Building a Positive Image by Reinforcing Trust through Good Conduct and Ethical Practices

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16 December 2020

The Role of Insurance in Society

- **Providing Society with resilience**

- **Every innovative leap mankind has made has involved taking risk and insurance has provided the launchpad for that risk to be taken**

- **Insurance is an enabler of progress**

Does the current image of the insurance industry reflect the importance of its role in society?

Why reputation matters

- People and businesses must be able to source their insurance and obtain advice from insurance companies and insurance intermediaries, they can TRUST.

- The insurance industry must have a REPUTATION FOR TRUST.

- Only strong ETHICS and ETHICAL BUSINESS PRACTICES can build that reputation for trust.

Business Ethics and Conduct Principles

Business Ethics = A set of principles which determines what is the right behavior when conducting insurance business or carrying on regulated activity

- **Honesty and Integrity**

- **Acting in the client's best interests and treating clients fairly**

- **Due care and diligence**

- **Professional competence and continuously developing professional knowledge**

- **Discharging accurate and adequate information**

- **Advice suitable to client's interests**

- **Avoiding / managing conflicts of interest**

- **Safeguarding client's assets**

Sub-prime mortgages → MBS → CDOS → CDS → BANG
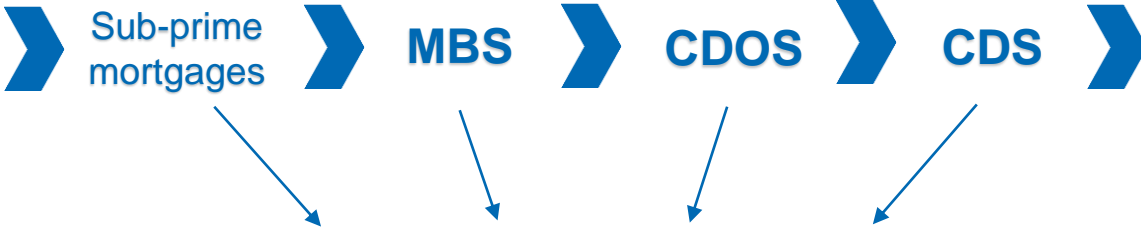
Is this legal? ☑
Do I comply with all regulations? ☑
Am I allowed to do this? ☑

Nobody asked: Is this the right thing to do?

Tick-box compliance had removed ethics from business decision making.

New regulatory regime: 8 CORE BUSINESS ETHICS

The unexpected lesson to emerge from Complaints

➢ **We are all human beings**

➢ **We are susceptible to pressure**

➢ **We rationalize our behavior (i.e. find excuses to act unethically when thinking we are ethical)**

"If I do this only once, it will solve this problem. I am still a good person."

"This is wrong, but it will lead to a good result. So I am a good person."
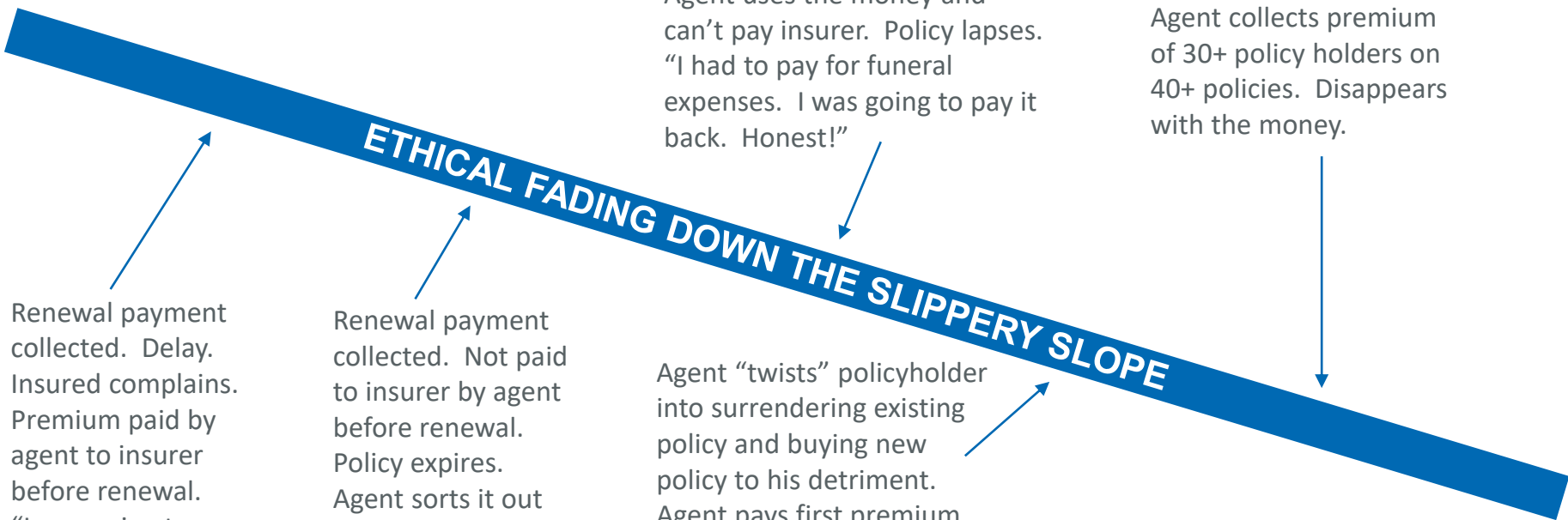
"Others are doing it, why shouldn't I"

"This is just reward for my hard work"

ETHICAL FADING – a condition that enables people to act in unethical ways while falsely believing that they have not compromised their ethical principles.

Complaints and the slippery slope of Ethical Fading

保險業監管局
Insurance Authority

Mishandling premium

ETHICAL FADING DOWN THE SLIPPERY SLOPE

Renewal payment collected. Agent uses the money and can't pay insurer. Policy lapses. "I had to pay for funeral expenses. I was going to pay it back. Honest!"

Agent collects premium of 30+ policy holders on 40+ policies. Disappears with the money.

Renewal payment collected. Delay. Insured complains. Premium paid by agent to insurer before renewal. "I was going to pay it before renewal and I did."

Renewal payment collected. Not paid to insurer by agent before renewal. Policy expires. Agent sorts it out after renewal. "I sorted it out didn't I?"

Agent "twists" policyholder into surrendering existing policy and buying new policy to his detriment. Agent pays first premium on new policy as loan to policy holder. Thinks he is "helping" client.

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The importance of strong organizational culture to Business Ethics

"Culture" refers to the values and norms that are shared by people who work for or represent a company, demonstrated through the way the interact with clients.

Culture drives a company's reputation for trust.

A weak culture creates conditions for ethical fading.

A strong culture provides a platform for ethical flourishing and a reputation for trust.

How to build a strong culture (1)

➢ **Set the right "tone from the top"**

    ➢ **"Do nothing you would not be happy to have an unfriendly reporter write about on the front page of a newspaper." – Warren Buffett**

    ➢ **"Lose money for the firm, even a lot of money, and I will be understanding: lose reputation for the firm, even a shred of reputation, and I will be ruthless." – Warren Buffett**

➢ **Leadership must model ethical behavior in their actions.**

➢ **Set expectations for ethics and conduct principles from the outset for employees and agents (in recruitment and onboarding).**

How to build a strong culture (2)

- ➤ **Value complaints as a means of signaling how weak or strong your culture is and if ethical fading is taking place.**

- ➤ **Discuss ethics as a regular item at the board.**

- ➤ **Use mentoring and reverse mentoring to instill the importance of ethical business practices.**

- ➤ **Be ruthless on unethical behavior. <u>Be complimentary and rewarding of ethical behavior.</u>**