

Practicing Ethical Business Behaviors

Three Hour Ethics Class, No Exam

Offered Optionally as Live Webinar or In-Class Attendance.

Course Objectives: This three-hour ethics course analyzes how consumers view ethical treatment from insurers and producer and suggests frameworks intended to motivate the producer to adopt practices that always ethically benefit customers. There is a focus on the way ethical producer conduct can enhance customer loyalty and satisfaction on behalf of the insurers they represent in the market. Consumer complaints to the Illinois Department of Insurance are examined so producers are better aware of main consumer concerns in dealing with agents and companies. Unethical business practices are considered as a method to enhance awareness in avoiding engaging in such negative behaviors.

Causes of white-collar crime, like those committed within the insurance industry by producers, are factually stated to help prevent producers from practicing these behaviors. Multiple case studies of producers violating insurance law are presented as examples of aberrant activities by producers. A template for building ethical business relationships is provided with an in-depth discussion of the critical nature ethics plays in benefitting everyone along with real world examples and case studies. Emphasis is placed on tools for building an ethical business structure with analysis on teaching ethical keys to helping consumers with whom they interact to better manage anxiety when considering insurance product selections.

Webinar Compliance: Dohrn will enforce standards to ensure that all online producers registered for our webinar will “actively participate” to ensure ethics compliance requirements. Dohrn will employ a live administrator during each ethics webinar to make sure that all issues with participants are resolved in real time by the appropriate party. Any relevant questions during the live class will be forwarded to the instructor to discuss with all participants. To make sure participants are active, every hour there will be a series of live polling questions that must be answered to receive course credit. Dohrn’s webinar platform has a feature called “Attention Indication” which is the amount of time logged in versus the amount of time each participant’s browser is active and in front of the participant during the webinar. Dohrn’s administrator has the ability to monitor their attention indication and communicate with participants in real time to make sure they are complying with the appropriate amount of attention to complete ethics training. Failure to comply with satisfactory participation (either poll question participation and/or attention indication) will result in the course not being reported and the participant would have to redo the course in full compliance.

Hour 1

“Always do what is right. It will gratify half of mankind and astound the other.”

- **Mark Twain**

Consumer Views of Ethical Treatment

Worldwide Insurance Customer Satisfaction Study

The dictionary definition of ethics is **“moral principles that govern a person's behavior or the conducting of an activity.”** The idea of “team” interaction is crucial to an insurance consumer enjoying a comfortable and satisfactory experience. A weak link anywhere in this chain can be a negative reflection of everyone in a particular insurance company and by extension, the entire industry.

Example:

- **the producer does a fantastic job of seeking out qualified applicants and analyzing individual needs in tailoring outstanding risk transfer solutions to each customer.**
- **that customer expects decent treatment and prompt action to satisfy their claim.**
- **If they are provided with poor claims service that may even result in an unfair denial of a claim, that customer is obviously no longer happy or satisfied with that carrier.**
- **Won't that customer now probably take out some of that frustration or anger they have against the producer that did a wonderful service for them in applying for and receiving that policy? Of course, they will!**
- **Now multiple a similar experience by a hundred or a thousand of even more and soon a ripple effect becomes a wave of dissatisfaction.**
- **The company loses significant market share over time and the producers affiliated with that carrier struggle to make sales**

In a recent worldwide study, **Bain and Company** focused on insurance consumer interaction with the insurance lines of life, property and casualty by surveying customers and categorizing answers into 30 distinct element or values and then creating a four-tier analysis for further understanding of the result.

The four tiers created for a better appreciation of customer satisfaction were

1. impact on society,
2. life changing impact,
3. emotional aspects and
4. functionality.

The better you understand insurance consumers, the better you can serve their needs on an ethical basis.

Consumer Concerns Dealing with Insurers

This survey concluded that insurance companies fell short in many areas relating to consistently meeting the needs of their customers. In examining some of the values and the four tiers of the study, this is how the survey was measured:

Types of Elements/Values (Four Tiers)

Tier One: -Society Impact – meant the value that society receives from interactions with the insurance industry

When the producer places correct coverage based on actual client need, they are fulfilling an ethical duty to benefit the customer first. However, this is but one of the efforts required for more complete customer satisfaction, according to this study.

Tier Two: Life Changing Impact Three values included in this tier, self-actualization, heirloom and providing hope, seem very applicable to life insurance products because you are insuring future financial security for your family. Another value, affiliation and belonging happens when the insurance customer is entirely pleased with their experience and views themselves as happy members of an organization that cares about them and has benefited their life greatly.

Tier Three: Emotional Aspects The survey lists ten values assigned to emotional aspects of consumer experience. **Emotional elements refer to concepts understanding how the experience is life changing. A key driving element in this tier is reducing anxiety of the consumer.** While anxiety can be alleviated in many ways, two very important considerations are ease of purchase and claim filing experiences. This study indicates most insurers fall far short in meeting these important concerns. Other functional elements include saving time, making experiences simple, avoiding cost, receiving quality and valuable information. An interesting fact from the study was that these emotional elements are the same for both property and casualty and life insurance customers.

Tier Four: Functionality – This last tier has fourteen value elements attached it including saving time, making experiences simple, avoiding cost, receiving quality and valuable information. The greater the functionality the broader the customer satisfaction with a particular carrier.

Being Present for the Customer

While insurance companies scored favorable on functionality concepts like product quality and adequate risk transfer, the survey strongly indicated that insurers do not tend to make interaction easy and simple

- a company that can deliver both high quality products combined with ease of use and favorable interactions with the company will excel in the minds of customers.
- there are many opportunities to build on quality products
- carriers who don't take advantage to be there for customers at every step are missing the chance to receive their unparalleled loyalty.
- Pleasing customers is especially important when a policyholder most needs support, particularly at the time of a loss.

“You cannot buy Loyalty; you cannot buy the devotion of hearts, minds, & souls. Have to earn these things.” = Clarence Francis, (Chairman of General Foods 1930s/40s)

The Importance of Customer Loyalty

All business seek the undivided loyalty of a customer but are either unable or unwilling, in most cases, to do what it takes to earn unwavering loyalty.

- No matter the line of insurance, the study shows that loyalty is strongly created when customers highly regard as many value elements as possible. To summarize, the two highest ranking value items to the insurance consumer are quality and saving time.
- It is a simple tenant of business that is costs about ten times more to acquire a new customer then to keep the ones you already have

Defining customer loyalty can be defined as creating a relationship in which the customer has an ongoing desire to continue buying your products and services.

Typically, customer satisfaction can be measured on five levels:

- 1.) **Not Satisfied** – indication the consumer's need are unmet
- 2.) **Slightly satisfied** – meaning more needs were unmet than were met which translate to you have a lot of work to do.
- 3.) **Satisfied** – shows you were average, the customer got what they expected by were not wowed.
- 4.) **Very Satisfied** – now you are getting somewhere, you pleasantly surprised the client in a favorable way.
- 5.) **Extremely Satisfied** – this is holy grail of happy, meaning that all expectations were exceeded.

If you don't regularly ask your customers if they are happy, how will you know?

GO the extra mile, make final touches personal!!!!

Examples of building loyalty:

B. Dalton Bookseller calls the competition

AB. Dalton customer (before the company was acquired by Barnes & Noble) was visiting the store to pick up a book requested by her son for Christmas. “The young lady looked in the computer inventory to see if they had the requested book. It showed there were some in stock, still packed. She went to look through the packed books and could find none.” For the sake of not stopping the relentless pursuit of customer happiness, the B. Dalton representative called their competition (in this case, Borders) to reserve a book for the customer and printed out directions to where she could pick it up! “She gave me the contact name at Borders and told me to just go up to the counter and my book would be waiting.”—*Reader DD Moffitt*

While the B. Dalton team may not have made the sale that day, their outstanding commitment to wowing customers won them a repeat shopper *for life*.

Insurance equivalent: When a client has their needs met, no need to add anything, let me know if you ever need anything though. Ethics – Don’t push, don’t over insure, create an experience where you are different!

Example 2 – local auto repair shop – Owner sweats the small stuff

The story was posted on Reddit under the appropriately titled topic of “I have never in my life seen this level of customer service” and included this genuine, thoughtful thank-you note. “Xander, thank you for giving us the chance to work on your car. I truly appreciate your business and I hope you were satisfied with the level of service we provided. Please don’t hesitate to call on us again. Sincerely, the owner.

Insurance equivalent: Hand written thank you note, via mail with your business card. Little things make all the difference

Perhaps the greatest advantage of sincere customer loyalty is what is referred to as “**Customer Lifetime Value.**” This simple concept provides you with an idea of how valuable a single customer is to your business based on their entire lifelong relationship with you.

Lifetime Customer Example

If we assume a single satisfied customer, suppose we call this person Customer X, leads your business to five new customers over a twenty-year period. If those five customers lead to twenty-five new customers over the same time, it doesn’t take long to realize how valuable a solitary individual is to your business success.

Adding value to the customer experience is always the goal. Is there anything you can offer that benefits the customer with goods or services your company does not offer but are offered through affiliations you or your company may have?

Things to remember when trying to build customer loyalty:

- Always focus on improving the experience for the customer, especially using excellent customer service techniques. People remember when they were treated right but they never forget when they were treated poorly.
- Frequent communication, without being a pest, will keep you in the minds of customers but you should understand which communication methods are best suited to this goal.
- Rewarding customers with simple perks that show your appreciation. An ethical concern for a producer in this area may be the idea of rebating, which is illegal conduct which obviously needs to be avoided at all costs. **-Know Agency/Company Policy 1st!**
- Asking for customer feedback, as mentioned earlier, should be a routine part of your business model and clients appreciate knowing you care so much about their experience.
- Finally, your communication style should always consist of having an even, pleasant, and helpful tone no matter how your message is conveyed. The focus is always on keeping the message and demeanor positive.

The concept of customer contact to enhance loyalty can also include these suggestions:

- **Schedule periodic contact to see if your customer has any questions relating to the insurance coverages they own.**
- **Announce and explain any new products or services your company or agency is offering.**
- **Ask if there are any concerns or needs, they may currently have, that you might be able to help them with.**

There are two important cautions:

1. try to avoid annoying customers to the point that they feel you are wasting their valuable time and contacting them without a valid purpose. According to the Bain study, the average insurance customer has nearly three insurance information related needs per year.
2. When the customer has an issue or problem this is an opportunity for you to shine in helping them but if you fail in that regard any existing loyalty can be damaged.

Insurance Market Disruptive Innovation

- As technology advances daily, it seems the insurance industry is in an ongoing state of change as to how they secure and service customers
- How can carriers best take advantage of current technologies more efficiently to obtain new customers and then keep them happy?

- What role might insurance producers play in this changing environment and how might that differ from traditional roles?
- When viewing the competitive landscape, one cannot dismiss the threat of a large retailer creating a simpler and easier insurance delivery method while private labeling the products of major carriers.

The traditional role of the producer will likely be on a state of flux over the coming years. The producer will still be necessary because state laws require solicitation and explanation of products must be done by a licensed producer.

Developing Market Ecosystems

While ecosystem usually refers to biological organisms, for our purposes today we will think of **an ecosystem as a complex interconnected network of products and services designed to provide an ultimate business experience to consumers.**

Homeowner property insurance: the opportunity is to make available information and services on items like home remodeling, security and safety protecting the home inside and outside and even extend links to landscaping and design services.

Auto Insurance: most carriers selling auto have safe driving initiatives and programs to encourage driving safety and perhaps offer roadside assistance. The possibilities are endless.

When it comes to life and health insurance products, carriers could in a similar vein, create endless connections leading the insured to all areas of health and well-being.

Providing clever ecosystems that meet the needs of customers will allow insurance company A to differentiate itself from traditional insurance company B.

Summary

The ethical implications of providing an ultimate pleasing experience to the insurance consumer are staggering. Technology combined with listening to what customers like and don't like, when used effectively, opens possibilities for doing the right thing on scale never imaginable.

Producer Role Handling Consumer Concerns

- 1) Honestly recommend products and services that are best suited to the customer regardless of commission levels.
- 2) Be knowledgeable and current with all Company products and services.
- 3) Develop excellent communication skills to more effectively serve the actual needs of the client.
- 4) Provide unmatched service in keeping the client aware of the progress of all application or claims status and to timely answer and questions by the customer that arise.
- 5) If the company drops the ball and upsets the client, the producer can try and do their best to resolve any issues that are a source of discontent.
- 6) As noted above, the producer can operate a systematic method of contact that enhances and benefits the client's overall buy experience with that company.

Illinois DOI Consumer Complaints

Another way to better understand dissatisfaction by insurance consumers is to examine some recent complaint information by consumers lodged against companies with the Illinois Department of Insurance in 2019.

Complaints by Reason

There was a total of 7,661 cited reasons for complaints by consumers. Rankings of most complaints to least are as follows:

Claims Handling – 5,401 which drove 70% of all complaints, which probably is a surprise to no one.

While the producer may not be able to do anything to change and adverse claims outcome, perhaps they can explain the issue in way that makes sense to the policyholder.

Perhaps the claim denial is in a grey area and the client has a valid concern about the claim not going their way. The producer here can act as a go between to see if anything can be done to change the decision by the carrier.

Underwriting. The next largest complaint reason, with 881 or 11.5% of all gripes, was directed at company underwriting. Once again maybe a producer can be the liaison between the applicant and underwriter so all parties can better understand a decision made.

Policyholder Service. There were 813 complaints for a total of 10.61 percent of the total. Was the poor service the result of the producer, the company staff or both?

Marketing and Sales. There were only 327 such complaints which is less than 5% of the total. When a producer is acting in an, honest, transparent and ethical manner, it seems highly unlikely a person will file a complaint against their actions with the DOI.

Other and Not Indicated categories accounted for the other 3% of complaints.

Complaints by Industry Coverage Line 2019

Of 7,300 complaints by consumers in 2019, nearly 60% of all insurance complaints were property and casualty related and almost 30% were related to health insurance with the remainder dealing with life and annuity products.

Of all the complaints almost 40% were based on auto insurance policies, down slightly from the year before. On the other hand, homeowner policy gripes were up 12% but only account for about one out of six grievances. Overall, health insurance had the second highest score coming in 20%, most group contracts, and life insurance and annuity accounted for 12% which was a significant decrease by a third from the year prior.

Ethical Perceptions by the Producer

Many ideas have been addressed relating to customer needs, perceptions, and possible future industry trends. As mentioned earlier, the only things the producer can control are their actions and behaviors towards clients and the general public.

Creating Trust

Trust can be viewed as an agreement between two people: one person is trusted, and the other person is doing the trusting. When people say they trust someone it can mean trusting what a person says as well as what they do. There is a model called the “Trust Equation” which includes four factors:”

1. Credibility plus
2. Reliability plus
3. Intimacy divided by
4. Self-Orientation = Trust

When a person is **credible**, we believe what they tell us, and we place trust in what they say. In this sense, credibility is earned by reputation.

Reliability is based on the actions of people. When you tell someone you will do something and follow through again and again, you’re viewed as being a reliable person. If you are relied upon to accomplish a task, then people will trust you more.

Intimacy in this context refers to the feelings a person has about you when they share personal information or details about their life. The person is entrusted with facts that are not expected to be shared with others or to have privacy violated.

Self-orientation is a concept that directly ties into the modern expectations of ethical producer behaviors: it is the single most important variable. This goes to the true motive of the producer. **Are they focused mostly or singularly on the needs of the customer or more so, or only, on their own benefit?**

If you want to make sure you never face the loss or suspension of your producer license the answer is clear:

ALWAYS PLACE CLIENT NEEDS ABOVE YOUR OWN!

Do you honestly think you can con yourself and others into believing you care about them if you do not have the actual principles and values that underlie the customer first business philosophy?

Drucker on Customers

Peter Drucker was a famous academic, business writer and world class advisor to the world's greatest organizations, both for profit and non-profit. When Drucker spoke, the business world listened. He wrote many things about customers and marketing but considers these words from 1973 and how they relate to the current discussion:

"It is the customer who determines what a business is. It is the customer alone whose willingness to pay for a good or for services converts economic resource into wealth...what the business thinks it produces is not of first importance.

What the customer thinks he or she is buying, what he or she considers value is decisive – it determines what a business is, what it produces and whether it will prosper."

Drucker would tell you that if you focus on your methods and your process without taking into account what the customer wants and needs, you cannot succeed in any real sense

Discussion Question Regarding the Trust Equation

Do you think the company or companies you are representing are a key determinant in whether a person will become a customer?

Trust Creation in Operation

When a producer has earned trust from a customer, it enforces the collaborative approach of working together to achieve the goals the customer has expressed and expects to be satisfied. While the collaborative approach is detailed in hour three, it bears a brief mention in our analysis of trust.

The customer who feels involved in and understands the planning process is a customer who forms a trusting bond with their advisor. Collaboration is, of course, rooted in the notion of focusing on helping the customer before helping yourself.

Hour 2

Unethical Business Practices

Profiling White Collar Crime

According to the FBI website, the concept of “white collar crime” dates to 1939 and is today associated with fraud relating to business and government professionals. The identifying features are the involvement of deceit, concealment, or violation of trust but no threat or physical force or violence is involved with this criminal activity. The perpetrators of white-collar crime are motivated purely by financial concerns such as obtaining or avoid losing:

- Money
- Property
- Services

or to obtain a personal or business advantage.

. The FBI investigates white collar crime including:

- Public corruption
- Money laundering
- Corporate fraud
- Mortgage fraud
- Securities and commodities fraud
- Fraud against the government
- Election law violations
- Mass marketing fraud
- Health care fraud

Most Likely Criminals

According to various organizations that kept track of such statistics, the most common white-collar criminals are

- males in the range of 41-50 years of age.
- In most cases, offenders are part of a work team in which they are trusted
- Past studies show that US business lose about seven percent of annual revenues to occupational fraud.
- Men are twice as likely to commit this fraud than woman and the amount they take is also twice the average per female perpetrator.
- fraud by people over 50 years of age has a greater median loss than any other age group by a factor of two times.

- two-thirds of the time the perpetrator is a “lone-wolf” rather than being part of collusion in the criminal acts with others.
- However, when there is collusion by multiple employees, the median loss is four times greater than the amount caused by the lone wolf.
- people working in accounting sectors of a business do the most fraud damage since they generally have easier access to company funds

Exhibited Behaviors

If you suspect someone in your organization might be a white-collar criminal, there are several behaviors that could signal such criminal activity, including:

- A person living beyond their means
- A person struggling with financial difficulties
- The unwillingness of an employee to share duties
- Other personal problems
- A person struggling with addiction
- Irritability or defensiveness
- Refusal to take vacation time
- Complains incessantly about inadequate pay

Reasons People Commit Fraud

There is an adage that people commit fraud because of either greed or need. Another thought is that by understanding why people commit fraud, perhaps an individual can prevent themselves from falling into such a trap and becoming a criminal him or herself. The next section discusses two main theories of committing fraud: workplace deviance and the fraud triangle.

Workplace Deviance

There are many people who are greedy but do not engage in criminal behaviors to satisfy their want for more. **One such idea has been labeled “workplace deviance.”** This includes the idea of the employee who slacks off the job and gets paid for a full day while giving only token efforts to earn their pay. It can also include employees who call in sick when perfectly healthy and those that steal work related items ranging from pens and copy paper to furniture and electronic. **There is also evidence that roughly one-third of all employees steal money or merchandise on the job.**

Employee theft has more to do with motivation than opportunity. Researchers have found that the greater the dissatisfaction of the employee the more likely they are to engage in criminal acts.

Examples by Management

Another idea suggests corrupted employee behavior can relate to the management by example. For example, if bosses set a tone for taking it easy during the workday or take company property for apparent personal use, many employees will get the message that it is OK for them to act the same way.

Suppose a business organization engages in unethical business practices, for example, such as bribery. Then it would seem logical it is more likely that employees of such a company may not see fraudulent actions as bad behavior?

One of the most dangerous people in the world may be a narcissistic sales manager who truly believes that he is so important that normal rules of conduct simply do not apply in his case.

Fraud Triangle



This theory was established in the late 1940's by **criminologist Donald Cressey who interviewed about 200 embezzlers who were in prison.** Cressey found that most of these people engaged in embezzlement to meet various financial obligations. *He determined that two other factors had to also be present beside financial pressure: they had to be both opportunities to commit and conceal the crime and the ability to rationalize their actions as not being criminal activity.*

Pressure

Financial pressures can come from many sources:

- **Necessities.** Desperate need of money to pay basic bills and the person sees no other way out but to get “creative” and take money not belonging to them.
- **To support an addiction.** Drugs, gambling, or other vices can lead a person to live outside their means and feel pressure to get more money any way they can,
- **Thrill.** Some people feel stealing and getting away with it adds a sense of excitement to their lives. The idea of being smarter than others makes them feel superior to those from whom they are taking.
- **Greed.** Some people just want more, more, more and feel entitled to money anyway they can get it.
- **Anger.** A person is not happy at work and thinks they are not paid based on their true worth and thinks it ok to steal from their “ungrateful” employer. Often, this type of criminal activity is based on revenge.
- **Mental Illness.** This includes the concept of stealing as a compulsion. A person feels they must steal, and they are powerless to stop. Sometimes the compulsion to steal is based on depression.

Opportunity

The person usually needs to be comfortable that the criminal act in which they are engaging has low risk of getting caught which makes the opportunity to succeed high.

Rationalization

If a person believes they are basically good, then obviously stealing goes against that positive self-view. Rationalization is a psychological defense mechanism allowing a person to reconcile their bad actions with that of still being a good person. Obviously, such thinking is delusional.

Here are some examples of the rationalization process:

- **“I got away with it once, its OK to keep doing it.”**
- **“I’m not as bad as others.”**
- **“Everybody else is doing it so I want to get my share.”**
- **“On balance, I am actually a good person.”**
- **“For although the act condemns the doer, the end may justify him...”- Machivelli**

- **“The balance sheet argument number two.”** This is like the idea of workplace deviance, in which the person feels undervalued or got a bad deal in some way and they are entitled through a sense of basic fairness to take advantage of others in some way.
- **“As values shift so to does bad behavior.”** This is the concept of the “slippery slope.”

In conclusion, people who decide to defraud others by devious means usually come up with reasons why their action is not outside of societal norms when, in fact, they clearly violate the rules of honest behavior.

Case Studies

Presented now are three actual case studies, two of which involve Illinois insurance producers who lost their producer license because of things they did that violated state insurance regulations. The first case, called “Behavior Matters” illustrates the importance of what the Director believed is proper behavior by a producer and what happens when a producer’s actions violated the Director’s sense of appropriateness. The second case is as old as the insurance industry itself; it involves producers who submit misrepresented applications to an insurer to profit from their deceptive actions. The final case, “Go Big or Go Home” demonstrates that big ideas are sometimes not thought through very well.

Behavior Matters Case Study

We will call this “gentleman” Producer A. He lost his license for his behavior after he showed up late at a Pearson Vue test center to take a prelicensing exam and was turned away by a test center employee.

A key witness against producer A was a ten-year employee of Pearson Vue whose duty is to register, and seat and proctor license candidates relating to their state license exams and then provides results upon completion and computer grading. She testified that:

- Producer A showed up at 5:15 for a scheduled 5:00 test time and that all candidates are advised by email to check-in at least 30 minutes prior to test time.
- She filed an incident report immediately after it happened as required by Pearson Vue when there is a problem at a test center.
- After Producer A was told he was too late to be seated for the exam he got very defensive and upset and said it would not leave and kept asking why he couldn't take the exam and she kept telling him the procedure when late is to reschedule the exam. He then began throwing papers and banging his fists on a desk. He then began talking in a foreign language on his cell phone. After arguing for fifteen minutes, he demanded the proctor write a letter saying he was only five minutes late. Because of safety concerns the proctor decided to write the latter saying he was five minutes late so Producer A would leave whereupon she immediately called her manager and told her what the proctor had just done.
- She wrote up the report and filed it and never saw Producer A again.

The case examiner said the purpose of the hearing was to determine whether or not the actions of Producer A at the test center warranted the license denial. The denial was based on this specific statute:

- *using fraudulent, coercive, or dishonest practices, or demonstrating incompetence, untrustworthiness or financial irresponsibility in the conduct of business in this State or elsewhere.*

The hearing examiner ruled that, although Producer A should pay the cost of the fine, she did not agree that the behavior, although rude and disruptive, meet the criteria of untrustworthiness or incompetence according to the statute and sent back to the Director the recommendation that the license should not be denied.

The Director agreed that the fine of the hearing cost should stand but overruled the examiner and found that Producer A's behavior at the test center did meet the statutory meaning and entered the final order of denying the license.

Is it Greed or Sloth? Case Study

This case involves a guy we will call Producer C, who was terminated by his company (whom we shall call Company Z) one day in 2013. Producer C found employment in another company and four years after being fired from Company Z put into action a brilliant plan he hatched, along with the help of a unlicensed associate we will call Zora.

- Prod C and Zora called Company Z and impersonated 25 of the that company's policyholders to make cancellations or changes to the policies they pretended to own.
- Prod C met with many of these policyholders and misrepresented policy status and changes to ownership of the policies, telling people there was merger and their current policies were being replaced do to the merger.
- Eventually, Prod C submitted at least 33 new applications that were previously placed with Company Z.

About four months later, one of the affected policyholders received his new policy in the mail and contacted Company Z to keep his old, existing policy while cancelling the new one. None of the Company Z policyholders knew that Prod C had contacted Company Z on their behalf nor gave consent to do so.

Prod C wrote 60 new policies with the second insurance company and 33 of them were previous Company Z policyholders who had no idea the fraud had taken place. All 60 new IA applications were reviewed.

- Question "A" of the applications asked, "Do you have existing life insurance or an annuity contract?"
- Question "B" asked, "Will you replace an existing life insurance policy or an annuity?"

The Licensee answered these two questions "No" on all 60 applications. Therefore, the Licensee did not complete replacement notices. Not properly stating the true nature of the replacement broke another insurance law. Producer C's license was revoked.

Normally, we might chalk up the dishonest and fraudulent actions of Producer C under the heading of greed, that he did this to make more money. Perhaps that is true, but the very nature of these actions indicates something else, a type of "sloth" or laziness was involved. The dictionary definition of sloth is "**Aversion to work or exertion; laziness; indolence.**" Think about it: these people put in all this time and effort to take the easy way to submit apps to the company when they could have devoted those energies to creating new contacts and customers legitimately. What they did involved a lot of time-consuming mental gymnastics to try and cheat the system and to get away with it.

But all it took was for one guy to call the original company four months later to tell them he wanted to keep his first policy. This led to all the painstaking deceit to unravel and resulted in Producer C's undoing. This is the essence of laziness, of doing it the "easy" way, at least in their minds. One can look at this case and wonder "What were they thinking?"

Go Big or Go Home Case study

This case involves three former insurance agents from Los Angeles California were arrested for multiple felonies stemming from their actions in fraudulently obtaining \$1.9 Million in an advance commission scheme involving multiple insurance companies. Since the three were foreign nationals, the case also involved Homeland Security and Immigration and Customs Enforcement.

- The allegations state the trio submitted more than 600 fraudulent life insurance applications to several companies and collected nearly \$2 million dollars in commission to which they were not entitled, with the money being deposited into the bank accounts of the three agents.

The three created a referral program and paid up to \$50 for applicants to refer friends and family in order to extract personal identifiable information which was then used to submit fake insurance applications. Many of the people on whom applications were submitted were unaware and, in many cases, did not know a policy had been issued in their name. Also, multiple applications on the same party were submitted in many instances. The applications contained fabricated and false information regarding occupation, net worth and income. Many of the application first premiums were paid by the agents themselves and would lapse quickly when the next premium was due.

Producer Practices to Avoid

Deceptions

Deception is defined as **“an act or statement intended to make people believe something that is not true.”** Deception can take many forms, but we will explore several that are expressly forbidden under insurance law for a producer to engage in.

False Product Claims

Unfortunately, this is common behavior among ethically challenged producers, and typically involves telling a prospect or client one or more of the following:

- The product covers loss when, in fact, such coverage is not part of the contract
- The policy covers something that is clearly excluded under the policy
- A policy rider is available, when one is not, for a certain type of coverage
- The loss lied about may never happen thus taking the unethical agent off the hook, a fact they may usually rely upon in such a situation and
- Since it is the word of one party against another, how does the customer prove what was said?

The only way the unethical agent usually can be caught in this deception is if multiple customers come forward around the same time with the same complaint. This is extremely rare but not entirely unheard of.

Omitting Important Product Information

This deception is a close cousin of the first, false product claims, but is more subtle. Omission is defined as **leaving information out of a discussion often do to apathy or neglect of duty** and often occurs because the producer is incompetent.

Intentional omission, on the other hand, is a calculated intent to deceive by failure to discuss relevant information to the decision a customer is trying to make about whether to purchase a certain coverage.

Competition Defamation

Competition defamation means an unethical producer, when in competition with one or more other carriers for a sale, will promote false negative facts, usually verbally, about another company. A producer can get very creative in this arena, if they have a mind to cast false doubts on a competitor. This deception is also grounds for fines and loss of license.

A final note about competition defamation is that customers who are exposed to it generally think less of the person sharing such concerns than they do about the company being criticized.

Bribery

Bribery refers to the illegal act of rebating which is offering something of value outside of the insurance contract as an induce for the consumer to make an insurance purchase. Rebating includes anything of value, and it is not limited only to money or kickbacks on commissions. The reason rebating is not allowed in almost all insurance jurisdictions is because we want the consumer to purchase the best policy based on meeting the risk transfer needs of the customer rather than trying to sway the purchase by focusing on value outside of the coverage itself.

A producer is allowed, for instance, to offer a \$10 gift certificate to meet with the producer but offering that same gift as a condition for a policy purchase would break the rebate law. There are unethical agent who engage in rebating and most probably have little fear of getting caught because why would a customer complain about being bribed to buy a policy?

Apparent Authority-a Case Study

When a third party has the reasonable belief that agent is acting for the company there is apparent authority and the insurer will be bound by the agent's actions, even if that agent is committing fraud.

In an Illinois case, Producer F is an agent representing Company X and is terminated by that company after an investigation revealed that Producer F has submitted many applications with false information regarding banking and medical histories. Eight applications were rejected due to incorrect health information and one because an applicant was in prison at the time of an electronic signature. There was also another application that involves the concept of apparent

authority in which Producer F wrote a policy with false medical information, the policy was issued but the insured died within the contestable period and the claim was rejected.

The investigation by the company showed that the insured in this case was bedridden at the time Producer X met the insured in person to take the application. Therefore, the producer knew the condition of the insured but put false information down anyway so the policy would be issued.

After the claim was denied, the beneficiary challenged Company X and the claim was subsequently paid by the company to the beneficiary. Since the Producer was aware of the poor health of the applicant at the time and lied about it to the company, the insured had a reasonable belief they were insured due to the agent's actions. Producer F's license was revoked.

Pressures From Management

Earlier it was mentioned that a poor example by management can lead to fraud or theft. If an insurance manager cuts corners and tells producers whom he or she supervises that they should get applications anyway they can, this can easily lead to unethical or illegal actions by the supervised producers.

Another philosophy by a manager that can lead to negative behaviors by producers is to put quota pressures on them with constant reminders that their job depends on making those quotas. This could easily lead to a producer feeling so much pressure they might resort to falsifying information on an applicant just to keep the job.

Consequences of Unethical Business Practices

In summary, the failure to appreciate ethics and the impact that doing the right things can do to harm the reputation of both businesses and individuals, with potential customers, can be staggering.

Legal

Obviously, when a producer breaks the law, the consequences can be a nightmare to self, family, coworkers and company. Not only will the producer license almost certainly be revoked but consequences may include public humiliation, fines and even incarceration.

Moral

Not all unethical conduct breaks the laws of society, sometimes it only offends the sensibilities of more highly ethical citizens. There are many so called grey areas where a behavior may not be illegal per se, but these actions fall far short of "doing the right thing."

HOOR 3

Building an Ethical Business

Critical Nature of Ethics

In earliest childhood many of us were talked to about knowing the difference between right and wrong.

Some ethicists believe that society may not survive without people having an ongoing ethical awareness to guide them through decision making that leads to actions that may, in the end, protects us all from falling into a permanent abyss. Given the last couple of years, is it possible we have passed that tipping point

Ethics is Important for Everyone

Presented below are two concepts related to the idea of the critical nature of ethical thought and conduct. The first relates the chilling story of how the “accident” at Chernobyl occurred and the second helps us ponder the conduct of today’s business world considering cheating surveys conducted a couple of decades earlier with American high school and college students.

Chernobyl Example

On April 26, 1986 a nuclear event in the former Soviet Union resulted in the deployment of one-half million personnel at a cost, in today’s dollars, of \$75 billion to contain the resulting radioactive contamination.

According to various accounts, on the day of the incident, two electrical engineers working at the Chernobyl nuclear reactor apparently were a bit bored and then decided to entertain themselves by engaging in highly unauthorized activities centered around bypassing the reactor safeguards.

The aftermath of their actions to shut down the reactor were devastating:

- It is estimated the land will not be habitable again for up to 20,000 years
- It put 390 metric tons of uranium in the air
- 335,000 people were evacuated in 19 mile-wide exclusion zone
- 28 initially died with 100 more injuries
- Over 6,000 cases of thyroid cancer in children and adolescents were reported
- An additional 9,000 people were estimated to have been exposed to significant radiation
- In 2016 a massive steel structure was used to fully contain what was left of the site
- The effects on local wildlife are still being studied
- The cost was estimated at \$235 billion in damages
- Today the site is in Belarus and the damaged area is a fifth of all agricultural land

What was the real cause of this terrible incident in world history? It can be argued the cause was a failure of ethics.

Year 2000 Student Cheating Surveys

There are several surveys of interest to discuss, beginning with one conduct among the best and brightest of American high school students in 1998, which asked more than 3,000 students if they cheated to pass exams

- Yes: 80%!
- Most said the reason was either because of competition for good grades or that doing so did not seem like “a big deal.”
- In the same year of 1998 smart young business students in college were asked why they would accept one job offer instead of another. Surprisingly, high pay was only a small factor while working in a company that had sound values and culture were more important. Another bright spot.
- However, our final survey, taken around this same time, asked over 15,000 American students at more than a couple of dozen top universities and discovered three-quarters of them admitting to cheating in college. Also, most future doctors, lawyers and educators all admitted to cheating on multiple occasions.

Leaders of Today

Logic dictates that if these younger students were willing to cheat for grades twenty-years ago, they may be willing to do much worse things today to have a successful career in their chosen field.

This leads to the next section which analyzes different ethical schools of thought and ultimately discuss whether values and ethics be taught. In addition, three short case studies will be offered for your consideration.

Ethical Relativism and Situational Ethics

Ethical relativism is embodied in the concept that people can make decisions with no absolutes, values or morality concerns that bind all humans **but instead each culture has its own morality** that must be followed and that which is right or wrong is defined by a particular culture.

Situational ethics means moral decision making depends on a set of circumstance. This allows a person to justify doing just about anything they want. In its simplest sense the concept is related to expressing brotherly love, that love, and justice mean the same thing.

An example would be the actions of the fictional character Dexter Morgan who portrays a serial killer who only kills other serial killers. Dexter has a code that does not allow him to kill unless he has proof positive that the life he is taking is that of a serial killer. In situation ethics, one could argue Dexter’s action are a positive to society because he is only killing monsters that otherwise would be taking innocent lives. However, if only traditional ethics is applied, killing is wrong no matter the circumstances.

Pros and Cons Chart: Relativism and Situational Ethics

Relativism Ethics

PROS	CONS
No absolutes, make your own decisions	It is a system of personal bias
Better understanding of other cultures	Widespread use would create chaos
Nom compulsion to “fix” other cultures	It pits people against each other
Flexible, right is subjective	Moral progress could be limited

Situational Ethics

PROS	CONS
Love/justice to all	Any action can be acceptable and justified
Flexibility-each person decides what “loving action” to take	Love means different things to different people
Some freedom to adjust to the complexities of life	There are no general rules to follow for each situation

Under both concepts, it seems a person is free to do pretty much as they please if they can feel justified in doing so.

Battle of Self vs External Regulation

At the heart of the battle between relativism and situation ethics versus traditional ethics is the concept of self-determination of the rules as opposed to following some universal guidelines that constitutes acceptable behavior.

When considering the three basic rules of

1. Do not lie
2. Do not steal
3. Do not cheat

By incorporating these rules as the basics for actions taken, using traditional ethical behavior models, the decision maker is restricted by these three simple universal rules rather than a “do whatever you think is right” mentality.

Can Values be Taught?

An interesting discussion can be centered around these questions:

- Can values be taught in school?
- If so, whose values will be taught?

The earlier results of past cheating surveys reveal the notion that if great numbers of students do cheat or think cheating is acceptable, then maybe it is time to teach fundamental values in school. The main objection would likely be that you could not get all parties involved to agree on specifically which values would be taught.

Modern Education: They Can Not be Taught

Modern western educators have examined the concept of value education and have concluded no, values cannot be taught in the educational system. The issues center around the question of who gets to decide which values are taught.

- After a thorough review of educational philosophies and conferring with psychologists, the theory is that individual responsibility and values cannot be taught. The conclusion is that values can, and should, be acquired indirectly through the individual learner's own experiences. The attitude seems to be that It's too hard to figure out how to do it, so the hell with it.

Ancient Greeks: They Can Be Taught

Sophism is the art of teaching by asking questions which would allow a person to become a master of their craft and to be wise. Socrates credits the Greek philosopher Protagoras with inventing sophism as a teaching method. The Greeks strongly believed that virtue, morals and ethics were teachable and allowed a person to better manage their own affairs.

- The Greeks argued that there should be a universal code of ethics but, there should still be room for one's own opinion.

The question now becomes "who is correct, modern education or the ancient Greeks on the idea of whether or not morals and values can be taught?"

Tools for Building an Ethical Business

This section offers practical suggestions of some of the things to consider when building a strong, ethics-based business. Many of the concepts are based on the first hour class discussion that focused on the survey about consumer views of their interactions with insurance companies.

Analyze Company Consumer Strengths and Weaknesses

As a producer, examining the strengths and weaknesses of each company you represent, from the viewpoint of an insurance consumer, is a very sound business planning practice.

- The first area to consider are the risk transfer products a company is offering and understanding which are the weaker and which are the stronger in the market.
- Related to the sound product area is the notion that if you can communicate to the customer the life changing aspects of the products you are offering it will help to satisfy the emotional aspects of the customer experience which is a key element of value.

- The manner and efficiency with which an insurance company handles legitimate claims is also an important source of either consumer satisfaction or great frustration.
- A producer should research they are not affiliating with insurers who are consistently at the top of the complaint ratios in the state in which they operate.
- Finally, the producer should strive to make sure their actions to the public are a strength and not a weakness.

Awareness of Consumer Concerns

Is being an outstanding producer, with the highest ethical standards enough to win consumers over?

Recent insurance industry surveys show the following response from insurance consumers about their buying preferences

- Up to 70% want quotes
- Up to 60% wish to purchase using a messenger application
- Up to 70% want on demand insurance
- Up to 75% would like services designed to prevent or minimize accidents
- About 50% of millennials purchase insurance online and an increasing number of all insurance consumers are doing so.
- Most generations are willing to share personal data for better and more personalized pricing..
- All producers should keep in mind that older consumers continue to participate in the insurance industry the way they are accustomed
- These buyers are also very willing to obtaining insurance through retail, automaker and tech company channels.
- The biggest red flag is the fact that 80% of insurance consumers between the ages of 25-40 rated insurers as low on items that matter most to them.

Keys to Managing Consumer Anxiety

The two main keys to lessen consumer anxiety are developing a better style of communication and learning greater empathy skills.

Better Communication Skills

Perhaps a better heading for this section should be called the “Art of Listening” because the most crucial element of communication is possessing superior listening skills. If this single idea would be codified in a law, that law would be:

The more proficient you become at listening, the greater your communication skills become.

The question is: “Why are great listening skills so important?”

The answer is simple, when you truly listen to someone the other person feels they are important to you, and it established rapport.

When a consumer is more comfortable with a producer and lessening their anxiety making them more likely to become a customer.

More important aspects of positive listening:

- The other person feels you care about them
- Everyone appreciates a good listener
- There is movement from monologue to shared dialogue
- The conversation is energized
- Needed information will be shared willingly
- Verbal communication will shape meeting each other’s needs
- Time is invested and both parties are expecting a benefit

A sound way to indicate to another that you are listening to them is by showing that you understand their message. “Did you mean (insert) or did you mean (insert)?” Clarifying can include the following concepts:

- Letting the speaker know you are not sure of their meaning
- Ask that they repeat their communication
- Tell the speaker what you heard them say to ask if that is what they meant
- Request a specific example of what they are saying
- Use open questions to probe their meaning further.

Remember, the impact of doing this shows you care about what the person is saying and that translates to the person feeling you care about them as well.

Enhance Your Empathy Skills

Empathy is a learnable communication skill and by enhancing your empathy skills you will experience profound benefits in all aspects of your life. Working on these empathy skills can result in the following benefits:

- How we see others impacts how we see ourselves
- Permanent positive impact on all of our personal and professional relationships
- Greater resilience to handle all of life’s challenges

Suggestions for Developing Empathy

- Practice developing empathy skills by being curious and asking people questions about themselves, lives, work, family, etc. This will help you focus on listening and better understanding the person. Try and figure out what makes that person feel happy, sad, motivated or what their passion is.
- Seek speaking with people different from yourself that are normally out of your personal zone of comfort.
- Request feedback from family and personal acquaintances about your own strong and weak communication skills with an attitude of trying to improve from you learn from others.
- Analyze your main biases since they can lead to judgments about others. Great empathy skills demand putting aside bias when you are listening and trying to understand others. Focus on similarities with others while refraining from judgment on the differences.

Five Steps to Display Empathy

1. Place your undivided attention on what a person is saying when they are talking to you, watch their body language and do not move around or keep glancing at your phone screen or wristwatch.
2. Solid, interlocking eye contact on your part will reaffirm to the other person that your tuned into what they are telling you, the idea is to have them feel you have a connection with each other.
3. Try not to interrupt or indicate any negative reactions to them about anything they are saying. If you are becoming at all upset, take a quick break to compose yourself.
4. Use verbal feedback to see if your subject agrees with your understanding of what they are saying. If you are unsure, ask some clarifying questions to better understand the message you are receiving. By asking for clarification, you will better bond with the other person who will feel you have true concern for what they are telling you.
5. Validation of the emotions of another is also an important technique you can use to show that whatever their feelings or opinions are it is ok for them to have them even if you may not agree.

Learning and practicing empathy skills may be the single greatest personal improvement anyone can make in their life as the rewards, both financial and psychology, allow human interaction and understanding at the highest levels possible. It will allow any producer to operate at the highest ethical levels.

The Significance of the Collaborative Approach

The collaborative approach (CA), also referred to as the consultative method, incorporates the ideas of a producer with feedback from the consumer of those ideas while the consumer shares their viewpoints to the producer who listens.

At its core, collaborative approaches are designed to build trusting relationships with consumers that strengthen over time, and they are designed to focus on the client needs first and foremost, while the traditional selling approach has little care of customer need, and the goal is a sale.

Traditional	Consult
Push Product	Listen to Customer
High Pressure Sales Tactics	Identify Customer Needs
Little Regard for Customer Needs	Solve Actual Needs/Problems
Ignore Customer Satisfaction	Build Long-Term Customer Relationship

- The consultative approach checks all the ethical boxes while the traditional model clicks off none.
- One of the secrets behind the success of collaboration has its roots in the ancient Greek teaching style called the Socratic Method, an idea we addressed in an earlier discussion.
- This important step takes the burden off the consultant for trying to convince the person they have a problem that needs resolution.

According to sales research, nearly 90% of buying decisions are driven by emotion and logical thought is not much of a factor with most people.

The following sequence highlights the advantages of relationship-based selling:

- Producer asks solid questions
- This shows you care about the customer's situation
- The producer listens, takes notes
- The customer feels listened to and understood, that the producer cares
- The customer also feels in control
- The customer feels more comfortable with doing business with you
- When the customer buys, they do not feel pressured
- The customer feels you are solving their problem

This approach also helps to protect your client base from being siphoned away by competitors because the client has no incentive to look elsewhere for help with their needs.

Assess Your Company on Value Elements

A way to examine the strengths and weaknesses of a current company you are either working with or considering joining to determine whether the company is delivering value elements insurance consumers are expecting. Assessing the value elements of your company was examined in hour one.

Incorporate Actions to Support Customer Value Perception

By always considering what customers are looking for and providing the help they need by focusing intently on understanding and addressing those needs is what separates the successful ethical producer from the rest.

Whether future roles played by Producer's are close and personal or more technologically distant, their actions can make a positive customer impact.

Empathy and Communication

In summary, developing a healthy ability for empathy is a key to exercising improved communication skills as empathy skills are woven into the fabric of effective communication.

When a producer shows they care about the client and utterly understand his or her needs, that client will now trust the producer and is more likely to do business with them for an exceptionally long time. This embodies the very principle of producer ethics as a client need centered approach rather than as just notching another hole in the client belt.

Case Study: Petty Thief

In our first case study, the Illinois Director of insurance alleged the following facts against a producer:

- The Dept received a termination letter from insurance company A (ICA) due to falsifying documents allegedly done by Producer VS (VS).
- The letter stated there were 23 falsified roof replacements and 19 false good student discounts submitted by VS to ICA.
- The facts also show that VS did all this to generate less than \$1,000 in cash payments that he failed to remit to the ICA.

He had to know that he would get caught or did he really think he would keep getting away with it. Apparently, whatever he was thinking were not based on deep thought.

Case Study: Lying on Producer Application

This case is about a producer K who was convicted in 2003 of embezzlement while working at a bank. She was convicted of this act which was a felony and the court ordered one day in prison-yes one day, and she then spent one month under home arrest and was then released under supervision for a three-year sentence. We are sure that must have taught her a stinging lesson that stealing is wrong.

In 2012 she naturally decides to become an insurance producer and does not mention this prior felony conviction.

Her license was revoked formally a few months later by the director for lying on four separate occasions on her producer licensing and renewal applications.

This case brings up an interesting point. When you have a past criminal record and years later want to become a producer, should you admit or hide the conviction?

We can't be sure how it would have played out if she originally owned up to her criminal past. But one thing is certain: if you hide a conviction and the DOI does find out later they will always revoke your producer license. You can take that to the bank, and no one will embezzle it.

Case Study: Major Fraud in D.C. \$3.6 Million

In this case an insurance producer in Washington D.C. is convicted of fraud in his role as insurance broker for Blue Cross/Blue Shield.:

- One count of health care fraud
- Three counts of making false statements relating to health care matters
- Seven counts of mail fraud
- Six counts of wire fraud
- Five counts of identity theft

This producer was sentenced to 70 months in prison and ordered to pay restitution of \$3.8 Million as well as the forfeiture of another \$8.4 million dollars.

This producer's thievery is much different than our earlier petty theft case because this guy epitomizes the concept of go big or go home. His criminal planning is also of a much higher caliber as well. However, the petty thief did not go to prison

Incorporate Basics Ethics into Every Action Taken

An excellent idea to make certain a producer is always client focused and will never compromise their license to disciplinary action is to follow the "Six Guidelines of Ethical Business"

Six Guidelines of Ethical Business

A SPECIFIC LIST OF WHAT TO DO AND WHAT NOT TO DO DESIGNED TO KEEP A PRODUCER ON AN ETHICAL PATH.

- 1. PLACE THE WELL-BEING OF THE CUSTOMER FOREFRONT IN EVERY ACTION RECOMMENDED AND TAKEN.**
- 2. NEVER STEAL FROM OR SHORTCHANGE THE CUSTOMER IN ANYWAY.**
- 3. DO NOT ALLOW YOURSELF TO RATIONALIZE BAD BEHAVIOR.**
- 4. CUSTOMER TRUST IS SACRED AND MUST NEVER BE COMPROMISED.**
- 5. ALWAYS BE ACCOUNTABLE FOR YOUR MISTAKES AND LEARN FROM THEM.**
- 6. ALWAYS OPERATE ON THE PRINCIPLE OF THE LIFETIME VALUE OF A CUSTOMER TO YOUR BUSINESS. PRACTICE EMPATHY WHEN/WHERE APPROPRIATE.**

In Conclusion:

An ethical producer must focus and take time to figure out ways to establish loyalty and relationships with clients. Understanding the pitfalls of unethical behavior, what drives and motivates both ethical and unethical behaviors. Always keep a pulse on where companies can fall short in service and find ethical and legal ways we can be of service to those clients. Finally, make sure you have a strong foundation of ethical conduct and behaviors. All our case studies are great examples of what not to do. Remember, it is easy to sit back and wonder how people can get that far, but based on the content today, it usually starts with a dangerous combination of difficult times, rationalization and getting away with easy things. Stay strong, stay focused on your ethical conduct to best serve your clients and we hope to see you again in 2 years.