

# **Ethics for Insurance Professionals: A Practical Guide**

Class Notes



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ETHICS FOR INSURANCE PROFESSIONALS: A PRACTICAL GUIDE  
CLASS NOTES

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# Introduction

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The objective of this course is to present the concept of ethics, how it relates to the sale and service of life insurance, and how it creates the foundation for personal as well as professional success. The course sets the foundation by examining ethics as a moral and legal force, and then previews the ethical responsibilities agents owe to their insurers, their policyowners, their states, and the public in general. Practical issues such as the proper use of policy illustrations, replacement, and ethical sales presentations are also discussed.



# **Ethics for Insurance Professionals: A Practical Guide**

## **Class Notes**

**Ethics for Insurance Professionals: A Practical Guide**

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**Course Overview**

- Part I: Introduction
- Part II: Agent responsibilities to insurers
- Part III: Agent responsibilities to clients
- Part IV: Agent responsibilities to the public
- Part V: Agent responsibilities to the state
- Part VI: Practical applications

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**Introduction to Ethics**

Part I

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### Agents and Ethics

- Defining ethics
- Ethics and success
- Ethics in business
- Overview of the ethical responsibilities of insurance agents

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### Code of Ethics

- Provides personal and professional satisfaction
- Promotes harmonious relationships with others
- Creates higher standards than insurance regulations

*Social behavior that favors the group over the individual*

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### What Is the Definition of Ethics?

- Morality?
- Legality?
- What do you think?

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### Results of Ethical Behavior

- Respecting self and others
- Treating all clients professionally
- Fostering harmonious relationships with others
- Satisfying clients

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### Study: Ethics in Business

- Indiana University and General Agents and Managers Association Study
  - Correlation between ethics and success
  - Top traits: ethics, honesty, and morality

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### To Whom is the Agent Responsible?

- Insurers
- Clients
- Public
- State

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**Responsibility to Insurers**

- Law of agency
- Honesty, good faith, and loyalty
- Reveal all material facts
- Agent as fiduciary for insurer

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**Responsibility to Clients**

- Help clients define needs
- Show how to meet needs
- Provide quality service

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**Responsibility to the Public**

- Inform and educate
- Act professionally—set a good example

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### Responsibility to the State

- State standards and regulations
- Marketing and unfair trade practices

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### Agent Responsibilities to Insurers

Part II

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### Responsibilities to the Insurer

- Concept of agency
- Agent authority
- Fiduciary standard
- Duties of insurer to agent

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**Agency Law**

- Express authority
  - Actual written or oral power to act
- Implied authority
  - Assumed to have but not expressly stated
- Apparent authority
  - Appearance or assumption of authority
- Limitations on authority
  - Certain acts restricted to principal

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**Fiduciary Responsibility**

- The trust between the agent and the principal. Care and responsibility must be taken for the best interest of the principal.

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**Agent Responsibilities as a Fiduciary**

- Solicit applications
- Describe coverage
- Explain application process
- Collect premiums and provide service
- Follow laws
- Follow ethical guidelines
- Act with fairness and good faith

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### Agent Characteristics as a Fiduciary

- Loyal to the insurer
- Acts in accordance with agency contract
- Discloses material information to insurer
- Acts promptly on applications and premiums

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### Agent Characteristics as a Fiduciary

- Avoids conflicts of interest
- Solicits business carefully
- Does not misrepresent policies
- Does not defame competitors
- Competes for business appropriately

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### Duties of the Principal to the Agent

- Opportunity to sell
- Reasonable production goals
- Reimbursement for losses
- Competitive products
- Truthful representation of products

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**Duties of an Insurance Broker**

- Broker is agent of applicant, up to the point of policy delivery.
- Broker is agent (fiduciary) of insurer at the time of delivery.

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**Agent Responsibilities to Clients**

Part III

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**Responsibilities to Clients**

- Understand the product
- Understand the client
- Present material information completely
- Service the sale
- Address special situations

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### Using a Fact-Finder

- It can
  - show client's current financials,
  - demonstrate affordability,
  - illustrate needs, and
  - show client's goals and expectations.

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### Selling to Needs

- Analyzing problems
- Planning action
- Recommending products
- Implementing a plan
- Educating the client
- Ongoing service

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### Knowledge Required

- Industry
- Products
- Laws and ethics code
- Competitors

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### What Is Quality Service?

- Educate client
- Disclose all relevant information
- Maintain confidentiality
- Notify clients promptly
- Make suitable recommendations
- Sign and date illustrations

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### Application Process

- What information is required, why is it required, and how will it be evaluated?
- Emphasize the need for accuracy and honesty
- Explain the meaning of insurance terms

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### Conditional Receipts

- These are issued when premium is paid with the application.
- Coverage begins prior to policy issuance if insured satisfies certain conditions.

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## Underwriting Process

- **Inside**
  - Review application
  - Agent report
  - Medical questionnaire
  - Special hazard questionnaire
- **Outside**
  - Medical Information Bureau (MIB)
  - Inspection report
  - Driving records
  - Medical records
  - APS (attending physician's statement)

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## Special Situations

- Estate or business planning insurance
- Attorneys and the American Bar Association
- Special needs adults

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## Agent Responsibilities to the Public

Part IV

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**Responsibilities to the Public**

- Honest advertising
- Honest sales presentations
- Clear and accurate policy illustrations
- Insurer approval, if required

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**Society of Financial Service Professionals**

- Life insurance illustration questionnaire
- Variable life insurance illustration questionnaire
- Educate agents about a policy's internal assumptions

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**Skill and Competency**

- Acquire knowledge and skill
- Acknowledge situations beyond one's skill level
- Get expert support when needed

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### Professional Obligations

- Client's interests before self-interest
- Dedication to the industry and its representatives
- Provide quality service

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### Agent Responsibilities to the State

Part V

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### The Agent and Ethics

- Regulation
- National Association of Insurance Commissioners (NAIC)
- Marketing practices
- Disciplinary action
- Financial planning
- Code of ethics

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### Regulation of the Insurance Industry

- Paul v. Virginia (1868)
  - Determined that states will regulate
- United States v. Southeastern Underwriters Association (1944)
  - Reversed Paul v. Virginia
- McCarran-Ferguson (1945)
  - Authorizes state regulation with exception of fair labor standards and antitrust

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### National Association of Insurance Commissioners (NAIC)

- Encourages uniformity in state laws and regulations
- Assists state officials in administering laws and regulations
- Protects interests of policyowners
- Preserves state regulation of insurance
- Created models for ethical marketing practices

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### Significant Marketing Laws

- Rebating
- Defamation
- Twisting/churning
- Misrepresenting policies or credentials
- Boycotting, coercion, or intimidation

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### Policy Replacement

- Full and fair disclosure
- Complete appropriate forms
- Provide Buyer's guide and other documents
- Complete replacement questionnaire

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### Replacement Questionnaire

- Is there a taxable gain if policy is replaced?
- What are differences between plans?
- What riders are on current and proposed policies?
- What are financial strength ratings of both insurers?

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### NAIC Model Disclosure Documents

- Buyer's guides
  - Life
  - Health
  - Personal lines
- Policy summary

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**Financial Planning**

- Insurance agent
- Financial planner

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**Credibility as a Planner**

- CFP®
- ChFC®
- Financial Planning Association
- College of Financial Planning

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**Potential Conflicts of Interest**

- Fee for service and commission on sale
- Financial planning and insurance sales

*It is a violation to charge a fee and earn a commission at the same time.*

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### Investment Advisers Act (1940)

- Give investment advice and receive compensation for it?
  - Register as investment advisor with SEC
  - Conform to ethical conduct standards
- SEC opinion statement

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### Ethics in Practice

Part V

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### Professional Codes of Ethics

- American College
- NAIC
- National Association of Fraternal Insurance Counselors
- Certified Financial Planner Board of Standards, Inc.

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**Personal Values and Ethics**

- What we must do
  - State statutes and regulations
- What we believe in and who we are
  - Personal ethics

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**Ask Yourself for Guidance**

- Can this action stand the light of publicity?
- To whom am I obligated?
- What are those obligations?
- Who has rights that must be protected?
- Is this action an ethical breach of duty to my company? To my client?

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**Traits of the Ethical Agent**

- Integrity
- Competence
- Attitude
- Sense of purpose
- What else?

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### Situations That Challenge Your Ethics

- Personal financial pressure
- Other personal problems
- Pressure for favors from family, friends, or clients
- Unreasonable sales goals

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### Avoiding Trouble

- Know and live a personal and professional code of ethics
- Errors and omissions insurance
- Perform due diligence at all times

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## Notes

# Notes