

# An Ethical Afternoon

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May 21, 2013

Why are we here today?

CE CREDITS!!!

# Objectives for Today

- Review the ethical landscape of insurance industry
- Exposure to ethics theories
- Observe one company's Ethics Program journey
- Explore case studies

# Ethical Landscape

- Company's core values
  - The company's business model
- Employees' and customers' values
- Regulatory environment
- Economic pressures

# Back to School

## A “Masters” in Ethics



# Ethics Theories Defined

- **Utilitarianism**
  - Do the greatest good for the greatest number of people
- **Kant's categorical imperative**
  - Do what's right no matter the cost
- **Rawls' justice as fairness**
  - Guaranteeing equal rights and opportunities
- **Communitarianism**
  - Shoulder your responsibilities and seek the common good
- **Altruism**
  - Love your neighbor, care for others is the deciding factor

# Utilitarianism

- Do the greatest good for the greatest number of people
- Decision making focuses on the outcome
- Create a mental balance sheet

# Utilitarianism +/-

## Pros:

- Easy to understand
- Used frequently, casually
- Requires us to anticipate and evaluate consequences

## Cons:

- Evaluating all the outcomes isn't easy
- Different person, different result

# Insurance Example

- Consider a western states insurance company writing for preferred markets only in WA, OR, ID, and CA.
- CA was the last market you entered, so you have the fewest customers in this market.
- CA is proving to be a market where you're experiencing high severity and frequency of losses with wind and fire claims.
- You're a senior leader evaluating whether you should pull out of CA or face significantly raising rates in all other states to offset.

# Kant's Categorical Imperative

- Do what's right, no matter the cost
- There's only one right answer
- Everyone will come up with the same right answer

# Categorical Imperative +/-

## Pros

- Consistent approach
- Motivational – feels good
- Benefits to society as a whole are considered

## Cons

- The exceptions are endless
- Conflicting right answers
- Examples not that realistic or common
- Difficult to apply, especially under stress

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# Rawls' Justice as Fairness

- Guaranteeing equal rights and opportunities
- Differences do exist
  - So protect vulnerable populations
- Concept: "the veil of ignorance"

# Justice as Fairness +/-

## Pros

- Acknowledges the individual *and* society
- Supports those less fortunate
- Shrinks the gap between the haves and have nots

## Cons

- Limited to democratic settings
- Whose definition of fair and equal?
- Which rights are most important?

# Communitarianism

- Shoulder your responsibilities and seek the common good
- Healthy communities feature
  - Diverse and competing interests
  - Shared values, laws, customs, vision of the future
  - Teamwork and collaboration
  - Everyone participates
  - Sense of community is strong
  - Community institutions evident

# Communitarianism +/-

## Pros

- No room to be selfish
- Leaders from many areas
- Collaboration promotes trust
- Develops good character

## Cons

- Heavy-handed on individual freedoms
- Evangelistic factions
- One set of values not realistic

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# Altruism

- Love thy neighbor, the ethics of caring
- Help others regardless of personal cost
- Historical roots

# Altruism +/-

## Pros

- Ancient roots, contemporary application
- Important for health of society
- Inspirational

## Cons

- Can't meet every need
- Easier to say, harder to do

# Summary on Theories

- No one best approach
  - Context really matters
- Provides thoughtful options
- Provides insight into the difficulties of decision making

# You're an Ethics Master



# Getting it Right: One Company's Ethics Journey

## PEMCO facts

- Northwest company for over 60 years
- Mutual company, personal lines only
- Strong culture
  - Shared values
  - Shared language

# The Challenge

- Introduce an Ethics Program in a highly tenured company
- Process needs to be inclusive
- Outcome needs to *reflect* who we are, not *change* who we are
  - A Code of Ethics should sound like us
  - How to fit in an ethics hotline?

# The “Why”

Why add an ethics program to an established company without ethical violations issues?

- Belief that ethics leads to good business decisions
- Competitive landscape could create pressures
- New people join us all the time
  - We need common language
  - We need something tangible
- Companies just do this, it’s our challenge to do it well

# Code of Ethics

- First draft a bit frosty, need to warm it up
- Shopping it around for feedback
  - Feels good!
  - Looks like just another policy, nothing special
- Making it pretty

# Ethics Hotline?

- Open Door Policy already in place
- Ethics hotline common, but will it fit?
- Vendor selection process
- Implementation team
  - Testing the tools
  - Branding the collateral
  - Processes for handling incoming concerns
- What do we call it?
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# Implementation Research

- Messaging is key
- Communicate the benefits to the organization
- Be clear it is supported from the top
- No retaliation for coming forward, can't say this enough
- Appeal to employees' responsibility to make the program work

# Sharing it with Employees

- The roll out needs to be “a little different”
- Training program developed
  - Manager-led face-to-face sessions
  - Executive video sets the context
  - Interaction a must
  - Case studies to make it real
- Bundled with roll out of ethics hotline
- The great debate – signing the Code

# Ethics Ongoing

- Transition to online training for new hires
  - But kept the manager interaction
- Not a once-and-done effort
  - Ownership and accountability
  - Priority for the company
- Other efforts under consideration
  - Tone at the Top survey
  - Ethics Annual Report
  - Participation in Ethics Week
  - “What would you do?” interactions

# Case Studies

- Insurance Sales/Underwriting
- Insurance Claims
- Insurance Service

# In Summary

We covered

- Ethical landscape in the insurance industry
- 5 theories of ethics
- An ethics program journey
- Case studies

# Thank you!

## **Citation**

Johnson, C. E. (2012). Meeting the Ethical Challenges of Leadership: Casting Light or Shadow. 4<sup>th</sup> edition. Thousand Oaks, CA: Sage Publications, Inc.

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