The Ethical Environment of the Life Insurance Industry: The Impact of the Recession and Slow Recovery

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Abstract: *While a number of major studies have found that conditions related to the recent recession have changed the ethical environment of U.S. business in general, there has been a lack of information as to how the recession and slow recovery have affected ethics in the life insurance industry. This article reports the findings of a survey of CLUs and ChFCs conducted in 2011 with the cooperation of the Society of Financial Service Professionals to identify the most serious ethical problems faced by those working in the industry today. The 2011 findings are then compared with those of three earlier surveys to identify how the ethical environment of the industry has been affected, if at all, by the recent economic crisis.*

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Introduction

After reporting that the industry had experienced "strong and generally improving risk-adjusted capital levels in 2007, supported by solid operating performance across several product lines,"[1] A.M. Best summarized 2008 as "among the worst in memory for life/annuity operating performance."[2] During the first full year of the recent recession, the life insurance industry experienced, among other things, very low interest rates, extremely large realized and unrealized capital losses due to deteriorating equity markets, a resulting severe decline in net income,[3] difficulty in accessing additional capital, and increased risks to insurers' balance sheets requiring additional reserves and sophisticated hedging programs in response to the growing use of living benefit guarantees as major drivers of variable annuity sales mostly in prior years. Other consequences of the recession included decreasing individual life sales (measured by annualized new business premium) for the first time after a number of years of steady growth, falling variable annuity sales and retentions offset somewhat by increasing fixed annuity sales, a major loss of consumer confidence in insurance companies, agents and brokers,[4] and significant layoffs by several companies.

The life insurance industry experienced some positive trends in 2009. Improvement in the equity and capital markets allowed most insurers to achieve adequate capitalization.[5] Individual life sales and agent recruitment by the largest mutual companies improved, benefiting from their traditional focus on life insurance with guarantees and perception of greater financial strength resulting from their better ability to retain more of their capital built up between

2002 and 2007 than were large stock life insurers. However, despite these positive trends, the recession continued to negatively impact the industry in 2009, for example:

- Very low interest rates continued.
- Individual life insurance sales experienced their worst decline on record, dropping an additional 19% in the first three quarters of 2009 following a 7% drop in 2008.
- Fixed annuity sales increased only 17% during the first three quarters of 2009 as compared with a 50% increase in 2008.
- Variable annuity sales dropped an additional 23% the first three quarters of 2009 following a 15% decline in 2008.
- Group insurance sales declined in 2009 in response to the high unemployment rate.[6]

Following the end of the recession (though not the slow recovery), the life insurance industry experienced some positive signs of recovery in 2010. Investment results improved significantly benefiting from the narrowing of credit spreads, an increase in interest rates beginning in the last quarter of the year, and remarkable returns in the equity market.[7] A.M. Best notes, "While life sales improved in the first half of 2010…growth in individual life insurance has become more sluggish of late, as increases in universal life (UL) and whole life premium (relative to the prior year) are being offset by a comparable decline in term business."[8] Unfortunately, layoffs continue within the industry as insurers seek to improve efficiency through reduced costs.

Several major studies have found that the falling demand for products and services attributable to the recession and the tactics employed by organizations to counteract its challenges (for example, adjusted work schedules, layoffs, reductions in compensation and/or benefits, hiring freezes, and early buyouts) have definitely impacted the ethical environment of U.S. business in general. However, at this time, there is a lack of information concerning the effects, if any, of the recession and slow recovery on the ethical environment encountered by those working in the life insurance business. This article presents and discusses the findings of a survey of CLUs and ChFCs conducted in February 2011 with the cooperation of the Society of Financial Service Professionals (FSP) in an effort to

- examine the perceptions of CLUs and ChFCs regarding the most serious ethical problems facing individuals working in the life insurance industry under these unusual economic circumstances
- identify differences in the perceptions of CLUs and ChFCs working in various jobs, at various organization levels, and for various types of organizations
- determine the extent to which the life insurance industry's current ethical environment differs, if at all, from that of the past

2011 Survey of Ethics in the Life Insurance Industry

Survey Methods

To gather information for the study, 3,500 regular members of the Society of FSP holding the CLU (Chartered Life Underwriter) and/or ChFC (Chartered Financial Consultant) professional designations were surveyed by e-mail on February 8, 2011. The survey participants, selected at random by the Society, each received a questionnaire to gather their views regarding the impact of the recession and slow recovery on the key ethical issues, the degree of competitive pressure, and the ethical environment experienced by those working in the life insurance industry today. A follow up e-mail was sent February 22, 2011 to those who had not responded to the initial request for participation in the survey.

Completed questionnaires were received from 319 participants producing a response rate of approximately 9%, not atypical with the response rates more commonly experienced with mail/e-mail surveys of various professions these days. While the response rate is too low to permit generalizations to be made regarding the views of all Society CLU and ChFC members, the findings are grounded in a sufficient number of responses to provide a sense of the ethical environment currently encountered in the life insurance industry.

In order to gather information regarding the perceptions of CLUs and ChFCs concerning the key ethical issues facing those in the life insurance business today, a major portion of the survey form consisted of a list of 32 ethics-related statements shown in Table 1. The first 28 statements reflect ethical issues and dilemmas encountered by businesses and their employees in general. The last four issues, on the other hand, reflect additional ethical responsibilities owed by professionals to their clients. These four statements were included in the survey form to provide an indication of how CLUs and ChFCs, as professionals, view ethical issues of special relevance to professionals as compared with those of concern to businesses and their employees in general. Survey participants were asked to rate each of the 32 issues on a 5-point scale where 5 meant that it is a major problem and 1 meant that it is not a problem in the life insurance industry today.

Two additional questions were asked to get a sense of how the survey's respondents perceived the recession and slow recovery as having impacted those working in marketing, underwriting, claims, and the industry overall. First, participants were asked to indicate on a 5-point scale—where 5 meant to a very great extent and 1 meant not at all—the extent to which the drop in demand for insurance triggered by the recession and slow recovery has led to an increase in the competitive pressures experienced by those working in each of the four areas identified above. The second question asked participants to indicate on the same 5-point scale the extent to which conditions related to the recession and slow recovery have made it more difficult for those with jobs in marketing, underwriting, claims, and the industry overall to respond ethically to various challenges encountered in the course of their work.

Finally, participants were asked to indicate their job function, business affiliation, level in their organization, and primary source of earned income. These questions were included to permit an analysis of whether the respondents' perceptions of key ethical issues differed significantly[9] by job function, business affiliation, level within the organization and/or primary source of income.

Ethics Issues Findings for All Respondents

Table 1 shows the mean ratings for each of the 32 ethical issues based on the individual ratings given to each issue by all survey respondents. The table also shows the rank of each issue based on the size of the issue's mean rating. Finally, the table indicates the percentage of the respondents who rated each issue 3, 4 or 5. Thus, for example, Issue 1 (failure to provide products and services of the highest quality in the eyes of the customer) was rated 2.57 on average by all survey respondents, had the 10th highest mean rating among the 32 ethical issues listed in the survey form, and was rated 3, 4, or 5 by 47.3% of the respondents.

As indicated in Table 1, 10 issues received mean ratings greater than 2.50, indicating that these key issues were perceived by the CLUs and ChFCs responding to the survey as causing the greatest problems for those working in the life insurance industry at the time. Nine of the ten key issues were rated 3, 4, or 5 by 50% or more of the respondents and the one exception, Issue 1, received this rating from 47.3%, suggesting that the 10 issues are seen as presenting real problems for the industry. In descending order, the 10 key ethics issues are:

- Issue 29: Lack of knowledge or skills to competently perform one's duties
- Issue 7: False or misleading representation of products or services in marketing, advertising, or sales efforts
- Issue 30: Failure to identify the customer's needs and recommend products and services that meet those needs
- Issue 8: Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities
- Issue 31: Failure to be objective with others in one's business dealings
- Issue 32: Misrepresenting or concealing limitations in one's abilities to provide services
- Issue 2: Failure to provide prompt, honest responses to customer inquiries and requests
- Issue 3: Making disparaging remarks about competitors, their products, or their employees or agents
- Issue 9: Conflicts of interest involving business or financial relationships with customers, suppliers or competitors that influence, or appear to influence, one's ability to carry out his/her responsibilities
- Issue 1: Failure to provide products and services of the highest quality in the eyes of the customer

As might be expected, the four issues (Issues 29–32) related to the ethical responsibilities of professionals, but not necessarily of interest to businesses and their employees in general, were rated by the CLUs and ChFCs responding to the survey among the 10 key issues perceived as presenting the greatest challenges to those in the industry seeking to resolve ethical dilemmas in an appropriate manner. Six ethical issues (Issue 1–3 and

TABLE 1

2011 Ethics Issues Survey Findings—All Respondents

Issue		CLU/ChFC 2011 Study (n = 319; 9%) Mean	Rank	% Indicating 3, 4, or 5
1	Failure to provide products and services of the highest quality in the eyes of the customer	2.57	10	47.3
2	Failure to provide prompt, honest responses to customer inquiries and requests	2.74	7	55.2
3	Making disparaging remarks about competitors, their products, or their employees or agents	2.68	8	55.0
4	Misuse of proprietary information	2.35	13	40.4
5	Misuse of sensitive information belonging to others	2.17	17	32.4
6	Improper methods of gathering competitors' information	2.26	14	36.7
7	False or misleading representation of products or services in marketing, advertising, or sales efforts	3.12	2	65.2
8	Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities	3.03	4	66.7
9	Conflicts of interest involving business or financial relationships with customers, suppliers, or competitors that influence, or appear to influence, one's ability to carry out his/her responsibilities	2.66	9	54.5
10	Conflicts of interest involving the marketing of products and services competing with those of one's own company	2.49	11	46.1
11	Conflicts of interest that involve working for a competitor, customer, or supplier without approval	2.13	19	31.9
12	Misuse of company assets/property	1.85	27	21.4
13	Insider trading/other security trading problems	2.06	22	30.1
14	Giving excessive gifts or entertainment	1.98	24	26.4
15	Receiving excessive gifts or entertainment	1.84	29	22.1
16	Offering or soliciting payments or contributions for the purpose of influencing customers or suppliers	2.01	23	26.3
17	Offering or soliciting payments or contributions for the purpose of influencing government officials	2.17	17	32.7
18	Offering or soliciting payments or contributions for the purpose of obtaining, giving, or keeping business	2.09	20	31.6
19	Offering or soliciting payments or contributions for the purpose of persuading employees of another company to fail to perform, or improperly perform, their duties	1.68	32	17.0
20	Offering or soliciting payments or contributions for the purpose of influencing legislation or regulations	2.23	16	34.5
21	Inaccuracy of books, records, or reports	2.24	15	36.3
22	Abuse of expense accounts	2.07	21	29.7
23	Antitrust issues	1.85	27	24.3
24	Relations with local communities	1.80	31	21.3
25	Office/agency closings and layoffs	2.37	12	41.6
26	Discrimination	1.81	30	18.6
27	Drug and alcohol abuse	1.90	26	23.1
28	Employee theft	1.95	25	26.2
29	Lack of knowledge or skills to competently perform one's duties	3.13	1	70.2
30	Failure to identify the customer's needs and recommend products and services that meet those needs	3.11	3	68.7
31	Failure to be objective with others in one's business dealings	2.89	5	60.6
32	Misrepresenting or concealing limitations in one's abilities to provide services	2.88	6	60.9

7–9) of interest to businesses and their employees in general were also rated on average greater than 2.50 by those responding to the survey. These six key issues reflect ethical dilemmas related to the timeliness and propriety of information provided to customers and possibly others (Issues 2, 3, and 7), potential conflicts of interest (Issues 8 and 9), and the failure to provide high quality products and services (Issue 1).

While the remaining 22 issues were not viewed as presenting particularly significant problems for those working in the industry by as large a percentage of the respondents as was the case for the key ethical issues, all but two (Issues 19 and 26) of the nonkey issues were rated 3, 4, or 5 by 20% or more of the respondents, and 11 of the 22 lowest ranked issues received this rating from 30% or more of the CLUs and ChFCs responding to the survey. This suggests that these issues, while not viewed as presenting particularly widespread problems, are sufficiently pervasive that they should not be ignored by management. Rather, managers and supervisors need to be alert to identify and handle, on an individual basis, those situations that present reasonably significant challenges to ethical behavior in the workplace.

Ethics Issues Findings for Different Groups of Respondents

Although the findings discussed previously indicated how all the CLUs and ChFCs responding to the 2011 survey perceived the various ethical issues overall, they did not indicate whether different groups of respondents had different perceptions of the extent to which a particular issue presented problems for those working in the industry. To permit a comparison of the survey findings for various different groups, information was gathered regarding each respondent's job function, business affiliation, level within their organization, and primary source of earned income.

Job Functions

Approximately 85% of the CLUs and ChFCs responding to the survey reported working primarily in one of seven job functions—independent insurance agent, captive insurance agent, financial planner/adviser, independent broker, broker/general agent, corporate executive or manager, or home office employee. Comparison of the 32 issue means for each of these job functions[10] indicated a significant difference among some of the groups for only one ethics issue. In this case, home office employees perceived Issue 26, discrimination, as presenting a greater problem for those working in the life insurance industry than did the independent insurance agents, financial planners/advisors, independent brokers, and brokers/general agents. In addition, correlation coefficients greater than or equal to .919 indicate that the order of the ethics issues is very similar for the independent insurance agent, captive insurance agent, financial planner/advisor, and independent broker groups. In fact, with all correlation coefficients greater than or equal to .738, the order of the issues for the seven job function groups is quite similar.

Organizational Level

When the 32 issue means were compared for respondents indicating that they are senior managers, middle managers/supervisors, or not in management, no significant differences were found among these three groups. As expected, the three correlation coefficients were all very high, ranging from .959 to .974, thereby indicating that the order of the ethics issues in terms of the extent to which they are perceived as presenting problems for those working in the life insurance industry is very similar for the senior manager, middle manager/supervisor, and not in management groups.

Primary Business Affiliation

Approximately 95% of the CLUs and ChFCs responding to the survey indicated that their primary business affiliation was with an insurance company, an insurance agency, an independent broker/dealer, an independent business owner, or a financial advisory firm. Comparison of the 32 ethics issue means for these five groups revealed a significant difference for only one issue—respondents affiliated with an insurance agency perceived Issue 7 (false or misleading representation of products or services in marketing, advertising, or sales efforts) as presenting a greater problem for those in the industry than did independent business owners. Very high correlation coefficients, ranging from .895 to .971, indicate that the order of the ethics issues for these five groups was very similar.

Primary Source of Income

Approximately 97% of those responding to the survey reported that their primary source of earned income was commissions only, salary only, salary plus incentive/bonus but no sales commissions, salary and commissions, or fees and commissions. As shown in Table 2, significant differences were found among various groups for four issues. In each case, respondents compensated by salary alone and/or salary and other sources that did not include sales commissions perceived the four issues as presenting greater problems for those working in the industry than did those receiving commissions alone and/or a combination of salary and commissions. However, while commonly viewed as involving unethical, if not illegal, behavior, fortunately these four issues were not among the 10 key ethics issues[11] identified in the previous section. Correlation coefficients ranging from .828 to .972 indicate the order of the 32 ethics issues was quite similar for the five income types.

In summary, the study found relatively few significant differences in the perceptions of various groups of CLUs and ChFCs regarding the extent to which the 32 ethics issues present problems for those working in the life insurance industry. Moreover, only one significant difference involved a key ethics issue—respondents affiliated with insurance agencies perceived Issue 7 (false or misleading representation of products or services in marketing, advertising, or sales efforts) as presenting a greater problem than did independent business owners.

Overall Effects of the Recession on the Industry's Ethical Environment

As mentioned earlier, two additional questions were asked in an effort to get a sense of how the responding CLUs and ChFCs perceived the recession and slow recovery as having impacted those working in marketing, underwriting, claims, and the industry overall.

Major studies of the impact of the recession on U.S. business in general conducted by the Ethics Resource Center (ERC)[12] and KPMG[13] indicated that pressure is not only a key factor that might cause employees and managers to engage in misconduct in the course of carrying out their job responsibilities, but it also serves as an indicator of the possible existence of unethical behavior in the workplace. Competitive pressures have also been identified in earlier studies of CLUs, ChFCs[14] and other financial service professionals[15] working in both the life and property-liability insurance industries as presenting the greatest challenge to their efforts to act ethically in the course of their work. In an effort to gauge the recent impact of this key driver of misconduct on the life insurance industry's ethical environment, CLUs and ChFCs participating in the 2011 survey were asked to indicate on a 5-point scale—where 5 meant to a very great extent and 1 meant not at all—the extent to which the drop in demand for insurance triggered by the recession and slow recovery has led to an increase in the competitive pressures experienced by those working in marketing, underwriting, claims settlement, and the industry overall.

TABLE 2

Ethics Issues Significantly Different for Certain Earned Income Groups

Issue		Commissions Only	Salary Only	Salary and Incentive/ Bonus but No Sales Commissions	Salary and Commissions	Fee and Commissions
12	Misuse of company assets/ property	1.70	2.22	2.48[a]	1.95	1.95
15	Receiving excessive gifts or entertainment	1.72	2.44[a]	2.13	1.89	1.92
26	Discrimination	1.76	2.50[ab]	2.03	1.58	1.83
28	Employee theft	1.89	2.39[b]	2.10	1.67	2.10

[a] Significantly greater than the Commissions Only group mean at the .05 level.
[b] Significantly greater than the Salary and Commissions group mean at the .05 level.

As indicated by the means shown in Table 3, the CLUs and ChFCs responding to the survey viewed those working in each of the four areas studied as having faced increased competitive pressure due to the recession and slow recovery. However, those working in marketing were perceived by all respondents as having not only experienced the greatest increase in competitive pressures, but also an increase viewed as being significantly greater than that experienced by those employed in underwriting, claims settlement, and the industry overall. To provide some perspective of the extent of the perceived impact of the recession and slow recovery on competitive pressures experienced by those working in the life insurance industry, the four group means shown in Table 3 were compared[16] with the values determined in a comparable study of CPCUs conducted at the same time as the 2011 CLU/ChFC survey. Despite the fact that the respondents to the CLU/ChFC survey work primarily in marketing positions (84.5%) whereas the majority of those responding to the CPCU survey[17] (85.5%) reported working in nonmarketing jobs, the means indicating the extent to which those employed in marketing, underwriting, claims settlement, and the industry overall were perceived as having experienced increased competitive pressure due to the recession were all significantly greater for those with jobs in the property-liability insurance industry than those in the life insurance industry.

CLUs and ChFCs participating in the 2011 survey were also asked to indicate on the same 5-point scale the extent to which conditions related to the recession and slow recovery have made it more difficult for those with jobs in each of the four areas identified above to respond ethically to various challenges encountered in the course of their work. As was the case with competitive pressure, Table 4 indicates that those working in marketing were perceived by all respondents as having not only experienced the greatest increase in difficulty of responding to ethical challenges encountered at work, but also an increase viewed as being significantly greater than that experienced by those employed in underwriting, claims settlement, and the industry overall. While no significant difference was found between the CLU/ChFC and CPCU means for those working in marketing, the other three means indicating the extent to which those employed in underwriting, claims settlement, and the industry overall were perceived as encountering increased difficulty in responding to ethical dilemmas at work due to the recession were once again significantly greater for

TABLE 3

Impact of the Recession and Slow Recovery on Competitive Pressure Experienced at Work

Survey Question: *On a scale of 1 to 5, where 5 means "to a very great extent" and 1 means "not at all," indicate the extent to which the drop in the demand for insurance triggered by the recent recession and slow recovery has led to an increase in the competitive pressures experienced by those working in each of the following areas of the life insurance business.*

	Mean	The increase in competitive pressure experienced by those working in each area listed in the left-hand column is significantly[a] greater than that experienced by those working in the following area(s):
Marketing	3.15	Underwriting, claims, and the industry overall
Underwriting	2.74	Claims
Claims settlement	2.32	
The industry overall	3.03	Underwriting and claims

[a] Significant difference measured at the .05 level.

TABLE 4

Impact of the Recession and Slow Recovery on the Ability to Respond Ethically to Various Challenges Encountered at Work

Survey Question: *On a scale of 1 to 5, where 5 means "to a very great extent" and 1 means "not at all," indicate the extent to which conditions related to the recent recession and slow recovery have made it more difficult for those with jobs in each of the following areas of the life insurance business to respond ethically to various challenges encountered in the course of their work.*

	Mean	The increase in difficulty of responding ethically to challenges encountered at work by those working in each area listed in the left-hand column is significantly[a] greater than that experienced by those working in the following area(s):
Marketing	2.67	Underwriting, claims, and the industry overall
Underwriting	2.26	Claims
Claims settlement	2.11	
The industry overall	2.57	Underwriting and claims

[a] Significant difference measured at the .05 level.

those with jobs in the property-liability insurance industry than those in the life insurance industry.

A Comparison with the Findings of Earlier Surveys

To determine how the recent recession and slow recovery have impacted the life insurance industry's ethical environment, if at all, the 32 ethics issue means indicating the extent to which the CLUs and ChFCs responding to the 2011 survey perceived each of the issues as presenting problems for those working in the industry will be compared with the same information gathered in three earlier studies. Two of these studies—the 1990 CLU/ChFC Ethical Issues Study[18] and the 1995 MDRT[19] Ethical Issues Study[20]—were conducted near the beginning and end of the period in which the life insurance industry experienced its most severe display of ethical misconduct in modern times. Complaints against a number of the industry's leading companies (and some smaller ones as well) involving "allegations of churning, misrepresentation, or investment performance that failed to live up to projections"[21] led to a wave of market conduct suits that resulted in multimillion-dollar settlements by and/or fines against several major life insurers, reversal of growing sales trends for some companies, and perhaps worst of all, serious erosion of the public's trust in the industry.[22] Deeply concerned with "the industry's deteriorating and shabby image, possible regulatory repercussions, and potential company and officer liability,"[23] in 1994 the American Council of Life Insurers (ACLI) set in motion the process that ultimately led to the establishment of the Insurance Marketplace Standards Association (IMSA), an organization whose mission, according to its first executive director, Robert Googins, was "to help life insurance companies maintain high ethical standards in the marketplace."[24]

The third survey against which the findings of the 2011 survey will be compared—the 2003 CLU/ChFC Ethical Issues Study[25]—was conducted following the 2001 recession and its period of recovery. Table 5 summarizes the issue means and ranks for all respondents to the 1990, 1995, 2003, and 2011 surveys.

Similarities

While comparison of the issue ranks for the four studies reveals some shifting in the order of the issue means, there is considerable similarity in the list of the most problematic ethical issues identified in 1990, 1995, 2003, and 2011. For example, the four top-ranked issues in the 2011 survey are the same issues as those ranked in the top four in the 1990 and 2003 surveys, and are among the five top-ranked issues in the 1995 survey. Also, the following issues ranked in the top eight in all four studies:

- Issue 2: Failure to provide prompt, honest responses to customer inquiries and requests
- Issue 3: Making disparaging remarks about competitors, their products, or their employees or agents
- Issue 7: False or misleading representation of products or services in marketing, advertising, or sales efforts
- Issue 8: Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities
- Issue 29: Lack of knowledge or skills to competently perform one's duties
- Issue 30: Failure to identify the customer's needs and recommend products and services that meet those needs
- Issue 31: Failure to be objective with others in one's business dealings
- Issue 32: Misrepresenting or concealing limitations in one's abilities to provide services

All eight of these issues ranked at the top in each of the four studies qualify as key ethical issues according to the standard applied earlier in presenting the findings of the 2011 survey—that is, issues with means greater than or equal to 2.50. The first four of these key ethical issues reflect issues and dilemmas encountered by businesses and their employees in general whereas the last four key ethical issues listed above are issues of special relevance to professionals. As key ethical issues, all eight were viewed by the respondents to each of the four studies as presenting the greatest ethics-related problems for those working in the life insurance industry at that time.

The high positive correlation coefficient found for the 32 issues in the 2003 and 2011 studies, .976, indicates that the order of the issues in the two latest surveys is very similar. With correlation coefficients greater than or equal to .951, the order of the 32 issues in the other five pairs of studies is likewise very similar.

TABLE 5

**Ethics Issues in the Life Insurance Industry:
A Comparison of the Findings for All Respondents in Four Studies**

Issue		CLU/ChFC 1990 Study (n = 437; 37%)[f]		MDRT 1995 Study (n = 339; 23%)		CLU/ChFC 2003 Study (n = 450; 15%)		CLU/ChFC 2011 Study (n = 319; 9%)	
		Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
1	Failure to provide products and services of the highest quality in the eyes of the customer	2.618	9	2.83	9	2.47[e]	11	2.57[e]	10
2	Failure to provide prompt, honest responses to customer inquiries and requests	2.903	8	2.92	8	2.78	6	2.74	7
3	Making disparaging remarks about competitors, their products, or their employees or agents	3.087	6	3.31[a]	4	2.71[de]	7	2.68[de]	8
4	Misuse of proprietary information	2.157	12	2.41[a]	12	2.15[e]	14	2.35	13
5	Misuse of sensitive information belonging to others	2.035	18	2.24[a]	14	2.04	16	2.17	17
6	Improper methods of gathering competitors' information	2.127	14	2.29	13	2.02[e]	18	2.26[c]	14
7	False or misleading representation of products or services in marketing, advertising, or sales efforts	3.530	1	3.54	1	3.00[de]	4	3.12[de]	2
8	Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities	3.274	4	3.32	3	3.11[e]	2	3.03[de]	4
9	Conflicts of interest involving business or financial relationships with customers, suppliers, or competitors that influence, or appear to influence, one's ability to carry out his/her responsibilities	2.597	10	2.56	10	2.58	9	2.66	9
10	Conflicts of interest involving the marketing of products and services competing with those of one's own company	2.571	11	2.55	11	2.49	10	2.49	11
11	Conflicts of interest that involve working for a competitor, customer, or supplier without approval	2.088	16	2.02	16	1.98	19	2.13	19
12	Misuse of company assets/property	1.715	28	1.67	24	1.70	30	1.85[b]	27
13	Insider trading/other security trading problems	2.009[b]	19	1.67	24	2.13[b]	15	2.06[b]	22
14	Giving excessive gifts or entertainment	1.711	29	1.57	30	1.76[b]	23	1.98[abc]	24
15	Receiving excessive gifts or entertainment	1.520	31	1.44	31	1.64[b]	31	1.84[abc]	29
16	Offering or soliciting payments or contributions for the purpose of influencing customers or suppliers	1.703	30	1.70	22	1.74	27	2.01[abc]	23
17	Offering or soliciting payments or contributions for the purpose of influencing government officials	1.759	24	1.67	24	1.77	22	2.17[abc]	17
18	Offering or soliciting payments or contributions for the purpose of obtaining, giving, or keeping business	1.916	21	1.88	18	1.87	21	2.09[bc]	20
19	Offering or soliciting payments or contributions for the purpose of persuading employees of another company to fail to perform, or improperly perform, their duties	1.426	32	1.37	32	1.39	32	1.68[abc]	32

TABLE 5 (cont.)

Ethics Issues in the Life Insurance Industry: A Comparison of the Findings for All Respondents in Four Studies

Issue		CLU/ChFC 1990 Study (n = 437; 37%)[f]		MDRT 1995 Study (n = 339; 23%)		CLU/ChFC 2003 Study (n = 450; 15%)		CLU/ChFC 2011 Study (n = 319; 9%)	
		Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
20	Offering or soliciting payments or contributions for the purpose of influencing legislation or regulations	1.909	22	1.74	20	1.96[b]	20	2.23[abc]	16
21	Inaccuracy of books, records or reports	2.093	15	1.99	17	2.32[ab]	13	2.24[b]	15
22	Abuse of expense accounts	1.984[b]	20	1.69	23	2.03[b]	17	2.07[b]	21
23	Antitrust issues	1.902[b]	23	1.66	27	1.76	23	1.85	27
24	Relations with local communities	1.755	25	1.86	19	1.73	28	1.80	31
25	Office/agency closings and layoffs	2.154	13	2.16	15	2.33	12	2.37	12
26	Discrimination	1.749	26	1.63	29	1.76	23	1.81	30
27	Drug and alcohol abuse	2.070[b]	17	1.74	20	1.72[d]	29	1.90	26
28	Employee theft	1.715	27	1.64	28	1.75	26	1.95[abc]	25
29	Lack of knowledge or skills to competently perform one's duties	3.296	3	3.21	5	3.08[d]	3	3.13	1
30	Failure to identify the customer's needs and recommend products and services that meet those needs	3.423	2	3.42	2	3.16[de]	1	3.11[de]	3
31	Failure to be objective with others in one's business dealings	2.947	7	2.94	7	2.71[de]	7	2.89	5
32	Misrepresenting or concealing limitations in one's abilities to provide services	3.116	5	2.99	6	2.95	5	2.88[d]	6

[a] Significantly greater than the CLU/ChFC 1990 study value at the .05 level.
[b] Significantly greater than the MDRT 1995 study value at the .05 level.
[c] Significantly greater than the CLU/ChFC 2003 study value at the .05 level.
[d] Significantly less than the CLU/ChFC 1990 study value at the .05 level.
[e] Significantly less than the MDRT 1995 study value at the .05 level.
[f] Number of survey respondents and approximate survey response rate.

Differences

While the order of the 32 issues in each of the four studies was very similar, the extent to which a number of issues were perceived as presenting ethics-related problems for those working in the life insurance industry differed significantly among the studies. As shown in Table 5 and Figure 1, comparison of the 32 issue means for the 2011 study with those of the 2003 study— which was also conducted following a recession—indicated that the following nine issues were perceived as presenting significantly greater challenges today than in 2003:

- Issue 6: Improper methods of gathering competitors' information
- Issue 14: Giving excessive gifts or entertainment
- Issue 15: Receiving excessive gifts or entertainment
- Issue 16: Offering or soliciting payments or contributions for the purpose of influencing customers or suppliers
- Issue 17: Offering or soliciting payments or contributions for the purpose of influencing government officials
- Issue 18: Offering or soliciting payments or contributions for the purpose of obtaining, giving, or keeping business
- Issue 19: Offering or soliciting payments or contributions for the purpose of persuading employees of another company to fail to perform, or improperly perform, their duties

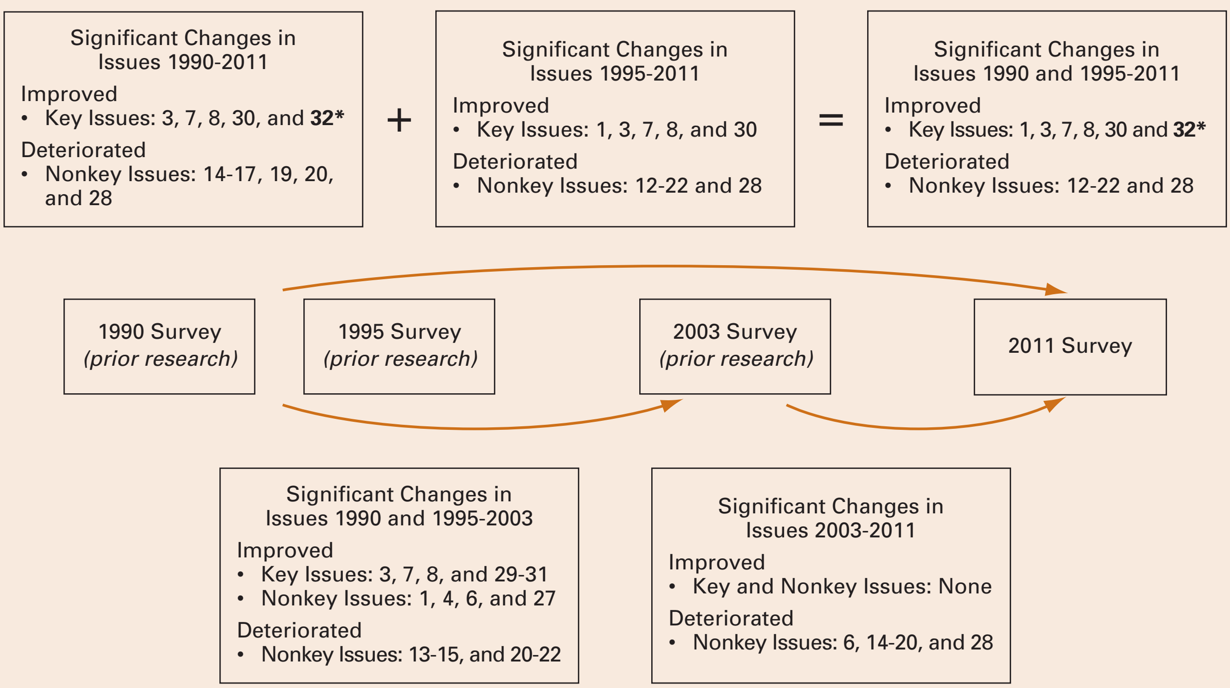
- Issue 20: Offering or soliciting payments or contributions for the purpose of influencing legislation or regulations
- Issue 28: Employee theft

Fortunately, none of these nine issues were key ethical issues in either study. Thus, with no issues found to be presenting less of a problem in 2011 than in 2003, the findings suggest that today's life insurance industry's ethical environment appears to have become worse during the recent recession and slow recovery. While A.M. Best described the period surrounding the 2001 recession with its "precipitous decline in the equity markets, cyclically low interest rates, instability in the world situation and widespread lack of confidence in corporate management"[26] as "perhaps the most difficult three-year period in the industry's history,"[27] with the recent recession being the worst in U.S. history and trust in American business hitting an all time low in 2009,[28] it is not surprising that a modest increase in unethical behavior was found to have occurred in the 2011 survey. This finding is also consistent with the 2011 survey respondents' perceptions of an increase in competitive pressures and difficulty in responding ethically to challenges encountered at work by those currently working in marketing, underwriting, claims, and the industry overall as a result of the recent recession and slow recovery.

Comparison of the findings of the 2011 survey with those of the 1990 and 1995 surveys conducted near the beginning and end of the period in which the life insurance business experienced its most severe display of ethical misconduct in modern times indicates that numerous changes occurred in the extent to which ethical issues were perceived as causing problems for the industry. As shown in Table 5 and Figure 1, seven issues (Issues 14–17, 19, 20, and 28) were perceived as presenting greater ethical problems in 2011 than in 1990, whereas five issues

FIGURE 1

Ethical Issues Experiencing Significant Change over Time



* Note: Issue 32 is the only issue found to improve from 1990/1995-2011 that did not experience improvement prior to the time of the 2003 survey.

(Issues 3, 7, 8, 30, and 32) were seen as presenting less of a problem today. Similarly 12 issues (Issues 12–22 and 28) were perceived as presenting greater ethical problems in 2011 than in 1995, whereas five issues (Issues 1, 3, 7, 8, and 30) were seen as presenting fewer problems today. Fortunately, none of the issues perceived as presenting greater problems today than in 1990 or 1995 are key ethical issues. Moreover, all of the six issues viewed as presenting fewer problems today than in 1990 and 1995 are key ethical issues. Thus, despite the greater numbers of issues seen as more problematic for those working in the life insurance business today, the fact that the six issues showing fewer problems today are all key ethical issues suggests that, on balance, the industry's ethical environment today appears to be no worse, and quite possibly better, than during the period of severe market misconduct experienced in the first half of the 1990s.

However, most of the improvement in the impact of the six key issues on the industry's ethical environment found in the comparison of the 2011 survey results with those of the 1990 and 1995 surveys actually occurred prior to the 2003 survey. As shown in Figure 1, an earlier comparison of the 2003 survey results with those of the 1990 and 1995 surveys[29] indicated that six key ethical issues (Issues 3, 7, 8, and 29–31) were perceived as presenting fewer problems for those working in the life insurance industry in 2003 than in either of the two surveys conducted in the 1990s. In addition, four issues that were not key ethical issues at the time (Issues 1, 4, 6, and 27) also showed significant improvement when compared with the findings of the two surveys conducted in the previous decade. As a result, only one of the six ethical issues (Issue 32) found to improve significantly in the comparison of the findings of the 2011 survey with those of the 1990 and 1995 surveys had not previously experienced such improvement at the time of the 2003 survey. On the other hand, 10 ethical issues (Issues 1, 3, 4, 6–8, 27, and 29–31), six that were key and four not, were perceived as being less problematic to the industry in 2003 than at the time of the 1990 or 1995 surveys. This suggests that the vast majority of the improvement in the ethical environment of the life insurance industry since the troubled first half of the 1990s is perceived to have occurred prior to 2003. This, along with the finding of no significant differences in the means of any of the key ethical issues when the results of the 2011 survey were compared earlier with those of the 2003 survey, suggests that the improvement in the industry's ethical environment reflected in the comparison of the 2011 results with those of the 1990 and 1995 surveys was, with one exception, the product of events occurring before 2003. This, in turn, suggests that the change in the industry's ethical environment from its most troubled time in recent history until today essentially consists of two rather distinct periods: (1) prior to 2003 when the ethical environment faced by those in the industry appears to have improved somewhat[30] from that experienced during the first half of the 1990s, and (2) after 2003 when, as explained earlier, the industry's ethical environment appears to have worsened somewhat prior to and during the recent recession and slow recovery.

Some Implications

The previous analysis of the findings of four surveys of CLUs and/or ChFCs conducted throughout the last two decades yields several points worth considering in dealing with the life insurance industry's ethical environment today and in the future. Following the first half of the 1990s in which the industry experienced its most serious ethical misconduct in modern times, the ethical environment of the life insurance business improved somewhat during the period 1995 to 2003 with six key ethical issues (Issues 3, 7, 8, and 29–31) and four nonkey issues (Issues 1, 4, 6, and 27) perceived as presenting less problems for those working in the life insurance industry toward the end of this eight-year period as compared with six nonkey ethics issues whose consequences were perceived as worsening from 1995 until 2003. An earlier study[31] suggests that at least part, if not most, of this improvement in the industry's ethical environment during this period may be attributable to IMSA's Ethical Market Conduct Program created by the ACLI to assist participating life insurers in designing, implementing, continually reviewing and improving sales and marketing procedures that benefit and protect the consumer and thereby strengthen consumer confidence in the life insurance business. Built on a foundation of six broad Principles of Ethical Market Conduct and related Code provisions that, among other things, focused on the eight key issues perceived as presenting the greatest ethics-related problems for the industry[32] at the time of the 1990, 1995, and 2003 CLU/ChFC studies suggests that IMSA's Ethical Market Conduct Program was aimed at helping participating insurers to establish and improve sales and marketing procedures for dealing with the most serious ethical challenges faced by those working in the life insurance business. In addition, IMSA is perceived by CLUs and ChFCs responding to IMSA-related surveys conducted in 1998 and 2003 as having made its key contributions to improving the industry's ethical environment during its first five years in existence by "influencing senior managers of life insurance companies to more strongly encourage and support ethical market conduct, thereby providing the essential foundation for improvement in the ethical environment/culture of their companies."[33] If ethics is to improve within the industry in the future, it is essential for insurance executives to continue to provide the leadership critical to strengthening the ethical culture of their organizations.[34]

As mentioned earlier, the life insurance industry's ethical environment has experienced little, if any, improvement since 2003. Instead, a comparison of findings related to significant differences of ethics issues between 2003 and 2011 suggested that today's life insurance industry's ethical environment appears to have become worse during the recent recession and slow recovery. This finding was echoed by the CLUs and ChFCs responding to the 2011 survey who indicated that during the recent recession and slow recovery they have observed an increase in competitive pressures and difficulty in responding ethically to challenges at work experienced by those currently working in marketing, underwriting, claims, and the industry overall.

Although the improvement in the six key ethical issues experienced prior to 2003 was not undone in the last seven years, the fact that the same eight key issues faced in 1990, 1995, and 2003 continue to present the greatest ethical challenges to the industry suggests that the status quo is not acceptable, especially when accompanied by the recent increase in pressure to compromise one's standards when faced by ethical issues at work. Further improvement is still needed for several reasons. In addition to the prediction by the ERC[35] that the ethical environment of business would likely worsen as economic conditions improved following the recession—a result already detected by the 2011 Edelman Trust Barometer Survey[36] (where trust in U.S. business was found to decline during 2010 similar to the drop detected in 2008)—a more important reason for needed improvement in the ethical environment of insurance industry stems from insurance being based on trust. Surveys conducted by respected polling organizations including Harris Interactive, Edelman, and Bloomberg have consistently found insurance viewed as among the least trusted industries from 2004 to the present. After being rated as the least trusted industry among 13 during 2007 and 2008 and tied with media for least trusted in 2009, the insurance industry remained among the bottom three industries out of 16 studied by Edelman[37] during 2010, only slightly ahead of banks and financial services. Similarly, after ranking among the bottom four of 13 industries in the 2008 Harris Interactive Annual Reputation Quotient Survey,[38] the insurance industry was rated in the bottom three industries of 13 studied in 2009 and 2010, and of 17 in 2011.

Public trust in business is commonly viewed as having two dimensions—integrity-based trust and competence-based trust. An integrity violation occurs when a person acting on behalf of an organization intentionally violates an agreed-upon practice or principle and thus is perceived as dishonest, whereas a competence violation occurs when an individual lacks the skills or knowledge to adequately perform a job. Poppo and Schepker indicate, "While failures of integrity may affect the esteem in which an organization is held, failures of competence may harm the public's confidence in purchasing an organization's products."[39] Review of the eight key ethical issues faced by those working in the life insurance industry in 1990, 1995, 2003, and 2011 shows that all involve violations that would harm the public's trust in those insurers and agencies tolerating the particular type of conduct specified—that is, Issues 2, 3, 7, 8, 30, 31, and 32 are examples of integrity violations or, as is the case with Issue 29, indicate a lack of competence to perform one's duties. Failure of insurers and agencies to continue their efforts to further reduce these unethical behaviors and perceived lack of competence will continue to diminish the trust not only of their internal stakeholders (such as current customers, agents, managers and other employees, and investors), but also of the public including, among others, prospective customers and investors, consultants, regulators, legislators, and the courts. Loss of trust of these groups can lead to loss of business, difficulty retaining talent, increased cost of capital, and additional compliance and legal fees. In addition, because "trust and mistrust can be irrationally contagious,"[40] integrity and competence-based violations by one or a few firms can cause the public to distrust an entire business sector (as was the case of the life insurance industry in the first half of the 1990s). As a result, "the way business leaders react to malfeasance at other firms may be of critical importance to public trust in business—and in turn, in their firms and sectors."[41]

Trust in a business by those both inside and outside the business is based heavily on its organizational culture—that is, "the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization."[42] While organizational culture reflects a wider array of values and norms than those related specifically to ethical behavior, a strong organizational culture contributing to trust creation requires integrity, the product of a strong ethical culture.[43]

Because "ethical culture continues to have a profound impact on pressure, observed misconduct, reporting of observed misconduct, and rates of retaliation against reporters,"[44] a strong ethical culture is a critical contributor to the quality of an organization's ethical environment as well as that of the industry in general. Pressure and observed misconduct are reduced in stronger as opposed to weaker cultures. While the actions and perceptions of both managers and workers influence the strength or weakness of an organization's ethical culture, top managers exert the greatest positive impact by "keeping employees informed, living up to promises and commitments, modeling a commitment to ethics and setting a good example."[45] However, participation of employees at all organizational levels is essential if a firm's culture is to be most effective in producing positive ethical outcomes. The ERC[46] found that employees reported encountering more positive ethical outcomes the more they perceived their managers, supervisors and coworkers setting a good example, keeping promises and commitments, and supporting others in adhering to ethics standards. Thus, as professionals with a commitment to ethical behavior, CLUs, ChFCs, and other members of the Society of FSP at all organizational levels have an opportunity as well as an obligation to contribute to the strengthening of their organization's ethical culture, a key factor in improving the industry's ethical environment in the future. ■

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(1) A.M. Best Company, "Risks Are Rising for U.S. Life/Annuity Balance Sheets," *Review/Preview Life/Annuity Edition* (February 2008): 1.
(2) A.M. Best Company, "U.S. Life Insurers Hunker Down as Market Turmoil Continues," *Review/Preview Life/Annuity Edition* (February 2009): 1.
(3) Steven N. Weisbart, "The State of the L/H Insurance Industry," presentation at Alabama I-Day, Tuscaloosa, AL, September 30, 2010.
(4) Robert M. Baranoff, "The Impact of the Economic Downturn on the Insurance Industry," presentation to the Actuaries Club of Hartford and Springfield, June 3, 2009.
(5) For a discussion of these and other effects of the recession on the life insurance industry, see A.M. Best Company, "Life Insurers Take Stock and Lay Groundwork for Recovery," *Review/Preview Life/Annuity Edition* (February 2010).
(6) *Ibid.* for a discussion of these and other effects of the recession on the life insurance industry in 2009.
(7) For a discussion of these and other improvements experienced by the life insurance industry in 2010, see, A.M. Best Company, "Life/Annuity Insurers Regain Ground as the Economy Strengthens," *Review/Preview Life/Annuity Edition* (February 2011).
(8) *Ibid.*, p. 18.
(9) Throughout the paper, statistically significant differences are determined at the .05 level.
(10) Throughout the paper, the comparison of the means for three or

more groups is conducted using One-Way Analysis of Variance.

(11) Because only five respondents indicated that their primary source of earned income is fees only, that group was not included in the reported findings in Table 2. However, when the fees-only group was included in the analysis, their means were the highest among the various income groups for the issues found to have significant differences. Moreover, with the fees-only group included in the analysis, they were found to have significantly greater means than groups receiving commissions for six key ethical issues (Issues 7–9 and 29–31) in addition to one nonkey issue (Issue 15). In fact, not surprisingly, the fees-only group indicated that Issue 30 (failure to identify the customer's needs and recommend products and services that meet those needs) caused significantly greater problems for those working in the industry than did any of the five income type groups shown in Table 2.

(12) Ethics Resource Center (ERC), *The Importance of Ethical Culture: Increasing Trust and Driving Down Risks,* supplemental research brief to the *2009 National Business Ethics Survey* (Arlington, VA: ERC, 2010); and Ethics Resource Center, *2009 National Business Ethics Survey (NBES): Ethics in the Recession* (Arlington, VA: ERC, 2009).

(13) KPMG, *Integrity Survey 2008–2009* (New York: KPMG LLP, 2008).

(14) See, for example, Robert W. Cooper and Garry L. Frank, "Ethics in the Life Insurance Industry: The Issues, Helps and Hindrances," *Journal of Financial Service Professionals* 45 (September 1991); and Robert W. Cooper, John P. Bell and Garry L. Frank, "The Ethical Environment Facing Life Insurance Professionals: The Views of MDRT Members," *Journal of Financial Service Professionals* 50 (March 1996).

(15) See, for example, Robert W. Cooper and Garry L. Frank, "Factors Influencing the Ethical Decision Making of CPCUs," *CPCU Journal* 44, No. 2 (1991); Therese M. Vaughan, Robert W. Cooper, and Garry L. Frank, "Ethical Issues, Helps and Challenges: Perceptions of U.S. Actuaries," *Journal of Actuarial Practice* 1, No. 2 (1993); and Robert W. Cooper and Garry L. Frank, "Ethical Challenges in the Two Main Segments of the Insurance Industry: Key Considerations in the Evolving Financial Services Marketplace," *Journal of Business Ethics* 36, No. 1-2 (2002).

(16) The comparisons of the means for the two groups of financial service professionals were conducted using an Independent-Samples T Test.

(17) Robert W. Cooper and Garry L. Frank, "The Ethical Environment of the Property-Liability Insurance Industry: The Impact of the Recession and Slow Recovery," paper accepted for publication in the *CPCU eJournal.*

(18) Cooper and Frank, "Ethics in the Life Insurance Industry."

(19) The vast majority of those responding to the MDRT survey (80%) either held or was enrolled in the programs preparing for the CLU and/or ChFC professional designations.

(20) Cooper, Bell, and Frank, "The Ethical Environment Facing Life Insurance Professionals."

(21) Ron Panko, "Fallout from the Market Conduct Bomb Penetrates the Life Industry," *Best's Review L/H* (December 1996): 47.

(22) See Robert W. Cooper, "IMSA: An Industry Effort to Restore Ethical Market Conduct," *Journal of Financial Service Professionals* 52 (September 1998).

(23) "ACLI's Market Conduct Response," *National Underwriter Life and Health* (December 4, 1995): 42.

(24) Frederick Schmitt, "Market Conduct Association Ready to Begin Operations," *National Underwriter Life and Health* (September 23, 1996): 1.

(25) Robert W. Cooper, Garry L. Frank, and Asha P. Williams, "The Life Insurance Industry's Ethical Environment: Has It Improved in the New Millennium?" *Journal of Financial Service Professionals* 57 (November 2003).

(26) A.M. Best Company, "Hard Financial Times Contribute to the Life Industry's Poor Performance," *Review/Preview Life/Health Edition* (January 2003): 1.

(27) A.M. Best Company, "Rays of Sunshine after the Perfect Storm," *Review/Preview Life/Health Edition* (January 2004): 1.

(28) Richard Edelman, *2010 Edelman Trust Barometer Executive Summary* (Global: Edelman, 2010): 8.

(29) Cooper, Frank, and Williams, "The Life Insurance Industry's Ethical Environment," p. 44.

(30) *Ibid.*

(31) *Ibid.*, p. 47.

(32) Cooper, "IMSA: An Industry Effort to Restore Ethical Market Conduct," p. 91, and Cooper and Frank, "Ethical Challenges in the Two Main Segments of the Insurance Industry."

(33) Cooper, Frank, and Williams, "The Life Insurance Industry's Ethical Environment," p. 48.

(34) For a discussion of the role of leaders in strengthening an organization's ethical culture, see, for example, Ethics and Compliance Officer Association (ECOA), *Ethical Culture Building: A Modern Business Imperative,* research report developed in cooperation with the ERC (Waltham, MA: ECOA, 2009), and Society for Human Resource Management (SHRM), "Business Ethics: The Role of Culture and Values for an Ethical Workplace," *SHRM Research Quarterly,* 4th Quarter (2009).

(35) ERC, 2009 *National Business Ethics Survey (NBES),* p. 14.

(36) Richard Edelman, *2011 Edelman Trust Barometer Executive Summary* (Global: Edelman, 2011): 4.

(37) See Edelman, *2008, 2009, 2010 and 2011 Edelman Trust Barometer Executive Summaries.*

(38) Harris Interactive, *2008, 2009, 2010 and 2011 Annual RQ Summary Reports* (New York: Harris Interactive, 2008, 2009, 2010, and 2011).

(39) Laura Poppo and Donald J. Schepker, "Repairing Public Trust in Organizations," *Corporate Reputation Review* 13, No. 2 (2010): 128.

(40) Business Roundtable Institute for Corporate Ethics, *The Dynamics of Public Trust in Business—Emerging Opportunities for Leaders,* special report (New York: Arthur W. Page Society, 2009): 12.

(41) *Ibid.*, p. 20.

42) Charles W. L. Hill and Gareth R. Jones, *Strategic Management* (Boston: Houghton Mifflin, 2001).

(43) Michael Pirson and Deepak Malhotra, "Foundations of Organizational Trust: What Matters to Different Stakeholders?" *Organization Science,* published online in Articles in Advance (October 22, 2010).

(44) ERC, *The Importance of Ethical Culture: Increasing Trust and Driving Down Risks,* p. 5.

(45) *Ibid.*, p. 13.

(46) ERC, *Critical Elements of an Organizational Ethical Culture,* research report produced by the ERC in partnership with Working Values (Arlington, VA: ERC, 2006).