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# CODE OF ETHICS FOR INSURANCE INDUSTRY PROFESSIONALS

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# **CODE OF ETHICS FOR INSURANCE INDUSTRY PROFESSIONALS**

TECHNICAL ASSISTANCE FOR POLICY REFORM II

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# A CODE OF ETHICS FOR INSURANCE INDUSTRY PROFESSIONALS

## PREAMBLE

The ASIR project work plan requires the development of a Code of Ethics for all insurance industry participants.

The Merriam Webster Online Dictionary defines ethics as:

*1) The principles of conduct governing an individual or a group OR*

*2) A guiding philosophy*

Hence, a Code of Ethics is meant to apply rules governing the behaviour of insurance industry professionals in their operations.

In insurance regulation, market conduct is regarded as the second main pillar of supervisory attention alongside financial solvency regulation. Market conduct is all about insurance consumer protection, ultimately. What is EISA protecting insurance consumers against? Well, in brief, it is to protect against unfair treatment, high sales pressure tactics, improper dealings, fraud, dishonest transactions, misleading information.

All of these market conduct/consumer protection concerns finally boil down to one thing; ethical behaviour. People who act with proper ethics are unlikely to be guilty of the aforementioned tactics. Instilling ethical behaviour among insurance industry participants is a key to winning the respect and trust of the average Egyptian insurance consumer. It cannot be earned overnight. It takes considerable time to gain this and develop a reputation.

While the focus of ethical guidelines must be the protection of policyholders, we must also remember that ethical behaviour should also be practiced at all times towards other insurance professionals and other interested parties such as government Departments and agencies.

In many ways, the parameters of ethical behaviour parallel criteria issued for a consideration of whether a person is “fit and proper” to exercise a role in the insurance profession. The recently-issued paper on Corporate Governance (CG) spells out in great detail some of the behavioral elements associated with CG. That material will not be repeated herein.

## APPLICATION OF CODE OF ETHICS

To whom should the Code of Ethics apply? Of course, in the first instance, we are considering all executives and/or Directors of insurance companies. Part 14 of the Executive Regulations of the Insurance Law adds EISA's supervisory authority over the following insurance industry participants:

- Actuaries (chapter 1)
- Insurance consultant experts (chapter 2)
- Adjustors (chapter 3)
- Insurance Brokers and Agents (chapter 4)

Part 14 of the Executive Regulations concerns the fulfilling of technical requirements for the various professionals associated with the insurance industry. It does not discuss the conduct or a guiding philosophy to shape the behaviour of those professionals, the key considerations in defining ethical behaviour.

## METHODOLOGY OF THIS PAPER

This paper will begin by citing general, overriding ethical considerations that will apply to all insurance industry participants. Since ethical considerations really relate to behaviour, we must approach this exercise in terms of people. Naturally, we can talk about the ethical behaviour of a corporation. Ultimately, it is people working for the corporation that decide upon the actions that a corporation takes. The corporation cannot act in its own name without the decisions of individuals. Accordingly, this paper does not try to apply ethical behaviour considerations at the corporation level. Rather, it looks beyond the corporation to consider the behaviour of the individuals who take the decisions on behalf of the corporation.

## GENERAL ETHICAL PRINCIPLES

Insurance industry practitioners must demonstrate these common values.

- ✚ **Honesty, integrity and trustworthiness.** These qualities always top the list of Code of Ethics issued by various organizations around the world. Without honesty and integrity, there is no foundation of trust. Financial services, like insurance, cannot successfully operate without their professionals being persons of high integrity. Unequivocal honesty is what leads to creating the trust of policyholders. Policyholders must never knowingly be provided with information that is false or misleading. Insurance professionals must not engage in misrepresentation, as slight as that might actually be. Fraud and/or deceit cannot be tolerated; either act should lead to criminal charges.
- ✚ **Fairness and respect.** In any situation, people want to be treated equitably and with respect. This is even truer when we consider insurance transactions. Insurance professionals prepare marketing, administrative and legal information as the basis for the underlying business transaction. They are therefore in a position of strength vis-à-vis policyholders who are usually quite ignorant about how the insurance industry operates. In such an environment, it would be simple for abuse to occur. Similarly, when a claim occurs, policyholders must be treated with the same qualities. People are at their most vulnerable after an incident giving rise to a claim. For insurance policyholders not to treat a policyholder with fairness and respect at such a critical time is particularly unwelcome.

- ✚ **Due care and diligence.** These qualities imply many things. In particular, insurance industry professionals must exercise great attention to servicing customers. They should take great care in everything they do and say. They should inform policyholders of their need to disclose all material facts in an accurate way. Errors should be a rare event. They must take the trouble to clearly identify the needs of their customers. They must provide understandable and complete disclosure of information needed for decision-making by policyholders. They should also inform policyholders about their rights and obligations in the event that a dispute occurs.
- ✚ **Good faith and objectivity.** This concept of “good faith” is allied to the idea that all actions relating to an actual insurance transaction and the actions accompanying it are truly beneficial to the policyholder. A policyholder, insurance professional, or other interested party should never have to question whether the intent underlying an insurance transaction is good or not. Objectivity means that the insurance professional is not guided in his/her actions by pre-conceived ideas that would affect those actions. In particular, policyholders should receive impartial, objective advice that takes account of the policyholder’s personal situation and offers the best insurance coverage at the best value. A person’s ethnic or cultural background, tradition, language group, religious affiliation, skin color, age, marital status and gender should not affect an insurance transaction unless it can be statistically shown that such a factor affects an underwriting risk. For example, in most countries, young males represent a higher automobile insurance coverage risk than older females. That has objectively been shown to be true.
- ✚ **Respect for confidentiality of information obtained.** In dealings with policyholders and fellow insurance professionals, insurance professionals will learn information about policyholders and other interested parties that is sensitive. Such information must be protected on all occasions. It must be kept strictly confidential and not passed on to other parties without advance notice to the policyholder or other individual concerned.
- ✚ **Transparency and proper presentation of facts and details.** Policyholders and other stakeholders must receive clear information. Key facts about the details of insurance policies must be provided to them. For example, it is not acceptable to bury important details about limitations or reductions in claim payouts in the “fine print” of insurance contracts. It is equally important to never inform policyholders about limitations or reductions in advance of the actual signing of the policies.
- ✚ **Compliance with both the content and spirit of the Insurance Law and Executive Regulations as well as with relevant professional requirements and standards.** All insurance industry professionals must clearly understand their rights and obligations under insurance legislation, other relevant laws (e.g. Company Law), and other regulatory requirements. They should act in full compliance with those requirements. Seeking ways to avoid the impact of their application, for instance, is an indicator of an insurance professional not intent on complying with the spirit of the law or regulations.
- ✚ **Complete cooperation with EISA.** This point goes hand-in-hand with the previous one. EISA should expect that the insurance professionals regulated by it are always open and collaborative with its employees. Where industry professionals are not, this could be a strong indicator of a deficiency in ethical behaviour.
- ✚ **Prompt and efficient customer service to policyholders and other stakeholders.** Insurance is a service business. Good service must be offered at all times for the business to succeed.

Insurance professionals dealing with the public are on the front line of providing good service. They are directly accountable to policyholders for this aspect. The need for rapid and efficient servicing is most apparent when a legitimate claim is received. Only in genuine cases of fraud, deception or negligence on the part of the policyholder should this requirement go unfulfilled.

- ✚ **Prompt consideration of consumer complaints.** It is inevitable that insurance industry professionals will sometimes commit mistakes or make initial decisions on claims which are not the right ones. These situations will generate consumer complaints. The important consideration is that when a complaint is received, the insurance industry professional concerned treats it seriously, responds to the complaint with promptness and courtesy, and advises the policyholder of his/her options when he/she is not satisfied with the response to his/her complaint.
  
- ✚ **“Conflict of interest” situations must be avoided.** Insurance professionals must not provide or accept money, gifts, entertainment, favorable loans or any other benefit or preferential treatment to anyone with whom they deal in the course of their insurance business. Exceptions can be permitted for occasional gifts or benefits that are part of accepted business practice, are transparently reported and are not likely to lead to a situation in which the rights of policyholders or other interested parties are compromised compared to what they ordinarily would be.
  
- ✚ **Appropriate behaviour when “conflict of interest” situations occur.** When a conflict of interest situation arises, insurance professionals must take documented steps to inform policyholders and/or other affected stakeholders of the situation. They must also advise them of how their rights may be affected by the insurance professional continuing to act when the “conflict of interest” situation has been identified and what steps they can take if they believe their interests will suffer through the continuation of the situation.
  
- ✚ **Professional competence.** This point is the odd one out in this consideration because it does not really address behaviour directly. Actually, this topic embraces not just the idea of a one-off obtaining of a professional qualification in the distant past but also continual learning in the present and going forward into the future. All insurance professionals must be able to demonstrate that they have taken proactive steps to maintain their professional knowledge at levels that would equal currently recognized “best practice” standards. This is where the behavioral aspect comes into play. For those who have been in the insurance industry for a number of years, they need to demonstrate that they have continued on with their learning in a form and/or forum that observers would recognize as valid.

## **VIOLATIONS OF CODE OF ETHICS**

A Code of Ethics means little if there is no mechanism for enforcing the Code. To be able to enforce it, there must be a system in place for monitoring and reporting breaches of ethical standards. People who report possible breaches in “good faith” must be able to report them confidentially in the knowledge that they will not be subsequently penalized by their actions.

Each professional group regulated by EISA should introduce a mechanism for objectively considering whether a suspected violation of its Code of Ethics is an actual offense. The accused insurance professional must have the right to appeal to an independent court in those instances where he/she is found guilty of an infraction and that person disagrees with the findings.

The usual transactions that give rise to possible breaches of Code of Ethics are loans to or guarantees of obligations of directors, managers, or employees and/or their immediate family members.

A specific Code of Ethics for each Insurance Professional group follows.

## **SPECIFIC CODE OF ETHICS FOR INSURANCE EXECUTIVES/MANAGERS**

1. Supply professional executive/managerial services that meet the expectations of the International Association of Insurance Supervisor's various *Guidelines, Standards* and *Principles* papers.
2. Sign written agreements with insurance industry professionals (Intermediaries, Actuaries, Insurance Consultant Experts or Adjusters), as needed.
3. Honor contracts and other agreements involving insurance industry professionals with whom the executives/managers work.
4. Offer insurance products and services that meet the specific needs of Egyptian consumers at competitive prices.
5. Advertise products and services in a simple manner that does not deceive or mislead the public.
6. Ensure that illustrations of insurance premiums and benefits are realistic, fair and understandable.
7. Prepare all insurance contracts in clear, direct language without unreasonable restrictions.
8. Use underwriting techniques that are sound.
9. Utilize reinsurance prudently to spread the risk of loss.
10. Provide competent and courteous sales and service to insurance intermediaries and policyholders.
11. Invest money prudently on behalf of policyholders.
12. Respond promptly, accurately and completely to any requests for information from the Insurance Federation, EISA or any disciplinary board.
13. Inform EISA should the insurance executive/manager become aware of non-compliance with obligations under Egypt's insurance legislation or EISA's decrees.

## **SPECIFIC CODE OF ETHICS FOR INSURANCE BROKERS AND AGENTS (INTERMEDIARIES)**

1. Provide customers with requisite proof of professional broker/agent qualifications and current standing.
2. Supply insurance intermediary professional services that meet the expectations of the International Association of Insurance Supervisor's various *Guidelines*, *Standards* and *Principles* papers.
3. Advertise products and services in a simple manner that does not deceive or mislead the public.
4. Sign written agreement with an insurance company outlining the terms of the brokerage or agency relationship.
5. Honor contractual and other agreements involving insurance companies for whom the intermediaries work.
6. Provide impartial advice on what insurance policies may be appropriate for the prospective policyholders.
7. Identify the insurance company(ies) for whom the broker/agent works.
8. Explain the principal details of the insurance policy (ies) under consideration (e.g. limit, deductible, exclusions etc.).
9. Point out that: 1) the policyholder is under obligation to reveal all relevant details that might influence an insurance company's decision to accept the underwriting risk; and 2) incorrect information could invalidate a claim.
10. Avoid applying undue pressure on prospective policyholders to purchase their products.
11. Provide competent and courteous sales and service to policyholders.
12. Assist the policyholder in promptly processing legitimate insurance claims.
13. Help a policyholder in filing a complaint to an insurance company and in resolving that complaint.
14. Avoid accepting reductions or increases in premiums not authorized for the insurance company with whom they do business.
15. Maintain an accurate account of all financial transactions involving policyholders, other brokers or agents, and insurance companies.
16. Provide prompt remittance of agreed sums received to insurance companies.
17. Avoid over dependence on one insurance company (in the case of brokers).
18. Respond promptly, accurately and completely to any requests for information from EISA or any disciplinary board.
19. Inform EISA should the intermediary become aware of non-compliance with obligations under Egypt's insurance legislation or with EISA's decrees.

## **SPECIFIC CODE OF ETHICS FOR ACTUARIES**

1. Provide customers with requisite proof of professional actuarial qualifications and current standing.
2. Supply professional actuarial services that meet the expectations of “best practices” promulgated by the Egyptian Society of Actuaries and other recognized quality actuarial associations abroad.
3. Advertise services in a manner that does not deceive or mislead potential customers.
4. Sign written agreement with insurance company outlining the terms of the actuarial relationship when the actuary is independent of the company.
5. Honor contractual and other agreements involving insurance companies for whom they work when they are independent actuaries.
6. Provide competent and courteous service to customers.
7. Monitor professional services performed by actuarial assistants to ensure that industry standards are properly observed by them.
8. Supply full and timely disclosure of compensation earned or expected to be earned by the actuary for any given assignment to the customer.
9. Act with courtesy and professional respect in discussing the opinions of fellow actuaries.
10. Respond promptly, accurately and completely to any requests for information from the Egyptian Society of Actuaries, EISA or any disciplinary board.
11. Inform the Egyptian Society of Actuaries and EISA should the actuary become aware of any breach of generally accepted actuarial standards or an incident of non-compliance with obligations under Egypt’s insurance legislation or with EISA’s decrees.

## **SPECIFIC CODE OF ETHICS FOR INSURANCE CONSULTANT EXPERTS**

1. Provide customers with requisite proof of professional consultant qualifications, required under Egypt's insurance legislation, and current professional standing.
2. Supply professional consultant services that meet the highest standards of the consultant profession.
3. Advertise products and services in a simple manner that does not deceive or mislead the public.
4. Supply full and timely disclosure of compensation earned or expected to be earned by the consultant for any given assignment to the customer.
5. Sign written agreement with insurance company outlining the terms of the consultant engagement.
6. Honor contractual and other agreements involving insurance companies for whom they work.
7. Monitor professional services performed by consultant assistants to ensure that quality work is produced.
8. Identify customer needs prior to offering advice and attending to those needs.
9. Provide competent and courteous service to customer.
10. Act with courtesy and professional respect in discussing the opinions of fellow consultants.
11. Respond promptly, accurately and completely to any requests for information from EISA or any disciplinary board.
12. Inform EISA should the consultant become aware of any incident of non-compliance with obligations under Egypt's insurance legislation or with EISA's decrees.

## **SPECIFIC CODE OF ETHICS FOR ADJUSTERS**

1. Provide customers with requisite proof of professional adjuster qualifications and standing.
2. Supply professional adjuster services that meet the highest standards of the adjuster profession.
3. Advertise products and services in a simple manner that does not deceive or mislead the public.
4. Sign professional agreement with an insurance company outlining the terms of the adjusting agreement.
5. Honor contractual and other agreements involving insurance companies for whom they work.
6. Monitor professional services performed by adjuster assistants to ensure that industry standards are properly observed by them.
7. Identify customer needs prior to offering advice and attending to those needs.
8. Provide impartial advice to customer, uninfluenced by potential future business revenue.
9. Supply customers with written copies of advice given.
10. Supply full and timely disclosure of compensation earned or expected to be earned by the adjuster for any given assignment with the customer.
11. Respond promptly, accurately and completely to any requests for information from EISA or any disciplinary board.
12. Inform EISA should the adjuster become aware of any incident of non-compliance with obligations under Egypt's insurance legislation or with EISA's decrees.

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