

# Nature of Ethics



Man is a social animal. For most of us, we are raised in social groupings and live our entire lives in social settings. Ostracism or exile is one of the harshest punishments imaginable, whether it is a formal banishment or simply that our social clique no longer considers us "part of the old gang". Most of us like to think that we are civilized. But that word, "civilized", simply means to live in a city -- that is to say, among many other fellow human beings. Which raises a point that has been addressed by philosophers from time immemorial: "How are we supposed to treat those we live with, and how should we expect them to treat us?"

This chapter will examine the nature of ethics, consider the parties to whom the agent owes an ethical duty, and identify a few ethical yardsticks against which our actions can be measured.

## What are Ethics?

In practical terms, ethics is a system or code of principles that directs our actions towards others. Before trying to apply the precepts of any ethical system to the complex and important job of the financial services agent, it seems sensible to look somewhat deeper into this system that we know as ethics and understand the principles on which it is based. Not surprisingly, the foundational ethical standards that apply to the financial services agent in his or her interaction with customers or represented companies are the same that serve as the building blocks of the earth's great religions: the Golden Rule. The Golden Rule maintains that each of us should treat others as he or she would wish to be treated.

<b>Judaism:</b> Thou shalt regard thy neighbor as thyself.	<b>Buddhism:</b> Hurt not others with that which pains yourself.
<b>Islam:</b> No one of you is a believer until he loves for his brother what he loves for himself.	<b>Hinduism:</b> Good people proceed while considering that what is best for others is best for themselves.
<b>Christianity:</b> Do unto others as you would have them do unto you.	<b>Confucianism:</b> What you do not want done to yourself, do not do to others.

Modeling our actions towards others -- our customers and companies, in this case -- on what we want for ourselves is not only eminently fair, it is also essential for a civilized society. Consider the alternative to this precept of fairness.

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In a society in which you were the only member, there would be little need for ethics. You would be the beneficiary of all of its goods as well as the bearer of all of its burdens; there would be nobody eager to share your goods, nor would you be expected to shoulder anyone else's burdens. It is the fact we don't exist alone -- and that goods exist in limited supply while burdens seem unlimited -- which makes a system of ethics essential. Limited goods must be distributed and burdens shared, and that means that we will disagree. The important question is how that disagreement should be resolved.

There are two fundamental means of dispute resolution: through the use of force and through the use of reason. Any other way is only a subset of these two.

If you use force to resolve a dispute -- by brandishing a weapon or making a threat, for example -- you may be able to carry the day, but at what cost? Your use of force has probably destroyed any possibility of an enduring relationship. The next time a similar dispute arises, your adversary may use a larger weapon, and the result may be different.

In addition to possible adverse outcomes that may arise from the use of force, we also risk the loss of positive relationships. Most of us value our relationships with others -- we are, after all, social animals -- so force isn't the answer.

However, if you choose to use reason instead of force to resolve disputes and, thereby, promote relationship, what principle is likely to be the most palatable to everyone? The answer, of course, is the Golden Rule: specifically, I will treat you in the way that I want you to treat me, and I want you to treat me as you would treat yourself.

Assuming that you have a healthy self-image and, therefore, treat yourself well, the Golden Rule becomes the most rational method of dispute resolution. Taken to the next step, it is the very core of fairness and the fundamental element of professionalism. It is this fairness that is the basic character of any viable system of ethics.

## Ethics versus Compliance

Ethical behavior is an internal mechanism -- as individuals we perceive "right and wrong" in a particular situation and act accordingly. Compliance, on the other hand, is "external". There are rules, promulgated by others, and we choose to comply with those rules or not. The rules may or may not reflect our perception of right and wrong -- but they represent a consensus of what society feels is "right" or "wrong".

So there is a major distinction between ethics and compliance. Simply following the rules does not make an action ethical -- at least that's the lesson of the Nuremberg trials following World War II. Nor is violation of an unjust law or rule necessarily unethical -- for example, Ghandi's march to the sea to evade the British salt tax, or Rosa Parks taking a seat at the front of the bus may have been illegal, but not necessarily unethical.

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When we talk about compliance, we are ideally talking about particular rules of conduct that are designed to promote the interests of all of the parties to a transaction. Although it is certainly possible to act in a compliant way without being ethical, there is a direct connection between the two concepts. If ethics, as the foundation of integrity and honesty, gives us optimum standards of conduct, compliance gives us minimum requirements of conduct. If ethics tells us what we ought to do, compliance dictates what we must do.

So, although compliance certainly has its basis in ethics, it is not the same thing. The person who acts ethically does the right thing; the person who is compliant stays out of the courtroom. Ethical or professional conduct beyond what is required by the law is optional with the individual. Compliance is a legal requirement. Florida's laws and rules are discussed in the next chapter.

Agents make ethical decisions every day when they choose what sales tools and practices to employ, the disclosures they chose to make or omit, how they interact with prospects, clients, insurers and fellow agents. Although avoiding unethical sales practices is certainly important, ethics includes far more than just sales practices -- it extends to the agent's entire practice. One of the important results of increased ethical awareness is a favorable change in the public perception of the insurance agent.

## Professionalism

Classically, there were only three professions: ministry, medicine, and law. What sets these occupations apart is a specialized knowledge, a "service before income" outlook, and a code of ethics. All three of these professions holds to a specific code of ethics, and members are almost universally required to swear some form of oath to uphold those ethics, thereby "professing" to a higher standard of accountability. Each of these professions also provides and requires extensive training in the meaning, value, and importance of its particular oath in the practice of that profession. Today, the term professional has expanded outside its classical boundaries to encompass accounting, education, architecture, military, nursing, engineering and financial services.

Every profession is composed of three components: a body of specialized knowledge, a "service before income" outlook and a code of ethics. This ethical code is what governs the professional's actions and against which they are measured. This code of ethics imposes a price on the professional. The consequence of being considered a professional -- as opposed to simply a seller of insurance policies -- is the greater potential liability imposed by the courts. If we recognize that achieving the status of professional results in our greater liability, we need to ask whether it is worth the greater liability. Not only is the label of professional worth being held to a higher ethical standard, it is essential to the financial well-being of the agent.

There is no question but that competition is an economic fact of life. If you are able to make and sell something cheaper than your competition, you may have an ever-increasing share of the market. Although we often hear about the increased competition for the insurance dollar from banks, brokerage companies and other financial institutions, we hear much less about the competition from a source that is far more difficult to deal with -- the alternative distribution systems that insurers are experimenting with.

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Insurers have determined that the agency system is an expensive way to sell insurance, regardless of whether it is life insurance, health insurance or property & casualty insurance. However, the agency system continues to exist because it is also the most effective system. What happens, however, when the public no longer feels the need for an insurance agent?

The answer should be obvious; insurers will move quickly to those less expensive alternative distribution systems. Unless agents and other financial services agents become more professional and the public perceives a greater benefit from the agent's participation in the sale, the agency system may die. Even if there were no other reason for agents to be in the forefront insisting on an ethics-driven profession this would be enough.