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Ethics and the credit insurance industry

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CHAPTER 20.

CRITICISMS OF A CODE OF ETHICS.

Critics maintain that codes of ethics are often only nice, banal and meaningless words without carrying any obligation. However, if the code has been developed jointly with staff and other relevant stakeholders, if it is visually supported by management and the board of directors and if it is constantly reviewed and revised in the face of changing circumstances and new experiences, it has great value (see chapters 15 “Why a Code of Ethics” and the “Conclusion” at the end of this report). The process of developing a code of ethics tends to be more important than the actual content (41. Noll, 2002).

Critics also often see a code merely as an opportunistic marketing and public relations instrument. However, a lived code proves its value in crisis situations rather than in trouble free times. Cynical employees or customers will be the first to painfully experience the results of a disregarded written ethics code, i.e., the loss of its value (41. Noll, 2002).

Detractors doubt that management really expects employees to adhere to the moral principles of its code of ethics when it would mean losing business or reducing profits. Maintaining high ethical standards is essential to staying in business and maintaining

long term profitability. Consequently, management and the owners of the business expect employees to always act according to ethical principles (41. Noll, 2002).

It has been suggested that a code of ethics is not in the interest of every company. The more an industry sticks to a code the greater may be the advantage for one of them to cheat. I believe this is a frivolous suggestion. An industry that believes in ethical behaviour will quickly take action against the black sheep in its midst that is hurting the entire industry's reputation. The trade association, the market, any consumer protection group as well as government can make the code categorical and severely punish non-compliance (30. Beauchamp, 2001).

Sometimes it is felt that a code is encouraging unrealistic expectations, that it is sanctimonious talk and mystical beliefs about what is possible in a hard, realistic business world. Such criticism is the result of a romantic code of ethics that does not take the real world into consideration, one which is not lived and has not been tested by applying it to real situations.

Being ethical in business has been described as some kind of theft. As Milton Friedman (33. Friedman, 1970) says: the business belongs to its owners and management's job is nothing more than to maximize the returns for them. A business should be "ethical" only insofar as it will maximize profits. Spending time and money on ethical issues is likely to divert efforts and assets that belong to the owners. The owners alone are the ones who have the right to decide what they wish to do with their assets. A business that will only be "ethical" insofar as such "ethics" will maximize profits will not, in the long run, optimize shareholders' value; rather it may destroy it as has been shown many a time in this report (see also pages 48 to 53). However, management should guard against "social responsibility" projects that conflict with long term profits and it should involve the board of directors, and through it, the owners, in the company's code of ethics.

A similar critical remark to the one immediately above is that if business ethics is gauged by business's support for "worthy causes," then the focus shifts away from the manner in

which business behaves in its own everyday, ordinary activities. As has been shown in this report, it is not business's primary duty to champion "worthy causes." Ethics and the need for business to earn profits and create long term wealth for its owners must promote one another, and, as we have seen too, ethics is a necessary ingredient for the building of a healthy and growing business.

As Deon Rossouw points out (42. Rossouw, 2002), although a code of ethics is useful and important, it can lead to blind reliance on the written code which may result in people not developing moral sensitivity of their own. Unthinking compliance with a code can lead to wrong decisions. A code is only a guideline, which may require careful interpretation and reflection in difficult situations. Regular discussions of case studies and debates about new moral issues can counter this. One needs skill to use a moral code. Training in moral analysis and ethical decision-making should complement the code.

An ethical code can lead to silencing other views. The debate on ethical matters must remain open and it is important to make provisions for and invite all staff members to make their input into a regular revision of the code of ethics (42. Rossouw, 2002).

An ethical code can be counterproductive, which happens when there is a discrepancy between actual and professed behaviour. It can also suppress moral autonomy through the belief that the code is the gospel and independent, that original thinking is not permitted. Clearly these objections are based on a wrong understanding of the code or, on a failure by the company to explain the workings of the code or on poor control and communications (42. Rossouw, 2002).

Finally, ethics is sometimes considered as a new fad, as another issue which - according to some wise guy - needs the support of top management, which requires a lot of time and therefore takes staff's eye off the ball, or which is just another expensive fancy in a time when everyone should know that the primary duty of management is to reduce costs. I hope that this report has shown that none of these objections is justified; to the contrary, those managers who espouse such views have no right to be called "managers."

CONCLUSION.

I believe that the upshot of this report is that ethics in, and a code of ethics for, a credit insurance business (and for all other businesses as well) have the following distinct advantages: They

- are an excellent management tool.
- build trust.
- build reputation.
- provide a guideline to company policy and staff behaviour.
- facilitate the development of people and good, consistent decision-making.
- show up faulty structures, policies, incentives and pay systems.
- encourage thinking.
- motivate staff.
- build credibility with customers, suppliers, shareholders and the community at large.
- build loyalty.
- help avoid unnecessary government interference.
- protect against unethical competition if there is an industry-wide code of ethics.
- support profitability and long term wealth creation.

In addition to the Marsh & McLennan case, referred to on page 112, there is also the $190 million in fines that AON, the world's second largest insurance broker, has to pay in settlement of New York attorney-general Eliot Spitzer's accusation that the company acted unethically in deceiving clients by inducing them to buy inappropriate or unnecessarily expensive insurance products. Boeing is hoping that the US air force will

withdraw a 2 year ban on placing certain contracts with them due to Boeing having misused documents from a competitor, Lockheed Martin. The ban has cost Boeing, so far, contracts worth $1 billion, plus additional, unspecified orders. Citigroup, the world's largest financial services group, will hold ethics classes for all employees in an effort to restore accountability, prevent further mistakes and improve moral behaviour after it had to pay fines of at least British Pounds 5,5 billion due to immoral actions perpetrated by it. Conversely there is Toyota. *The Economist* of 29th January 2005 writes: "Toyota leads a select band of volume car manufacturers that make real profits and one ingredient that contributes markedly to this is the company's strong culture and ethical policy – every Toyota employee knows the "Toyota way" of doing things. But Toyota continues to preach to the converted and it works."

A strong corporate ethic and culture produces real results for the owners, employees, other stakeholders and the community at large in a hard, competitive and fast moving economy. This applies to credit insurance just as much as to any other type of operation.

A code of ethics, if well designed, implemented and managed, is an indispensable means of maximizing these advantages.

Credit insurers should set, also in regard to moral behaviour and the development and management of a code of ethics, an example to all businesses. They should do so in the same way as they should in respect to corporate governance. Because of their prominence in the credit assessment field and their duty to judge and express an opinion on other businesses, credit insurers need to be a model for others to follow.