• Representation – Honesty in representations of skills, knowledge, services and products;

• Confidentiality – Preserve the integrity and security of confidential information of others;

• Social Responsibility – Must strive to enhance the quality of life of those affected by his work; Place the interests of the community above those of personal or sectional interests;

• Professional Development – Must enhance his own professional development and that of colleagues, employees and students;

• Respect – Respect and protect clients’ and employers’ proprietary interests;

• Informative – Advise clients and employers when he believes a proposed project in not in their best interest;

• Acknowledgement – Give credit where credit is due for work done by others;

• Allegiance - Must not require or attempt to influence any person to take any action which would involve a breach of the Code of Ethics.

• Realistic – Provide honest and realistic recommendations and conclusions in the execution of duties;

• Attentive - Involves all the ways of becoming aware of things, people, happenings or ideas.

The individual agent can take an active role in his own continuing education by exercising and practicing the following principles:

• Know your clients – take the time to get to know them;

• Know your products like an underwriter and claims examiner;

• Look for new exposures (assume something has changed);

• Read more (keep up with the changing industry – you might sell more);

• Memorialize important decisions and discussions in writing;

• Act in good faith toward carriers and insureds;

• Comply with company contracts and rules;

• Educate your customers (provide a service, not just a product); and

• Take PRIDE in and ENJOY your work!
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 in planning their retirement years for a worry-free retirement; and
- Provide a comfortable lifestyle for policyholder survivors by providing a product that is 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.

As the diversity of financial products sold by insurance agents increase, employers are placing greater emphasis on continuing professional education. Agents can enhance their selling skills and broaden their knowledge of insurance and other financial services by taking courses at colleges and universities and by attending institutes, conferences, and seminars sponsored by insurance organizations. Most States have mandatory continuing education requirements focusing on insurance laws, consumer protection, and the technical details of various insurance policies.

Insurance sales agents should be flexible, enthusiastic, confident, disciplined, hardworking, willing to solve problems and be able to communicate effectively. They should be able to inspire customer confidence. Because they usually work without supervision, sales agents must be able to plan their time well and have the initiative to locate new clients.
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.

When an individual is tied to a specific company and he or she lives under that company’s Code of Ethics, the industry cannot help but to benefit, in such ways as:

- Presenting a clear vision and picture of integrity throughout the industry;
- Over time, vision becomes embodied by top management in the industry;
- The reward system is aligned with the vision of integrity;
- No mixed messages - Policies and practices of the industry are in alignment with the vision;
- 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 8

AGENT TYPES

Whether the insurance agent decides to be Captive or Independent, his main focus is his customer

CAPTIVE AGENT

A Captive Agent is one who represents the interest of one company 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 other companies the captive agent may have an interest in.

INDEPENDENT AGENT

An Independent Agent usually represents a number of companies and receives a commission. The agent typically “owns” all clients and researches a number of insurance firms to find their client the best combination of price, coverage and service 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.
Chapter 9

Agency

Agency can be an administrative division for consumer protection or the office or function of the agent

The 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.

The Creation

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.

Agent Authority

- Expressed consent is established through either 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.

FIDUCIARY

When the agent acts as a fiduciary, this means that he has a relationship of confidence and trust with his client; he is trustworthy and reliable. When an agent enters into a contractual agreement with a principal, both have agreed to a mutually beneficial relationship.

AGENT OBLIGATIONS TO 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.
SOLICITATION

It is the obligation of an agent to solicit only that business which represents the risk element that his employer or insurer is willing to take. To solicit higher risk business and omit or alter an application in an effort to conceal any 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.

PRINCIPAL 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.
MISCONDUCT

No matter what the situation, there are always circumstances wherein certain activities are prohibited

PROHIBITED ACTIVITIES

It is the agent’s as well as the insurance company’s responsibility to adhere to high ethical standards that are set in order to avoid any activities that are prohibited. Such activities would include:

- Misrepresentation;
- Concealment;
- Fraud;
- Altering applications;
- Unlicensed sales;
- Forgery;
- Misleading sales techniques;
- Illegal rebates;
- Untruthful policy replacements;
- Discrimination;
- False advertising; and
- Premium theft.

MISREPRESENTATION

A Representation is any statement that is made on an application. It is a depiction of the truth as believed by the applicant and so indicated by his signature.

A Misrepresentation is a statement (representation) made that is untrue and presented falsely without intent.
Most misrepresentations are not intentional or fraudulent and usually occur through conversation between the agent and the customer. Unfortunately, such a misleading or misrepresentation can occur rather easily. Following are just a few examples of a misleading situation:

- Advising a client that an auto policy will cover liability when it does not (i.e., it may only cover collision);
- Telling a prospective client that dividends are guaranteed when they are not;
- Telling prospects that he represents several companies when he represents only one; and
- Talking about a term life insurance policy in such a way to lead the prospective purchaser to assume that the policy will accumulate cash value.

If an issue or question regarding a product is raised and the agent is unclear about the answer, it is his responsibility to seek clarification before giving any information that might be incorrect.

**Concealment**

Concealment is the intentional omission of facts. A misrepresentation is unintentional, but concealment is a known disguise of facts.

Certain facts need to be given to the insurance carrier during the time of the application, and the withholding of those facts is considered concealment.

**Fraud**

Fraud is the intentional perversion of the truth in order to induce another to part with something of value or to surrender a legal right. The second party involved suffers a loss. Fraud is committed when a person makes an *intentional misrepresentation* of what is known to be a material fact with the intent to gain advantage.

**Altering Applications**

Alteration of an application, under any circumstances, is illegal. Underwriting information to reduce premium rates or changing the type or amount of coverage is prohibited.

If any information on the application has been found to be in error, the corrections must have the approval of the applicant, which is indicated by his initials beside each change. The agent would normally return the incorrect application to the proposed insured in order to acquire those initials and then reprocess the application.
UNLICENSED SALES

An agent must remain in full compliance with state regulations regarding licensing requirements for all sales in which he participates. This is the state’s way of providing a high standard of consumer protection. Consumers must be assured as much as possible that they are being cared for by a legitimate and reputable representative.

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. On the other hand, 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.

Representatives must strive to maintain industry standards and moral course or they may damage the reputations of other members in the industry as well.

FORGERY

It is common knowledge that forgery is illegal. Forgery is subject to both state and federal prosecution. The technique of tracing a signature (often referred to as “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 anyone who acts in such a manner will suffer severe punishment.

MISLEADING SALES TECHNIQUES

Everyone is familiar with the old saying, “If something seems to good to be true, then it probably is.” This saying refers to a misleading sales technique that is sometimes referred to as the “bait and switch” technique, wherein a product is offered that really is “too good to be true.” In fact, in some cases, it may not even be available. When the prospective client makes an inquiry, the agent (having absolutely no intention of selling the advertised product) leads the customer to a different product. This unscrupulous behavior 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 Florida and California allow rebating and their respective state insurance departments regulate them quite heavily. 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. Overall, it is unlawful to give anything of value or give any portion of the premium back to the customer in exchange for buying insurance. Nor is it permitted to advise the customer that he will receive benefits or funds that are not specified in the contract.
UNTRUTHFUL POLICY REPLACEMENTS

The customer’s welfare is the agent’s top priority. It is not in the customer’s best interest to replace a policy that has been in effect for a long time with another that may not provide the same coverage and premium rate. The policyholder may not be eligible for the same coverage and premium rate on a new policy and therefore he or she 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.

When an agent advises a policyholder to surrender his policy so that a new policy can be purchased in order for the agent to collect another commission is totally unethical. 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.

FALSE ADVERTISING

Insurance advertising regulations are set by the state in which the product is being sold. When public attention is called to a product, sales and sales practices are directly affected.

- 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.

**PREMIUM THEFT**

Theft is just that – Theft; and everyone knows it is illegal to steal. Premium theft is the ultimate offense an insurance agent can commit and is severely punished by every state insurance department. It robs the customer of his funds, deprives the insurance company of its premium payment and 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.

**CONSEQUENCES**

After an organization has developed and implemented its Code of Ethics, it must find a way to enforce code adherence. Alleged violations need to be investigated and dealt with in a clear cut manner. Any violation of the Code needs to be dealt with as soon as possible. This sends a clear message not only to the perpetrator but to the rest of the company’s employees. Procedures for investigation and procedures for enforcing consequences need to be outlined in the document as well. Individuals or groups who feel that there has been a violation of the Code should direct their concerns to the administrative staff. Several documents need to be designed to fully implement the enforcement of any breach of Code.

A form needs to be designed and made available for all employees outlining procedures for lodging a complaint. This is where any investigation will begin. This should be the first form filled and submitted to the investigating committee.

In the process of investigating serious cases of alleged ethical violations, the following should be addressed:

• Has any major damage to the company occurred or is it likely to occur?
• Has the integrity of the company been threatened or jeopardized?
• Has an individual's personal safety or security been threatened?
• Is there any substantial risk to the company?

Those these questions may seem company-oriented, as we’ve stated above, what affects the company affects the individual and vice versa, what affects the individual affects the company.
Consequences for any violation of the company’s adopted Code of Ethics could cover a broad range:

- Verbal warning;
- Written warning;
- Suspension;
- Termination of employment;
- Financial penalties; and or
- Legal Prosecution.

A company should have written procedures as to what infractions deserve what consequences and they should adhere strictly to the Code. If one individual commits an ethical violation and is suspended from practicing with the company, the next individual who commits the same violation must receive the same punishment. Any favoritism would be a breach of ethical behavior within itself.