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Quiz

Ethics Define

Ethics is derived from the Greek words *ethikos*, meaning “moral,” and *ethos*, meaning “character.” By textbook definition, ethics is “a branch of philosophy that deals with the values of human life in a coherent, systematic, and scientific manner.” The Oxford English Dictionary defines ethics as “the department of study concerned with the principles of human duty” and the “rules of conduct recognized in certain associations or departments of human life.”

Ethics is more simply defined as principles of moral conduct. In the insurance industry, the basis of a business relationship is the ethical execution of the terms of the [contract](#). In view of the special agent-client relationship, ethical behavior must encompass the following qualities:

- Honesty
- Integrity
- Fairness
- Fidelity and loyalty
- Compassion
- Personal responsibility and accountability

Though there are moral considerations for employing the highest ethical standards in business dealings, there are also other considerations that reflect on the well-being and reputation of the agent. The most important of these are:

- Social responsibility towards the community at large, including insurers;
- Avoidance of public criticism (this has a direct bearing upon the volume and type of business that can be generated);
- Adherence to government regulations (and [avoidance](#) of government penalties); and
- Minimization of errors and omissions exposures.

The purpose of this course is to provide a foundation of the knowledge and understanding that a producer must possess in order to function ethically in his or her role as an insurance professional.

At times, insurance companies and insurance agents receive negative publicity due to bad professional judgment or poor ethical conduct. News about unethical actions usually attracts far more attention than news about the actions of the legions of insurance producers who perform their daily sales and service tasks in a thoughtful, honest, fair, and ethical manner.

A. Ethical Behavior - The Golden Rule

To a certain extent, ethics is a set of instructions on how to deal with a group and a community on a daily basis. These instructions revolve around a single theme – social behavior that favors the group over the individual. Antisocial behavior usually stems from individual selfishness and greed – characteristics that are against the common good and disrupt overall balance and harmony. Because ethical behavior on the part of the individual historically result in group harmony, communities turned to such ethics as the basis for common law, which in turn became the basis for modern civil and criminal codes of conduct.

You won't find universal agreement among philosophers as to what is ethically right. Immanuel Kant, a German philosopher, believed that what is right is based on pure reason. On the other hand, Jeremy Bentham, an early 19th-century British philosopher, believed *right* to be that which will produce the greatest good.

Ethics is the name we give to our concern for good behavior. We feel an obligation to consider not only our own personal well-being but also that of others and of human society as a whole.

Dr. Albert Schweitzer

Dr. Albert Schweitzer, a French medical missionary and philosopher, applied this idea of “duty beyond the group” to all humanity. He believed that the ultimate goal of ethics is the fullest measure of justice for all. If we were to condense the philosophy of Dr. Schweitzer into three words, those words would be “regard for others.”

The Chinese philosopher Confucius said that ethics is the foundation of peace in a society. He believed that a body politic of “good brothers” living in moral harmony would result in an orderly and peaceful nation. In fact, The Golden Rule originates from Confucius, who said, “What you do not want others to do to you, do not do to others.”

When we discuss ethics, we are not dealing with a set of hard-and-fast rules, but rather with attitudes, ideas, and beliefs. Ethics is really the foundation for a way of life. Ethics presents an individual with a way to live harmoniously with others.

Ethics, like religion, favors the group over the individual. If the individual is completely self-seeking, then the group will most likely suffer. The phrase “Love thy neighbor as thyself” is based in pure ethics because it serves to curtail problematic behavior and foster empathy.

B. The Ethical Balance Sheet

Unfortunately, our society isn't always critical of wrongdoing. For example, many people are impressed with the wealth accumulated by some individuals. Those people may therefore ignore the means by which the individual obtained that wealth.

This tendency to emphasize personal financial gain is a common way that many businesses motivate their employees. Financial gain is often regarded as the primary measure of success. This is not to say that pursuit of financial gain is wrong. However, consider how competitions and incentives to achieve “Top Producer of the Month” have the tendency to spotlight financial achievements while ignoring the winners' professionalism and public service.

When confronted with an agency atmosphere that stresses results by any means, it is important to remember that the ends do not justify the means where ethics is concerned. Shouldn't those who achieved ethical success by serving the needs of their insurers and the public also be honored? An overemphasis on financial rewards

can lead to looking at prospects and clients on the basis of “What can I get from them?” as opposed to “What I can do for them?”

Insurance agents certainly should expect to be adequately rewarded for success, and production figures are vital to the well-being of any agency or insurance company. However, meeting the needs of clients and the public in a proper and ethical manner is no less important.

Ethics does not have to be incompatible with capitalism. “Profit” is not a dirty word. In the long run, good ethics is indeed good business. Hard but fair competition cannot help but benefit the public.

Selling insurance is an aggressive profession with vigorous competition. This competition can be healthy because it encourages insurers to provide better service to the public.

Applying the The Golden Rule to your work does not mean that you should trust others implicitly. You shouldn't let someone else make a sale in the hope that he or she will let you make the next one. If someone asks you to sign a written agreement after telling you what the document contains, ethics would not demand that you blindly sign the document without reading it. Ethics is personal in nature. You have no control over the conduct of others, only over your own.

1. A Word on Rationalizations

There are a variety of reasons why we do not take the actions necessary to maintain the high ethical standards that we would like to have. To make ourselves more comfortable with our actions, we often revert to **rationalizations**, such as

- "I'm just fighting fire with fire."
- "If it is legal, it must be okay."
- "I was just doing it for someone else."
- "We all do it; it's just how you play the game."
- "If it doesn't hurt anyone, it's okay."
- "It's necessary to get the order."
- "Business is business. I'll be as ethical as the competition allows."
- "I deserve this: I have it coming."

Rationalizations make it easier to live with ourselves when we do the things that we want to do, rather than the things that we know we should be doing.

C. Ethics as a Legal Force

Ethics deals with the way things ought to be, which is not necessarily practical in our society. Some people get wrapped up in the differences between what is ethical and what is legal, which are two completely different concepts. Ethics is doing the right thing, while the law represents a set of minimum standards that society demands.

Ethics usually precedes the law. While many ethical standards of conduct have been codified, many have not. As a result, something can be legal while not being ethical. For example, it is legal to sell a prospect more life insurance than he or she can afford, but this is not ethical. Ethics goes beyond the letter of the law and entails not only what a person must do, but also what a person should do.

However, it should be noted that the law does not provide a very specific ethical direction for everyone through civil and criminal statutes. The law sometimes just defines illegal and improper conduct and the penalties for such conduct.

In spite of any crossover between legal and ethical concerns, there is still a distinction between the two. Often, when someone is told that his or her actions are perfectly legal, that person will also assume that those actions were ethically acceptable.

The integrity and honesty of a company's policies are subject to scrutiny by the general public. Public pressure may force a business to revise its practices. All of this means that what is legal but unethical today could become illegal tomorrow, depending on the demand by the community to bring reform.

However, relying on legalities alone can become the easy way out. Paying attention to "have to" rules and regulations at the expense of "choose to" ethical standards can keep the individual out of legal trouble but may eventually taint the person's success. Ethics has more to do with approval from the man or woman in the mirror than it does with approval from one's manager or the insurance company that one represents.

D. Insurance and Industry Ethics

1. Industry Codes of Ethics

The following tenets are derived from the ethical codes of major organizations within the insurance industry:

- Place the customer's interest first
- Know your job and continue to increase your level of competence
- Identify the customer's needs, then recommend products and services that meet those needs
- Accurately and truthfully represent products and services
- Use simple language. Speak the layman's language when possible
- Stay in touch with customers and conduct periodic coverage reviews
- Protect your confidential relationship with your client
- Keep informed of and obey all insurance laws and regulations
- Provide exemplary service to your clients
- Avoid unfair or inaccurate remarks about the competition

THE AMERICAN COLLEGE'S CODE OF ETHICS AND PROCEDURES, INCLUDING THE PROFESSIONAL PLEDGE AND THE 8 CANONS

Professional Pledge

"In all my professional relationships, I pledge myself to the following rule of ethical conduct: I shall, in light of all [conditions](#) surrounding those I serve, which I shall make every conscientious effort to ascertain and understand, render that service which, in the same circumstances, I would apply to myself."

The Canons

I. Conduct yourself at all times with honor and dignity.

II. Avoid practices that would bring dishonor upon your profession or The American College.

III. Publicize your achievements in ways that enhance the integrity of your profession.

IV. Continue your studies throughout your working life so as to maintain a high level of professional competence.

V. Do your utmost to attain a distinguished record of professional service.

VI. Support the established institutions and organizations concerned with the integrity of your profession.

VII. Participate in building your profession by encouraging and providing appropriate assistance to qualified persons pursuing professional studies.

VIII. Comply with all laws and regulations, particularly as they relate to professional and business activities.

E. The Ethical Bottom Line

History is made and lives are changed not by those who follow the crowd, but by those who are prepared to take the ultimate risk and stand up for what is right. It is always a challenge to do the right thing regardless of any potential costs.

We reinforce our own moral character and influence others. We do not develop that ability overnight. It is developed in small steps as we do the right thing each day.

F. When Unethical Behavior by Insurance Professionals Turns into Fraud

Unethical insurance professionals sometimes commit full-on **fraud**, and that includes insurance producers, underwriters, adjusters, and sometimes even insurance company personnel. These types of frauds include premium theft, false applications, fraudulent placement, and "sliding." Fraud is a crime that is punishable by law.

Public Adjuster Arrested for Felony Embezzlement, Grand Theft, Forgery

LOS ANGELES, Calif. - A 60-year-old San Clemente resident, a former licensed public adjuster, was arrested at his home in San Clemente on multiple felony counts of embezzlement, grand theft, and forgery after allegedly cashing **claim** checks with counterfeit **endorsement** seals and stealing a total of \$400,000 from fire victims in the Los Angeles area.

After receiving multiple complaints from consumers, the California Department of Insurance Investigation Division launched an investigation. Evidence revealed that the licensed public adjuster, doing business as Statewide Claims Advisors, allegedly cashed and deposited multiple claims checks with counterfeit endorsement seals that were issued by insurance companies to fire victims to repair and rebuild their damaged properties.

"These consumers were victimized twice," said California Insurance Commissioner Dave Jones. "Once when their home was damaged by fire and then again when (the adjuster) allegedly forged endorsements on their insurance payments and stole the money intended to rebuild their homes."

The public adjuster solicited fire victims to sign public adjuster contracts allowing him to handle their claims, but instead of forwarding these checks to lenders for endorsements and proper handling, he deposited the checks into his business accounts and diverted the funds for his personal use.

The man refused to release claim funds to many victims who desperately needed to rebuild their homes. He released some funds to contractors, using forged endorsements, and in one case, hired an unlicensed contractor whose work was substandard, which led to a second fire in the home which further victimized the homeowners.

CASE UPDATE: The former licensed public adjuster was convicted of two felony counts of embezzlement, PC 504, grand theft, PC 487 (a), with enhancements of PC186.11(a)(3) and PC 12022.6 (a)(2), and two felony counts of forgery counterfeit seal, PC 472. He was sentenced to seven years in prison. This case was prosecuted by the Los Angeles County District Attorney's office.

Florida: False Applications: License Revoked

In 2016, a Clearwater agent was found to have submitted seven false and fraudulent life insurance applications for the sole purpose of receiving commissions.

An audit undertaken by the issuing insurer determined that the applications were false and that none of the applicants actually existed or desired to purchase the insurance, and premiums were never received. Because the applications were false and material misstatements of fact, the agent was charged with violating Florida Insurance Code prohibiting fraudulent or dishonest practices in the conduct of business under the license. The agent's license was revoked and she is ineligible to reapply for 2 years.

Florida: Fraudulent Placement: License Revoked

In May 2016, a Melbourne agent licensed for life, health and variable insurance as well as a customer service representative was found to have fraudulently represented himself as a general lines agent for the purpose of fraudulently transacting homeowners insurance.

The investigation found that he collected premiums without completing applications, provided false evidence of coverage, and never placed the coverage with an insurer and allowed existing coverage to [lapse](#). These activities are considered unfair or deceptive acts/practices under Florida law, engaging in fraudulent or dishonest practices in the conduct of business under the license or appointment, and misappropriating, converting, or unlawfully withholding moneys belonging to insurers or insureds received in conduct of business under the license. The agent's license was revoked and other disciplinary penalties are under way.

Illinois: Agency Fraudulently Bills Customers

An indictment handed down by an Illinois grand jury charged an Illinois insurance agency with 19 counts of wire [fraud](#) and one count of mail fraud in connection with the principal's alleged fraudulent activity.

The owner obtained bank account information from applicants and used that information to create fictitious checks purportedly issued by the applicants, according to the U.S. Attorney's Office for the Northern District of Illinois. The fake checks were then deposited into bank accounts connected with the agency.

Complaints were filed by former clients with both the Illinois Department of Insurance and the Missouri Department of Insurance. Both regulators have revoked or nonrenewed the agency license based on a pattern of wrongly debiting funds from client accounts. Accounts were allegedly debited even when premiums had already been paid or the policy had been cancelled.

Prosecutors believe the agency defrauded more than 100 former insurance clients out of over \$800,000.

If convicted, the defendant faces a maximum of 20 years in prison and a maximum fine of \$250,000 for each of the 20 counts against him, along with restitution.

Premium Theft – With the Producer’s Help

An investigation led by the Florida Department of Financial Services (DFS) Bureau of Insurance Fraud has led to the arrest of a Miami insurance agent for attempting to evade a higher insurance premium for a client who was operating an assisted living facility (ALF). (Assisted living facilities are long-term care residences that offer various services such as health and medicine management, transportation and meal services in an effort to support seniors and developmentally or physically disabled individuals.)

The insurance agent helped the client submit a fictitious insurance [application](#) in order to fraudulently obtain a less expensive [insurance policy](#).

The two colluded to submit a residential homeowners insurance application for a building that was being used as an assisted living facility. Florida law requires ALFs be covered by a commercial, not residential, policy.

The investigation found the agent knew the property was being used as an ALF and was attempting to help her client obtain a lower premium. As a result, the insurance company lost \$1,536 in underpaid premiums. Worse, any claims submitted on the issued policy would have been denied.

The agent was arrested and charged with insurance fraud, grand theft and organized scheme to defraud. If convicted, she could face up to 15 years in prison. The customer was also arrested and charged with insurance fraud and grand theft. If convicted, he could face up to 10 years in prison.

Source: Florida Department of Financial Services

New York Fraud Bureau

An investigation revealed that for more than three years, a licensed wholesale insurance [broker](#) who had secured a policy for a client had created invoices reflecting inflated premiums and had pocketed \$58,000 in illegal profits. The broker also failed to forward more than \$200,000 in premium payments to the insurer.

An individual who had lost his license in 2002 to transact business with the New York Automobile Insurance Plan (NYAIP) was arrested for submitting more than 2,500 insurance applications to the NYAIP. He placed the new business among 27 insurance companies using the license of a former co-worker (who was unaware of the scheme). The insurers issued 485 checks totaling more than \$1.3 million in commissions and fees in the former co-worker's name; the suspect forged the former co-worker's signature and deposited them in his own account.

Georgia Insurance Agent Charged with 6 Counts of Comp Fraud

The Georgia Department of Insurance has arrested a Floyd County insurance agent on [fraud](#) charges related to the misappropriation of workers compensation insurance premiums.

Department investigators discovered that between 2015 and 2017, the owner of an agency accepted \$20,000 from clients to pay premiums for workers comp

insurance, which he then used for personal transactions instead of forwarding to the insurance company to place coverage.

The agency owner was charged with three counts of insurance fraud for the misappropriation of premiums and three counts of insurance fraud for issuing fraudulent certificates of insurance.

In Georgia, insurance fraud is a felony with a penalty of between 2 to 10 years in prison and/or a fine of up to \$10,000.

“The actions of (this agency owner) have put consumers and business at significant financial risk. We will not tolerate any insurance agent stealing from policyholders,” the Georgia Deputy Insurance Commissioner said in a statement. (*August 2017*)

Sliding

Sliding is when an insurance producer "slips" additional coverages into an [insurance policy](#) without the insured's knowledge. The extra charges are hidden in the total premium. Since the insured is unaware of the coverage, this crime is rarely ever detected.

Celebrity Rip Off

A Southern California insurance agent agreed to plead guilty to three felony mail [fraud](#) charges for bilking high-profile celebrity clients including Tom Hanks and Rita Wilson, as well as Andy Summers of The Police, overcharging and double charging them for property coverage.

The producer created false invoices on agency letterhead for premium payments, inflating them by as much as 600%. The fraud was discovered when Hanks and Wilson asked another insurance [broker](#) to review the policies and the new broker reported that the premiums were extraordinarily high for the coverage provided, and some coverages were duplicated.

Hanks and Wilson filed a civil lawsuit against the agent, who had written business and personal coverage for them for more than 20 years, accusing him of professional [negligence](#), breach of [fiduciary](#) duty, fraudulent [misrepresentation](#) and unjust enrichment.

The producer was sentenced to 27 months in prison and ordered to pay over \$800,000 in restitution. He is also prohibited from working in any job requiring professional licensing or certification without the approval of his probation officer.

Source: U.S. District Court for the Central District of California, 2013

Chapter Complete

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