

Some Issues, and Possible “Best Practices,” for Teaching Ethics in Courses in Risk Management and Insurance

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ABSTRACT

Surveys of employers indicated that they place great importance on ethical behavior, yet do not find this to be a major strength of recent college graduates. New hires are viewed as “ethically naïve,” i.e. they lack experience in considering the ethical dimensions of business decisions. The employers also expressed an interest in having ethics be a part of Undergraduate course work to remedy this lack of experience. Certain pedagogical approaches may prove to be effective in this effort. These strategies focus on providing an introduction to the principles of ethics and some relevant case examples that can be the basis for classroom discussions. The ideas expressed are based on research of students’ attitudes to set a “baseline” and a classic model of instructional design.

Practitioners in the broadly defined fields of risk management and insurance are no less subject to ethical dilemmas in the practice of their professions than are those in other professions. The ability to resolve these dilemmas is strengthened by development in two key areas. The first of these is the ability to recognize that a decision has an ethics dimension or component to it. The second is training and experience that allows a person to move logically and confidently toward resolution of the ethics “problem” in the decision. Two articles in *Risk Management and Insurance Review* highlighted the significance of ethical awareness in risk management and insurance.

Bell and Wolverton (1998, Winter, 117-123), looking at desirable professional characteristics of job applicants, discovered that prospective employers place great importance on ethical behavior. The attribute “exhibits ethical professional behavior” was ranked highest in importance in a survey. The survey respondents did not rank this as a major strength of recent college graduates, and the authors suggested that

increasing ethics content in risk management and insurance courses would be beneficial.

Cassidy, Marshall, and Hollman, (1998, Summer, 89-96), looking at hiring patterns of insurers, discovered that there were significant gaps between what is being taught in RMI courses and what recruiters viewed as most important for prospective employees. A key finding was that coursework in ethics would be desirable. That would allow students to improve their ability to recognize the ethical dimensions of business decisions. To implement such course work would require two major things, an introduction to the principles of ethics and case examples.

Possible Causes of Ethical Naiveté

There are several possible explanations for the naiveté of students in the area of ethics. One obvious explanation is their relative youth and lack of exposure to ethical issues. How many college courses delve into issues of ethics? Another explanation is the relativist notions ascribed to the current cohorts of college-age persons. This has been discussed in both academic publications and the popular press. A final factor is that instructors are reluctant to enter into discussions of topics outside their areas of expertise. To make this leap, instructors need both pedagogical methods and relevant case examples.

A Framework for Teaching about Ethics

A set of short problem exercises was developed by the author to assist students in the development of decision skills and to allow them to practice dealing with possible

ethical issues in business problems specific to risk management and insurance. The exercises are designed to provide practice in recognition of ethics issues and discussion of alternatives and decision variables. Each exercise is designed to be the basis of classroom discussion for one class session. Each can be expanded, by the addition of supplementary materials, to two discussion periods.

The basis of each exercise is a “real-world” situation in which an ethics issue is confronted in the context of a risk management or insurance transaction. The exercises encompass several areas of risk management and insurance practice. They are each based on an actual occurrence, and each presents an ethical dilemma that has been faced by an actual person. (Samples of the exercises are included at the end of this paper).

The following is a possible framework for approaching discussions of ethics. This is based on standard principles of instructional design and presumes no prior instruction on the basics of ethics.

First, establish a baseline

To get an idea of where our students were in terms of their “ethical awareness,” we administered a brief survey. (A copy of the survey is included at the end of this paper.) This was used near the front end of a beginning property and liability insurance course. The survey was administered for seven years, and the weighted averages of the responses were updated each term.

The responses to questions about their understanding of the concept of ethics and about where they stood in relation to other students in that knowledge were

clustered near the “Agree” response on the Likert scale. The responses to questions about recognizing when an issue has an ethical dimension and whether they noticed ethical issues in the news and current topics were also clustered near the “Agree” response.

In essence, the respondents believed that they had a fairly good grasp of ethics and ethical issues. When questioned about the practical issue of accountants’ clients choosing accounting treatments, they generally agreed that this practice is ethical. When questioned about the ethics of assigning grades based on factors other than the individual students’ performances, they tended toward the “Disagree” response.¹ These results allowed us to approach the students with the notion that they had considered ethics and ethical issues but did not hold strong opinions.

Discuss the forces affecting ethical judgment

There are a number of factors that may influence ethical judgment, including culture, notions of justice, notions of rights, religious training, and values. It can be helpful to begin a discussion of ethics with these concepts and to allow students to ponder how these things affect their own life experiences. It is useful to assist them with the difference between “outcome justice” and “procedural justice” and to have a clear definition of what constitutes a value (a construct whose observance is important to you). This exercise alone helps to clear up some of the relativism that many ascribe to the young. They will be interested that they clearly have a number of shared values. Those values may include economic values, social values, aesthetic values, political

¹ This is an interesting result, given that the author has been asked numerous times to “give” a grade other than the one earned by the student.

values, and ethical values. Some of those values are clear statements of words or ideas that help people choose the right thing to do.

Associate ethics with common interactions

The next step is to associate ethics with the interactions that make up the experience of the students' daily lives. This might be a series of "truisms," such as the following:

- Ethics is part of everyday life;
- Ethical considerations are part of any business decision (or ought to be);
- Ethical issues arise from dealings with customers, employees, investors, or members of the public (those we have taken to calling stakeholders).

A key task early in this process is to disarm relativist objections. Some may hold that no one truth is higher than another truth. The simplest way to accomplish this task is to provide concrete examples of some things that are clearly wrong and some things that are clearly right.² Two concrete examples of things that are clearly right are helping a child with her homework and working on a Habitat for Humanity house. It is unlikely that any student will provide any reasonable objection to these notions. Two concrete examples of things that are clearly wrong are child pornography and spouse abuse. Without moralizing, it is possible to provide examples of things that clearly do, or do not, clear a moral hurdle.

² Credit for this notion goes to John Dienhart, The Boeing Frank Shrontz Chair of Business Ethics, Albers School of Business and Economics, Seattle University.

Provide basic notions of competing ethical views

There are three commonly cited ethical viewpoints, characterized as *the moral*, *the economic*, and *the legal*. The moral view expresses the notion that there exists a shared set of rules that can be observed by all persons. This can be expressed by the question “Would we be comfortable if our colleagues, family, and friends knew about a decision that we had made.” This can also be expressed as the “newspaper test.” Would you be comfortable if you read about this on the front page tomorrow morning? (Or, as a colleague has put it, “Would you be comfortable coming home to find the *60 Minutes* van and crew parked in your driveway?” This can be a good place to discuss whether we do what is right because it is right, or because we fear the consequences of discovery.

The economic view of ethics holds that profit maximization is the goal of business behavior. It is assumed that all costs of production are reflected in the prices of goods and services, but that firms must consider the harmful consequences of their actions. This may lead to, perhaps, a discussion of whether it is ethical to pollute, assuming we know that our firm will then be taxed to clean up the pollution. This may lead to further discussion about how capable humans have been in predicting the effects of their industrial activities, or the efforts to undo those effects.

The legal view of ethics essentially holds that if something is legal, then it is ethically appropriate. Of course, we are aware that the law often provides only a moral minimum. We are aware that the law is primarily reactive, i.e., we normally pass laws to deal with issues that have already caused problems in society. In addition, not

everything that is unethical or immoral is illegal. Clearly, humans cannot police all conduct; there must be some level of ethical judgment.

Discuss levels of ethical decision making

It is useful to introduce students to the levels of ethical decision-making. Every ethical decision, in effect every decision of any kind, involves one of the following as a motivation. The first possibility is *self-development*. Does this decision help me move forward in my career, or my current relationship? The second possibility is *care*. Does this decision assist in nurturing good relationships with family and friends? The third possible decision basis is *utility*. Does this decision nurture good relationships with organizations, communities, or nations? The final possible decision basis is *human dignity*. Does this decision promote rights, justice, fairness, or intrinsic worth? Decisions that take these notions into effect are described as *ethically efficient*.³ (These notions are well-grounded in the literature of social psychology.)

Give examples of ethical codes

To illustrate the above point more clearly, we introduce at this point examples of ethical codes that have been developed and published. A very useful one for those in risk management and insurance is the ethics code of the Society of CPCU. Another useful one for our discipline is the ethics code adopted by adjusters. We also posit to students that the following are worthy of their consideration. All of these can be easily reproduced and shown as classroom examples.

³ This notion we also credit to John Dienhart.

- The Ten Commandments;
- The Boy Scout (or Girl Scout) Law;
- The military academy honor codes;
- The Rotary© Four-Way Test;
- Corporate codes;
- The Guide to International Business Activities from the Minnesota Center for Corporate Responsibility.

Discuss the key paradigms of ethics

The final task before moving to cases with students is to give them a framework for evaluating behavior of the “actors” in the cases. There are four classic paradigms for this evaluation.⁴ The first paradigm is *truth versus loyalty*. This may involve trying to match honesty and integrity with commitment, responsibility, or promise-keeping. Most of your students, especially the males, will recognize the classic dilemma inherent in answering the question, “Does this make me look fat?” The second paradigm is *individual versus community*. This involves decisions of us versus them, the self versus others, or the smaller group versus the larger group.

The third paradigm is *short-term versus long-term*. This forces us to consider immediate needs or desires as opposed to future goals or prospects. The fourth paradigm is *justice versus mercy*. Here we consider issues of fairness, equity, and even-handed application of the law versus compassion, empathy, and love.

⁴ Kidder, in *How Good People Make Tough Choices*, gives an excellent presentation of these classic paradigms.

Provide simple exercises and cases

Appendix 1 is an example of a “starter” case. The actor and her ethical dilemma are easily identified. She clearly faces the issue of *truth versus loyalty*. The discussion will proceed from identification of the decision paradigm to a discussion of those to whom the young account executive owes loyalty. The next area of discussion will be the process by which the young account executive decides the priorities when she knows that she has a duty of loyalty to more than one person or entity.

Move to more complex cases with ambiguous and vague issues

Appendix 2 is an example of a more complex case, with the “actors” not so easy to identify. Students may become frustrated that there are no “right answers” to the questions. This provides training not only in recognition of complex ethical issues but also in the kinds of ambiguous and possibly vague issues that may arise in business transactions. This allows them to hone their decision skill sets as they recognize that there are some principles that can be applied.

Consider using a simple pre-test/post-test procedure and discuss the results with students

Appendix 3 is a post-test instrument that we have used, which has proven to be quite useful. It can easily be adapted for pre-test use for those who want to use both. This allows students and instructors to determine if there is any change in perception as a result of discussing ethics using the case exercises. The results can be tallied and discussed with the students as the final part of the discussion of ethics.

Be aware of the "confounding" result

An interesting surprise for instructors may reveal itself when assessing the post-test instrument. Students may, in relation to a pre-test evaluation, seem to have declined in their perceptions of their abilities to detect and assess ethical issues. This, we have learned from comparing pretest and posttest responses, is natural, in that the exercise may have caused students to doubt some of the assumptions that they previously held. In other words, some uncertainty has been introduced into their "comfort levels." This is not a bad result, and is also something that may be useful to discuss with them.

Each time that these materials have been used (over 20 times with senior-level students), the post-test comparison to the pre-test has shown a "value added" from their use, i.e., the student response showed that they felt better able to recognize and resolve ethical dilemmas. There has also been a learning experience for the author in the interpretation of post-test results seeming to indicate "regression" in the knowledge of some students. Apparently, some persons wrestling with ethical dilemmas for the first time are "confounded" by this introduction and, in the short run, believe themselves to be less confident about their abilities to make "good" ethical judgments. This insight is now part of the author's preparation for this instructional unit.

Network and develop resources

The final step in this process is to network and to develop resources. Find others who are working on these issues and share case materials with them. The recent financial crisis has provided a wealth of what appear to be clear breakdowns of ethical

standards. The exercises are easily adaptable to group learning exercises. (Working in teams is another of the desirable professional characteristics of job applicants cited by Bell and Wolverton).

Experiences with these exercises and concluding thoughts

We are all likely aware that undergraduate students are not particularly expressive of their appreciation for their undergraduate educational experiences. This is especially true with “slippery” materials such as discussions of ethics because these discussions do not produce “right” answers. After they have been employed for several years, however, many students do express appreciation. We have had this experience often when alumni have been asked to speak to our RMI Senior Seminar or when speaking to professional groups outside the university setting. When told of the conclusions of Bell and Wolverton and Cassidy, Marshall, and Hollman, alumni often confirm that discussion of issues of ethics would have been useful in their undergraduate educations.

Sometimes there are thoughtful expressions in “real time” as a result of this exercise in ethical decision-making. Following are some sample comments, gleaned from the post-test administered after a two-class module. The first class starts with a simple case and a brief discussion of the students’ concepts of ethics. That is followed by the “groundwork” outlined here and the assignment of a second, more complex case. The second class consists of discussion of the “take-home” case and a second case distributed in class. The focus of the discussion in the second class are identification of the correct paradigm, identification of the “actors,” and identification of their choices.

- *I feel that this section of the course was beneficial to me. It is a topic that is generally overlooked in school. As a graduating senior, this is the first time that I have spent more than a class lecture on this subject. It is something I think should be taught as part of the program.*
- *This is the only coursework in ethics I have had in 4 years of college. Seems the University assumes “good parenting” has taken away the need for an ethics course.*
- *I like how we related these concepts to everyday life and situations.*
- *You need more moral examples, that’s what’s missing with college students.*

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APPENDIX 1

ETHICAL AWARENESS TEST

This is part of a long-term study of students' perceptions of their "ethical awareness." Please circle the number that indicates your response to the following statements, using the following scale:

1 – Strongly agree

2 – Agree

3 – Neutral reaction to this notion

4 – Disagree

5 – Strongly disagree

1. I fully understand the concept of ethics.

1 2 3 4 5

2. I know as much about ethical issues as my fellow college students do.

1 2 3 4 5

3. I recognize when a problem or issue has an ethical dimension, for example, I am sensitive to ethical issues in business decisions.

1 2 3 4 5

4. I notice ethical issues related to news stories and in discussions of current topics.

1 2 3 4 5

5. It is ethical for an accounting firm such as Arthur Anderson to give clients choices of accounting treatments as long as the choices are permitted by generally accepted accounting principles (GAAP).

1 2 3 4 5

6. It is ethical for teachers and professors to assign grades based on factors other than an individual student's performance.

1 2 3 4 5

APPENDIX 2

CASE PROBLEM - THE WC PREMIUM AUDIT

A young account executive for a brokerage firm has had one of her firm's oldest clients assigned to her for servicing. The senior account executive who made the assignment was careful to note that this client is known to be very price conscious. The senior account executive also noted that he viewed a constant effort to find cost savings for clients as a critical part of the firm's service. He suggested that the young account executive go over the client's premium workups with the proverbial "fine-tooth comb."

The largest premium expense for the client is the workers' compensation (WC) premium. The young account executive has reviewed several years of WC premium audits to determine what factors have contributed most to the current premiums. Her goal in this review is to suggest better loss control procedures to reduce or prevent losses. A surprise in this review has been the discovery that there have been several employee classification errors, all of which have favored the client and have incorrectly caused the premium to be lower than experience justified.

The young account executive now wonders what to do. She knows that she owes a duty to her employer, a duty to the client, and a duty to the insurance companies her firm uses to meet the clients' risk financing needs. She remembers the comments of the senior account executive about the potential for "premium shocks" to cause clients to look elsewhere for brokerage services.

QUESTIONS FOR DISCUSSION – THE WC PREMIUM AUDIT

1. Which of the four classic paradigms for ethical dilemmas fit this situation?
2. By what process will the young account executive determine priorities for her loyalty?
3. How should the young account executive proceed? Should she approach the senior account executive first, or should she approach the client (or the insurer) first?

APPENDIX 3

CASE PROBLEM - UPSY DAISY PACKAGE COMPANY

Upsy Daisy Package Company (UDPC) serves the small-package delivery market, mainly as an alternative to USPS parcel post. UDPC uses a fleet of aircraft and trucks to move packages relatively quickly throughout the U.S. and Canada. They are considering expanding into other countries, probably first in Europe.

UDPC provides insurance on the first \$100 of value of every shipment as part of the shipping fee. For shipments with values in excess of \$100, there is an "excess insurance" fee of \$.50 per \$100 of declared value or part thereof. The company's practice was to absorb all losses as part of the cost of doing business and to include the "excess insurance" fees in reported revenues. When those fees became substantial, management began to look for ways to reduce the tax liability associated with them.

The company mentioned this problem to their insurance broker account executive, Mr. Frank Hall. Mr. Hall studied the problem and made a suggestion for an arrangement that would allow the fees to be deductible as insurance premiums. Mr. Hall subsequently assisted UDPC in forming a captive insurance company in Bolivia, Old Piety, Ltd. (OPL).

The "excess insurance" fees were remitted to Natural Onion Fire Insurance Company (NOFIRE), a subsidiary of a large U.S. financial services holding company. NOFIRE issued a "contract of insurance" to UDPC to cover the possible losses. NOFIRE then remitted the fees, less a service charge, to OPL as "reinsurance premiums." (This is a classic "fronting" arrangement.)

UDPC deducted the "premiums" paid to NOFIRE as an operating expense. OPL has a 0% loss ratio, but has substantial business expenses and is subject to the very low Bolivian corporate tax rate. The IRS has begun to look into this arrangement, but corporate counsel at UDPC has assured management that the arrangement is not illegal under the existing U.S. Tax Code.

1. Which of the four classic paradigms for ethical dilemmas fit this situation?
2. What ethical views back the actions of UDPC management and Mr. Hall?
3. How should the firm proceed in determining whether this transaction is ethical?

APPENDIX 4

RMI 4295 ETHICAL AWARENESS *POST-TEST*

Now that you have discussed one or more of the case problems, indicate your response to the following statements. Please circle the appropriate number, using the following scale:

- 1 – Strongly agree
- 2 – Agree
- 3 – Neither agree nor disagree
- 4 – Disagree
- 5 – Strongly disagree

1. I usually recognize that a problem or issue has an ethical dimension.

1 2 3 4 5

2. I am sensitive to ethical issues in business decisions.

1 2 3 4 5

3. I fully understand the concepts of ethics.

1 2 3 4 5

4. I am aware of ethics issues that arise in everyday situations.

1 2 3 4 5

5. I am as “tuned in” to ethical issues as my peers are.

1 2 3 4 5

6. I notice ethical issues related to current topics and news stories.

1 2 3 4 5

7. I believe this is a useful exercise.

1 2 3 4 5

Comments: