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The Ethical Environment of the Property-Casualty Insurance Industry: The Impact Of The Recession And Slow Recovery

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Abstract
Unlike typical soft markets in which the property-casualty insurance industry experiences increased competition and reduced prices due to an increase in supply, the current soft market is exposed to additional competitive pressures to lower prices by a decrease in the demand for insurance resulting from conditions attributable to the recent recession and ongoing slow recovery. In the past, CPCUs identified competitive pressure as presenting the greatest challenge to responding ethically to problems encountered at work. This article reports the findings of a recent survey of 5,000 CPCUs conducted with the cooperation of the CPCU Society to gather information regarding their perceptions of the most serious ethical problems facing insurance professionals under these unusual economic circumstances. The survey's findings are compared with those of several earlier CPCU studies and several major studies of ethics in U.S. business in general to examine the impact the recession has had on the ethical environment of the property-casualty insurance industry.

Introduction

In contrast to other industries where business cycles tend to be primarily a function of changes in consumer demand for their products and services, price and profit cycles experienced by the U.S. property-casualty insurance insurers are commonly driven by changes in the supply of insurance offered by the industry. This was the case at the beginning of the current soft market in 2004, where, following the end of the hard market lasting from 2000 to 2003, premium rates, and thus insurance prices, increased, underwriting results began to improve dramatically, and the industry's total profits grew, as did its return on equity. Resulting expectations of higher future returns on equity led to both renewed growth in the amount of capital available to bear risk (policyholders' surplus) as well as an increased willingness of insurers to commit those resources to writing insurance in pursuit of profit. As a function of these two factors, supply[1] — the amount of insurance made available for sale by the industry at various prices — increased, which, in turn, created an excess in the amount of insurance offered for sale relative to the amount demanded by consumers.[2] In the highly competitive property-casualty insurance market, insurers have engaged in price competition since 2004 in an effort to eliminate excess supply — that is, excess underwriting capacity — in the marketplace.

However, contrary to the forces of supply acting largely alone as has been common in past soft markets, this time the downward pressure on prices due to excess supply was augmented by a decrease in the demand for insurance attributable to factors associated with the severe recession lasting from December 2007 through June 2009 and the subsequent slow recovery. While offset somewhat by improved claims experience in some lines due to the drop in economic activity, the steep drop in employment and falling property values had an even greater negative impact on insurance demand — that is, on the number of exposures insured and the amount of insurance purchased on those that were. This, in turn, led to negative growth in U.S. property-casualty written premiums from the second quarter of 2007 through the first quarter of 2010,[3] the first three-year decline in premium growth since 1930 to 1933 (Hartwig, 2009). The industry finally experienced a turnaround in insurance demand in the second quarter of 2010. Commenting on the relatively small growth in written premiums during the second and third quarters of 2010, Insurance Information Institute (III) President Robert Hartwig (2010) stated, "Indeed, the era of 'mass exposure destruction' is over as the economic recovery continues to pick up momentum."

Despite the small increase in demand, mainly in the personal lines, rates still dropped, particularly in the commercial lines, due to the continued existence of excess underwriting capacity resulting from excessively high levels of policyholders' surplus available to bear risk relative to the volume of premium written. While predictions of the end to the current soft market have been even less reliable than weather forecasts, several reports (Marsh, 2011; CIAB, 2011; MarketScout, 2011; Advisen, 2010) suggested that conditions supporting the soft market would likely continue in 2011.

As in the case of U.S. businesses in general, companies, agencies, brokerages and other organizations operating in the property-casualty insurance industry took a variety of actions in an effort to counteract the recession. Among others, the tactics employed by insurance firms to weather the financial difficulties they were experiencing included adjusted work schedules, layoffs, reductions in compensation and/or benefits, hiring freezes, early buyouts, and office closures. Thus, in addition to the direct impact of the fall in demand on the commissions of those involved in sales, employees throughout the industry found their lives both at work and at home affected by decisions made by their employers in response to the challenges presented by the recession. In terms of employment alone, as of January 2011, the number of persons working for direct property-casualty insurance carriers, 459,100, reached its lowest level in over 20 years, having dropped 6.5 percent since the recession began in December 2007 (Hartwig, 2011). Employment at insurance agencies and brokerages totaled 636,500 as of January 2011, down by 6.3 percent since the recession began. By way of comparison, as of January 2011, overall U.S. employment dropped 7.7 percent during the recession.

Several major studies have found that the falling demand for products and services attributable to the recession and the efforts employed by organizations to weather its challenges have definitely impacted the ethical environment of U.S. business in general. However, at this time, there is a lack of information concerning the effects, if any, of the recession and the slow recovery on the ethical environment encountered by those working in the property-casualty insurance business. Thus, after setting the stage with a brief discussion of the ways in which the recession has been found to impact ethics in business in general, this article presents and discusses the findings of a survey of 5,000 CPCUs conducted in January and February 2011 with the cooperation of the CPCU Society in an effort to do the following:

- Examine the perceptions of CPCUs regarding the most serious ethical problems facing insurance professionals under these unusual economic circumstances,
- Identify differences in the perceptions of CPCUs working in various jobs, at various organization levels, and for various types of organizations,
- Determine the extent to which the property-casualty industry's current ethical environment differs, if at all, from that of the past, and
- Compare the effects the recession and sluggish recovery have had on the ethical environment of the P&C insurance industry with their effects on the ethical environment of U.S. business in general.

Overall Effects of the Recession on Ethics in U.S. Business

Several major studies conducted during and soon after the recession have identified and reached conclusions regarding various effects the falling demand for products and services attributable to the recession, and the efforts employed by organizations to deal with these challenges, have had on the ethical environment of U.S. business in general. In some cases, the findings have differed among studies, especially those indicating how levels of misconduct (unethical behavior) observed in business during the recession

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compared with those prior to the economic crisis.

Overall Frequency and Severity of Observed Misconduct

Currell (2010) reports that a series of surveys of over 200,000 employees conducted by the Compliance and Ethics Leadership Council (CELC) indicated the recession had an immediate impact on ethical culture during 2008 with observed misconduct increasing 20 percent from the first half of the year to the second. While misconduct leveled out, and even decreased, in a number of areas during 2009, the most serious types of misconduct were found to have increased substantially during the recession.

In its 2008–2009 Integrity Survey of more than 5,000 individuals varying by job function and level of responsibility, working at organizations of different size spread across 13 industry sectors, KPMG (2008) found that 74 percent of the employees had personally witnessed or had firsthand knowledge of misconduct (behavior contrary to values, standards, and policies of the organization) occurring in the 12 months prior to the survey. This result was essentially the same as the rates of observed misconduct found in earlier surveys conducted in 2000 and 2005. Also, as in years prior to the recession, nearly half (46 percent) of the respondents to the 2008–2009 survey indicated that the misconduct they observed was serious in that if discovered, it could cause a significant loss of public trust. The frequency of serious misconduct was found to vary considerably across industries with, as might be expected, banking and finance leading the list with 60 percent of responding employees indicating they had observed serious misconduct in the past year. Not far behind, insurance ranked fourth, with 52 percent of employees surveyed mentioning having observed serious misconduct in their replies.

The findings of the Ethics Resource Center's (ERC) 2009 National Business Ethics Survey (NBES), based upon the responses of 2,852 randomly sampled employees working in the private sector, differed from the other two studies, which found the overall level of misconduct observed during the recession to be the same as, or greater than, the levels in earlier years. In comparing the responses to the 2009 NBES with those reported for its 2007 study, the ERC (2009) found that the percentage of employees indicating they had witnessed misconduct on the job dropped from 56 percent to 49 percent over the course of the recession. With the exception of retaliation against those who reported misconduct, which worsened during the recession, the ERC (2009) also found improvement from 2007 to 2009 in the extent to which employees reported observed misconduct, perceived strengthening of their company's ethical culture, and experienced less pressure to commit an ethics violation. The ERC (2009) points out that this improvement of the ethical environment of business during hard times is not unique. For example, ethics outcomes involving the extent to which employees observed misconduct and perceived their organization's ethical culture as having been strengthened also improved from 2000 to 2003, despite the abrupt end of the "dot com bubble," the shock of 9/11, and the occurrence of a series of high profile business scandals. However, the ERC (2009; p. 11) warns that, as was the case after 2003 until 2007, "once the economy rights itself and business difficulties recede, misconduct is likely to rise — unless a strong ethical culture is in place."

In offering a possible explanation for the drop in observed misconduct during periods of economic crises, the ERC (2009, p. 16) posits, "One likely reason is that management and supervisors talk more about ethical behavior or other subjects that are perceived by employees to be ethics-related when the company's well-being or even its existence may be on the line. . . . Another reason may be that those prone to misbehave are less likely to take risks in a stressful time when management is on high alert."

While the ERC's 2009 study identified improvement in a number of measures of the recession's impact on business ethics, it also indicated that when various tactics to counteract the recession (for example, adjusted work schedules, layoffs, reductions in compensation and/or benefits, hiring freezes, early buyouts, production slowdowns, and plant closures) were employed by businesses, misconduct rose by 26 percentage points in those organizations as compared with others that did not adopt such measures. The study also indicated that certain measures taken to counteract the recession appeared to increase misconduct more than others. More specifically, it was found that "compensation/benefit reductions and adjusted work schedules, which have a more direct impact on an employee's personal finances, life, and livelihood, are linked to more dramatic increases in misconduct than those (e.g., layoffs and plant closures) impacting an employee primarily in his/her work life" (ERC, 2010a, p. 2). The tactics aimed at weathering the recession were also found to increase observed misconduct most dramatically in small companies with less than 500 employees.

Factors Related to Higher Levels of Misconduct

While a number of factors influence the level of unethical behavior in an organization, two — perception of a weak ethical culture in one's company and pressure to compromise ethics standards in order to do one's job — were identified in the ERC, KPMG, and CELC studies as having a particularly strong impact on the extent of observed misconduct in a business.

While ethical culture reflecting an organization's ethical leadership, accountability, and values is viewed by most employees as having strengthened during the recession for U.S. business overall, 22 percent of those responding to the 2009 NBES perceived the recession as having weakened the ethical culture within their company, and 10 percent indicated that their company had lowered its ethics standards battling the recession (ERC, 2009). The study revealed that when employees viewed their company's culture as having been weakened by the recession, observed misconduct increased by 16 percentage points, and those reporting that their company's ethics standards were lowered in response to the recession observed 23 percent more misconduct.

Currell (2010) reports that the CELC study found employees' perceptions of a downward trend in senior management leadership and tone during 2008 resulted in a reduction of corporate integrity and a rise in misconduct. The Council's survey found that "business units with the weakest cultures experience five times as much misconduct as those with the best cultures" (Currell, 2010, p. 11).

Nearly 60 percent of those responding to the 2005 and 2008 KPMG Integrity Surveys identified pressure to do whatever it takes to meet business targets as the key factor that might cause employees and managers to engage in misconduct (KPMG, 2008). Likewise, the ERC reported that, as was the case with its earlier surveys, the 2009 NBES demonstrates "ethical culture continues to have a profound impact on pressure" (ERC, 2010b, p. 5). Although the 2009 NBES (ERC, 2009) findings indicated that only 8 percent of the survey respondents had felt pressure to commit an ethics violation in the course of their work, they also pointed out that 86 percent of those who felt pressure observed misconduct at work, thereby illustrating the importance of pressure as an indicator of the possible existence of unethical behavior in the workplace. In addition, since ethical culture has a strong impact on the degree of pressure felt by employees to violate ethics standards in the course of their work, which in turn influences the level of misconduct observed in the workplace, the ERC study (2010b) demonstrated that in a weaker as opposed to a stronger culture, pressure to commit misconduct is increased 300 percent, from 4 to 16 percent, and the rate of misconduct increases from 40 to 77 percent.

2011 Survey of Ethics in the P&C Insurance Industry

Past research (Cooper and Frank, 2002; Vaughan, Cooper and Frank, 1993; Cooper and Frank, 1991) has indicated that CPCUs and other professionals working in the property-casualty insurance industry view competitive pressures as presenting the greatest challenge to their efforts to act ethically in the course of their business activities. The increased pressure experienced by both producers and insurers in competing for the reduced amount of business available during the recession and slow recovery provides a unique opportunity to examine the perceptions of CPCUs regarding the most serious ethical problems encountered by those employed in the industry under these unusual economic circumstances. The findings from the 2011 survey of ethics will also be compared with those of surveys of CPCUs conducted in 1989, 1999, and 2005 in an effort to determine the extent to which the recession and slow recovery have impacted, if at all, the property-casualty insurance industry's ethical environment.

2011 Survey: Gathering Information

Information for the study was gathered using a survey form emailed to 5,000 CPCUs on Jan. 11, 2011. A follow-up email was sent Feb. 1, 2011, to those who had not responded to the initial request for participation in the survey.

The Participants

The 5,000 survey participants were selected from a list of CPCU Society full members organized by primary job function and type of business. Participants were selected at random from among the various job function/business type groups in proportion to the relative number of Society members in each group.

Completed surveys were received from 1,132 participants, producing an overall response rate of 22.6 percent, which was higher than the 16 percent response rate (485 responses from 3,000 CPCUs surveyed) obtained in the 2005 survey, but lower than the rates experienced in the two earliest CPCU ethical issues surveys — response rates of 54 percent (810 responses from 1,500 CPCUs surveyed) obtained in the 1989 survey and 30 percent (451 responses from 1,500 CPCUs surveyed) in the 1999 survey. Nevertheless, this response rate was somewhat better than anticipated, based on the authors' recent experiences with similar mail surveys conducted in other professions. While the response rate is too low to permit generalizations to be made regarding the views of all Society members, the findings are grounded in a sufficient number of responses to provide a sense of the ethical environment currently encountered in the property-casualty insurance industry.

The Survey Form

Since the principal purpose of the survey was to provide an indication of the key ethical issues and dilemmas facing the property-casualty insurance business based on the perceptions of CPCUs in a variety of positions in the industry, the bulk of the survey form consisted of a list of 32 ethics-related statements that are reproduced in Table 1. The individuals surveyed were asked to rate each statement on a 5-point scale, where 5 meant that it is a major problem today in the property-casualty insurance industry and 1 meant that it is not a problem.

Table 1
2011 Ethics Issues Survey Findings — All Respondents

		Mean	Rank	% Indicating 3, 4 or 5
Issue 1	Failure to provide products and services of the highest quality in the eyes of the customer	2.38	11	42.4
Issue 2	Failure to provide prompt, honest responses to customer inquiries and requests	2.47	9	42.7
Issue 3	Making disparaging remarks about competitors, their products, or their employees or agents	2.70	5	54.9
Issue 4	Misuse of proprietary information	2.24	16	35.2
Issue 5	Misuse of sensitive information belonging to others	2.15	17	30.3
Issue 6	Improper methods of gathering competitors' information	2.26	14	35.4
Issue 7	False or misleading representation of products or services in marketing, advertising, or sales efforts	2.74	4	53.9
Issue 8	Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities	2.68	7	51.7
Issue 9	Conflicts of interest involving business or financial relationships with customers, suppliers, or competitors that influence, or appear to influence, one's ability to carry out his or her responsibilities	2.47	9	44.7
Issue 10	Conflicts of interest involving the marketing of products and services competing with those of one's own company	2.09	20	30.8
Issue 11	Conflicts of interest that involve working for a competitor, customer, or supplier without approval	1.87	29	21.3
Issue 12	Misuse of company assets/property	2.25	15	34.2
Issue 13	Insider trading/other security trading problems	2.07	22	30.2
Issue 14	Giving excessive gifts or entertainment	2.05	23	28.0
Issue 15	Receiving excessive gifts or entertainment	1.98	26	25.0
Issue 16	Offering or soliciting payments or contributions for the purpose of influencing customers or suppliers	1.94	27	24.2
Issue 17	Offering or soliciting payments or contributions for the purpose of influencing government officials	1.94	27	24.5

Table 1 (continued)
2011 Ethics Issues Survey Findings — All Respondents

		Mean	Rank	% Indicating 3, 4 or 5
Issue 18	Offering or soliciting payments or contributions for the purpose of obtaining, giving, or keeping business	2.10	19	31.0
Issue 19	Offering or soliciting payments or contributions for the purpose of persuading employees of another company to fail to perform, or improperly perform, their duties	1.57	32	12.4
Issue 20	Offering or soliciting payments or contributions for the purpose of influencing legislation or regulations	2.12	18	31.4
Issue 21	Inaccuracy of books, records, or reports	2.36	12	40.3
Issue 22	Abuse of expense accounts	2.31	13	37.8
Issue 23	Antitrust issues	1.84	31	20.8
Issue 24	Relations with local communities	1.85	30	22.5
Issue 25	Office/agency closings and layoffs	2.81	3	56.8
Issue 26	Discrimination	2.01	24	26.4
Issue 27	Drug and alcohol abuse	1.99	25	26.3
Issue 28	Employee theft	2.09	20	29.6
Issue 29	Lack of knowledge or skills to competently perform one's duties	2.98	1	64.8
Issue 30	Failure to identify the customer's needs and recommend products and services that meet those needs	2.94	2	64.2
Issue 31	Failure to be objective with others in one's business dealings	2.59	8	50.8
Issue 32	Misrepresenting or concealing limitations in one's abilities to provide services	2.70	5	54.8

The list of statements included in the survey form was identical to that contained in the 1989, 1999, and 2005 questionnaires. Since the 32 statements included in the survey instrument are varied in their form of presentation (some reflect ethical conflicts that may be faced, many reflect unethical behaviors in response to ethical dilemmas, and a few are general situations that may give rise to ethical dilemmas as well as other problems), these statements will be referred to as "issues" to simplify the discussion in this article.

Professional Issues Distinguished

The first 28 issues listed in Table 1 reflect ethical issues and dilemmas facing businesses and their employees in general. However, professionals, particularly those who work with clients, also face a variety of other ethical issues arising out of the fiduciary nature of the professional-client relationship. This fiduciary relationship recognizes both the superior knowledge that professionals have and the role of client consent in the decision making process. The professional analyzes the client's problem(s), formulates alternative courses of action, makes recommendations, and helps carry out the client's decision; the client, in turn, agrees or disagrees with the options and recommendations presented by the professional. Because the client must rely on and, thus, trust the professional to provide informed options and recommendations that are in the client's best interest, the professional has special obligations to ensure that the trust is justified. These obligations give rise to a number of ethical responsibilities owed by professionals to their clients, such as keeping current with one's field, not undertaking tasks for which one lacks competence, being loyal to the client's interests, and remaining independent and objective in one's judgment. Issues 29 through 32 were included in the survey form to provide an indication of how CPCUs, as professionals, view ethical issues of special relevance to professionals as compared with ethical issues of concern to businesses and their employees in general.

Impact on Competitive Pressures and Ethics

In addition to the 32 issues to be rated, the survey form also contained two questions aimed at gauging the respondents' overall perspective regarding the extent to which the recession and slow recovery have impacted those working in marketing, underwriting, claims settlement, and the industry overall. The first question asks the respondent to indicate on a 5-point scale, where 5 meant to a very great extent and 1 meant not at all, the extent to which the drop in demand for insurance triggered by the recession and slow recovery has led to an increase in the competitive pressures experienced by those working in each of the four areas identified above. The second question asks the respondent to indicate on the same 5-point scale the extent to which conditions related to the recession and slow recovery have made it more difficult for those with jobs in each of the four areas identified above to respond ethically to various challenges encountered in the course of their work.

Finally, participants were asked to indicate their job function, their level in their organization, and the type of business in which they work. These questions were included to permit an analysis of whether the perceptions of the key ethical issues differed significantly by job function, level within the organization, and/or the type of business within which the respondents work.

Survey Findings for All Respondents

Table 1 shows the mean ratings for each of the 32 ethical issues based on the individual ratings given to each issue by all the CPCUs responding to the 2011 survey. The table also shows the rank of each issue based on the size of the issue's mean rating. Finally, the table indicates the percentage of the respondents who rated each issue 3, 4, or 5. Thus, for example, Issue 1 (failure to provide products and services of the highest quality in the eyes of the customer) was rated 2.38 on average by all survey respondents, had the eleventh highest mean rating among the 32 ethical issues listed in the survey form, and was rated 3, 4, or 5 by 42.4 percent of the respondents.

Eight ethical issues received mean ratings greater than 2.50 indicating that these key issues were perceived by the survey's respondents as causing the greatest problems for those working in the property-casualty insurance industry at the time. All these issues were rated 3, 4, or 5 by 50 percent or more of the CPCUs responding to the survey, suggesting that they are perceived as presenting real problems for the industry. In descending rank by mean rating, these eight key ethical issues are:

- Lack of knowledge or skills to competently perform one's duties (Issue 29).
- Failure to identify the customer's needs and recommend products and services that meet those needs (Issue 30).

- Office/agency closings and layoffs (Issue 25).
- False or misleading representation of products or services in marketing, advertising, or sales efforts (Issue 7).
- Making disparaging remarks about competitors, their products, or their employees or agents (Issue 3).
- Misrepresenting or concealing limitations in one's abilities to provide services (Issue 32).
- Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities (Issue 8).
- Failure to be objective with others in one's business dealings (Issue 31).

As might be expected, the CPCUs responding to the survey rated two of the issues related to the ethical responsibilities of professionals, but not of businesses and their employees in general (Issues 29 and 30), as being on average of greatest concern to the industry today. The other two issues directly related to professional ethical responsibilities (Issues 32 and 31) were also rated among the top-eight ethical issues facing those currently working in the property-casualty insurance industry.

Four ethical issues of interest to businesses and their employees in general were also rated on average greater than 2.50 by the CPCUs responding to the survey. These key issues reflect ethical dilemmas related to the propriety of information provided to customers and possibly others (Issues 3 and 7), potential conflicts of interest (Issue 8), and office/agency closings and layoffs (Issue 25).

While the remaining 24 issues were not viewed as presenting particularly significant problems for those working in the industry by as large a percentage of the respondents as was the case for the key ethical issues, all but the lowest ranked issue (Issue 19) were rated 3, 4, or 5 by 20 percent or more of the respondents, and thirteen of the 24 lowest ranked issues received this rating from 30 percent or more of those CPCUs responding to the survey. This suggests that these issues, while not viewed as presenting particularly widespread problems, are sufficiently pervasive that they should not be ignored by management. Managers and supervisors need to be alert to identify and handle, on an individual basis, those situations that present reasonably significant challenges to ethical behavior in the workplace.

Survey Findings for Different Groups of CPCUs

Although the findings discussed previously indicated how all the CPCUs responding to the 2011 survey perceived the various ethical issues overall, they did not indicate whether different groups of respondents had different perceptions of the extent to which a particular issue presented problems for those working in the industry. This section examines whether perceptions of ethical issues differ among CPCUs responding to the survey who are involved in different job functions, at different organization levels, and in different types of business organizations.

Findings for Job Functions

Nearly 82.5 percent of the responses to the survey were received from CPCUs engaged in one of four functional areas — marketing/sales (14.5 percent), claims (19.1 percent), underwriting (25.7 percent), and management (23.1 percent). The mean ratings for each of the 32 ethical issues were computed for the survey respondents in each of these functional areas.

As indicated by Table 2, the mean ratings were found to differ significantly (at the .05 level) among the marketing/sales, claims, underwriting/and/or management groups for ten of the 32 issues studied (Issues 3, 4, 5, 6, 25, 26, 28, 30, 31, and 32). Five of these ten issues (Issues 3, 25, 30, 31, and 32) were among the eight key issues identified earlier as presenting the greatest ethical problems to the property-casualty insurance industry today by all CPCUs responding to the survey. Both the marketing/sales and management groups perceived seven issues (Issues 3, 4, 5, 6, 30, 31, and 32) as presenting significantly greater problems for those working in the industry than did the members of the claims group. In addition to Issues 3, 4, 6, and 30, the underwriting group perceived Issue 26, discrimination, and Issue 28, employee theft, as presenting significantly greater problems than did the members of the claims group. In only one case, the claims group perceived an issue — Issue 25, office/agency closings and layoffs — as presenting a significantly greater problem for those working in the industry than did those in another group, management.

Table 2
Ethics Issues With Significantly* Different Job Function Means

	Issue	Marketing/ Sales	Claims	Underwriting	Management
Issue 3	Making disparaging remarks about competitors, their products, or their employees or agents	2.86‡	2.30	2.78‡	2.85‡
Issue 4	Misuse of proprietary information	2.36‡	1.88	2.28‡	2.34‡
Issue 5	Misuse of sensitive information belonging to others	2.26‡	1.92	2.10	2.23‡
Issue 6	Improper methods of gathering competitors' information	2.45‡	1.87	2.28‡	2.37‡
Issue 25	Office/agency closings and layoffs	2.71	3.03†	2.90	2.60
Issue 26	Discrimination	1.99	1.83	2.13‡	1.92
Issue 28	Employee theft	2.10	1.90	2.18‡	2.09
Issue 30	Failure to identify the customer's needs and recommend products and services that meet those needs	3.01‡	2.65	2.95‡	3.01‡
Issue 31	Failure to be objective with others in one's business dealings	2.70‡	2.31	2.59	2.67‡
Issue 32	Misrepresenting or concealing limitations in one's abilities to provide services	2.91‡	2.36	2.65	2.75‡

* = Significant Difference measured at the .05 level
‡ = Significantly greater than the Claims mean at the .05 level
† = Significantly greater than the Management mean at the .05 level

Findings for Organization Levels

Because of the extensive nature of the survey, information was gathered from CPCUs holding positions at various levels in insurance companies and other organizations such as agencies and brokerage firms. To permit an examination of whether perceptions of ethical issues differ among respondents at different organizational levels, survey participants were asked to indicate whether they were a senior manager, middle manager/supervisor, or not in management. The percentages of survey respondents indicating senior manager, middle manager/supervisor, or not in management were 30.4 percent, 40.9 percent, and 28.6 percent, respectively. The mean ratings for each of the 32 ethical issues were computed for the survey respondents at each of the three organization levels.

As indicated in Table 3, the mean ratings were found to differ significantly (at the .05 level) between organization level groups for only four of the 32 issues studied (Issues 3, 25, 30, and 31). Three of these (Issues 3, 30, and 31) were among the eight key issues identified earlier as presenting the greatest ethical problems to the property-casualty insurance industry today by all CPCUs responding to the survey. On average, senior managers and middle managers/supervisors perceived Issue 30, failure to identify the customer's needs and recommend products and services that meet those needs, and Issue 31, failure to be objective with others in one's business dealings, as presenting significantly greater problems to those working in the industry today than did employees not in management. In addition, middle managers/supervisors perceived Issue 3, making disparaging remarks about competitors, their products, or their employees or agents, as presenting more significant problems than those not in management. On the other hand, middle managers/supervisors and employees not in management perceived Issue 25, office/agency closings and layoffs as presenting significantly greater problems to those working in the industry than did senior managers — that is, the individuals involved in deciding what tactics would be employed in efforts to weather the recession.

Table 3
Ethics Issues With Significantly* Different Organization Level Means

		Senior Manager	Middle Manager/ Supervisor	Not in Management
Issue 3	Making disparaging remarks about competitors, their products, or their employees or agents	2.72	2.77‡	2.57
Issue 25	Office/agency closings and layoffs	2.53	2.95†	2.92†
Issue 30	Failure to identify the customer's needs and recommend products and services that meet those needs	3.03‡	3.00‡	2.80
Issue 31	Failure to be objective with others in one's business dealings	2.66‡	2.65‡	2.44

* = Significant Difference measured at the .05 level
† = Significantly greater than the Senior Management mean at the .05 level
‡ = Significantly greater than the Not in Management mean at the .05 level

Findings for Types of Business Organizations

To permit an examination of whether perceptions of ethical issues differ among respondents who work in various types of business organizations, survey participants were asked to indicate whether they worked in an agency, a brokerage, an insurance company, a reinsurer, or another type of firm. Approximately 86.7 percent of the respondents indicated that they worked in an agency (13.4 percent), a brokerage (6.3 percent), or an insurance company (67.0 percent). The mean ratings for each of the 32 ethical issues were computed for the survey respondents who indicated they worked for each of these three types of organizations.

As indicated in Table 4, the mean ratings were found to differ significantly (at the .05 level) between organization type groups in the case of six of the 32 issues studied (Issues 4, 5, 6, 10, 20, and 32). However, only one of these issues (Issue 32) was among the eight key issues identified earlier as presenting the greatest ethical problems to the property-casualty insurance industry today by all CPCUs responding to the survey. On average, the respondents working in agencies felt that Issue 32, misrepresenting or concealing limitations in one's abilities to provide services, presents a significantly greater problem for those working in the industry today than did the respondents working for insurance companies. In addition, respondents working in agencies indicated that Issues 6 and 10 presented more significant problems for the industry than did those employed by insurance companies. There also was a significant difference between the extent to which those working in brokerage and those employed by insurance companies perceived Issues 4 and 5, which are related to the misuse of information causing problems for those working in the industry today.

Table 4
Ethics Issues With Significantly* Different Business Type Means

		Agency	Brokerage	Insurance Company
Issue 4	Misuse of proprietary information	2.36	2.51†	2.17
Issue 5	Misuse of sensitive information belonging to others	2.25	2.44†	2.06
Issue 6	Improper methods of gathering competitors' information	2.54†	2.41	2.20
Issue 10	Conflicts of interest involving the marketing of products and services competing with those of one's own company	2.32†	2.16	1.99
Issue 20	Offering or soliciting payments or contributions for the purpose of influencing legislation or regulations	2.28‡	1.85	2.06
Issue 32	Misrepresenting or concealing limitations in one's abilities to provide services	2.95†	2.75	2.60

* = Significant Difference measured at the .05 Level
† = Significantly greater than the Insurance Company mean at the .05 level
‡ = Significantly greater than the Brokerage mean at the .05 level

Survey Findings for the Overall Impact of the Recession

As mentioned earlier, the survey contained two questions aimed at gauging the respondents' overall perspective regarding the extent to which the recession and slow recovery have impacted those employed in marketing, underwriting, claims settlement, and the industry overall in terms of the level of competitive pressure experienced, and the degree of difficulty encountered, in responding to ethical challenges faced in the course of their work.

Studies of the effects of the recession have identified pressure as a key driver of misconduct. Since prior research also found that CPCUs and other professionals working in the property-casualty insurance industry have tended to view competitive pressures as presenting the greatest challenge to their efforts to act ethically in the course of their business activities, survey respondents were asked to indicate on a 5-point scale, where 5 meant to a very great extent and 1 meant not at all, the extent to which the drop in demand for insurance triggered by the recession and slow recovery has led to an increase in the competitive pressures experienced by those working in marketing, underwriting, claims settlement, and the industry overall. As indicated by the means shown in Table 5, those working in marketing were perceived by all respondents as having not only experienced the greatest increase in competitive pressures, but also an increase viewed as being significantly greater than that experienced by those employed in underwriting, claims settlement, and the industry overall. Also, the means for marketing, underwriting, and the industry overall indicate that individuals working in each of those areas were perceived as having experienced a rather sizable increase in competitive pressure due to the recession and slow recovery.

Table 5
Impact Of The Recession And Slow Recovery On Competitive Pressure Experienced At Work

Survey Question: On a scale of 1 to 5, where 5 means "to a very great extent" and 1 means "not at all," indicate the extent to which the drop in the demand for insurance triggered by the recent recession and slow recovery has led to an increase in the competitive pressures experienced by those working in each of the following areas of the property-casualty insurance business.

	Mean	The Increase in Competitive Pressure Experienced by Those Working in Each Area Listed in the Left-Hand Column Is Significantly* Greater Than That Experienced by Those Working in the Following Area(s):
Marketing	3.84	Underwriting, Claims Settlement, & the Industry Overall
Underwriting	3.67	Claims Settlement & the Industry Overall
Claims Settlement	2.79	
The Industry Overall	3.57	Claims Settlement

* = Significant Difference measured at the .05 level

CPCUs responding to the survey were also asked indicate on a 5-point scale, where 5 meant to a very great extent and 1 meant not at all, the extent to which conditions related to the recent recession and slow recovery have made it more difficult for those with jobs in marketing, underwriting, claims settlement, and the industry overall to respond ethically to various challenges encountered in the course of their work. As indicated by the means shown in Table 6, those working in marketing were perceived by all respondents as having not only experienced the greatest increase in difficulty of responding ethically to challenges encountered at work, but also an increase viewed as being significantly greater than that experienced by those employed in underwriting, claims settlement and the industry overall. Also, the means for marketing, underwriting, claims settlement, and the industry overall indicate that conditions related to the recession and slow recovery were perceived to have made it more difficult for those employed in each of these areas to deal effectively with ethical issues encountered in their jobs.

Table 6
Impact Of The Recession And Slow Recovery On The Ability To Respond Ethically To Various Challenges Encountered At Work

Survey Question: On a scale of 1 to 5, where 5 means "to a very great extent" and 1 means "not at all," indicate the extent to which conditions related to the recent recession and slow recovery have made it more difficult for those with jobs in each of the following areas of the property-casualty insurance business to respond ethically to various challenges encountered in the course of their work.

	Mean	The Increase in Difficulty of Responding Ethically to Challenges Encountered at Work by Those Working in Each Area Listed in the Left-Hand Column Is Significantly* Greater Than That Experienced by Those Working in the Following Area(s):
Marketing	2.80	Underwriting, Claims Settlement, & the Industry Overall
Underwriting	2.66	Claims Settlement
Claims Settlement	2.32	
The Industry Overall	2.71	Underwriting & Claims Settlement

* = Significant Difference measured at the .05 level

A Comparison with the 1989, 1999 and 2005 Survey Findings

To determine the ways the recession and slow recovery have impacted the property-casualty insurance industry's ethical environment, if at all, the 32 ethics issue means indicating the extent to which the CPCUs responding to the 2011 survey perceived each of the issues as presenting problems for those working in the industry will be compared to the same information gathered in the three earlier CPCU studies. Table 7 summarizes the issue means and ranks for all respondents to the 1989, 1999, 2005 and 2011 surveys. However, before comparing the findings of the 2011 survey with those of the other three studies in an effort to identify differences that may be attributable to the ongoing economic crisis, an examination of the several similarities between the current study's results and those of the 1989, 1999, and 2005 surveys will provide a basis for assessing the findings that vary.

Table 7
Comparison of the 4 CPCU Issues Studies — All Respondents

		1989 Study		1999 Study		2005 Study		2011 Study	
Issue		Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
1	Failure to provide products and services of the highest quality in the eyes of the customer	3.35‡†#	3	2.70#	8	2.61#	7	2.38	11
2	Failure to provide prompt, honest responses to customer inquiries and requests	3.20‡†#	4	2.91†#	4	2.68#	5	2.47	9
3	Making disparaging remarks about competitors, their products, or their employees or agents	2.26	14	2.56*	10	2.56*	9	2.70*	5
4	Misuse of proprietary information	1.87	24	2.16*	15	2.17*	20	2.24*	16
5	Misuse of sensitive information belonging to others	1.80	27	2.14*	19	2.08*	23	2.15*	17
6	Improper methods of gathering competitors' information	1.91	23	2.06*	22	2.08*	23	2.26*‡†	14
7	False or misleading representation of products or services in marketing, advertising, or sales efforts	2.76	6	2.73	6	2.60	8	2.74	4
8	Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities	2.74	8	2.72	7	2.93*‡#	3	2.68	7
9	Conflicts of interest involving business or financial relationships with customers, suppliers, or competitors that influence, or appear to influence, one's ability to carry out his or her responsibilities	2.37	13	2.46	11	2.78*‡#	4	2.47	10
10	Conflicts of interest involving the marketing of products and services competing with those of one's own company	1.92	22	2.08*	21	2.20*	17	2.09*	20
11	Conflicts of interest that involve working for a competitor, customer, or supplier without approval	1.68	31	1.72	31	1.77	30	1.87*‡	29
12	Misuse of company assets/property	1.97	20	2.15*	17	2.20*	17	2.25*	15
13	Insider trading/other security trading problems	1.85	26	1.89	30	2.19*‡	19	2.07*‡	22
14	Giving excessive gifts or entertainment	1.87	24	2.01	23	2.26*‡#	15	2.05*	23
15	Receiving excessive gifts or entertainment	1.78	29	1.96*	26	2.23*‡#	16	1.98*	26
16	Offering or soliciting payments or contributions for the purpose of influencing customers or suppliers	1.77	30	1.90	29	2.15*‡#	21	1.94*	27
17	Offering or soliciting payments or contributions for the purpose of influencing government officials	1.79	28	1.95*	27	2.05*	25	1.94	28

Table 7 (continued)
Comparison of the 4 CPCU Issues Studies — All Respondents

		1989 Study		1999 Study		2005 Study		2011 Study	
Issue		Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
18	Offering or soliciting payments or contributions for the purpose of obtaining, giving, or keeping business	2.04	18	2.15	17	2.35*‡#	14	2.10	19
19	Offering or soliciting payments or contributions for the purpose of persuading employees of another company to fail to perform, or improperly perform, their duties	1.30	32	1.40	32	1.62*‡	32	1.57*‡	32
20	Offering or soliciting payments or contributions for the purpose of influencing legislation or regulations	1.97	20	2.16*	15	2.15*	21	2.12	18
21	Inaccuracy of books, records, or reports	2.48‡	10	2.30	13	2.55‡#	10	2.36	12
22	Abuse of expense accounts	2.23	16	2.44*	12	2.43*	13	2.31	13
23	Antitrust issues	2.45‡†#	11	1.92	28	2.02#	26	1.84	31
24	Relations with local communities	2.64‡†#	9	2.12†#	20	1.88	28	1.85	30
25	Office/agency closings and layoffs	2.41	12	3.04*†#	3	2.45	12	2.81*†	3
26	Discrimination	2.10	17	2.26*†#	14	1.95	27	2.01	24
27	Drug and alcohol abuse	2.25‡†#	15	1.98†	25	1.69	31	1.99†	25
28	Employee theft	1.99†	19	2.00†	24	1.80	29	2.09†	21
29	Lack of knowledge or skills to competently perform one's duties	3.39†#	2	3.31†#	1	2.95	2	2.98	1
30	Failure to identify the customer's needs and recommend products and services that meet those needs	3.41‡†#	1	3.20†#	2	3.04	1	2.94	2
31	Failure to be objective with others in one's business dealings	2.75†#	7	2.66	9	2.52	11	2.59	8
32	Misrepresenting or concealing limitations in one's abilities to provide services	2.88†#	5	2.89†#	5	2.67	6	2.70	6

* = Significantly greater than the 1989 CPCU study value at the .05 level
‡ = Significantly greater than the 1999 CPCU study value at the .05 level
† = Significantly greater than the 2005 CPCU study value at the .05 level
# = Significantly greater than the 2011 CPCU study value at the .05 level

Similarities

Several points regarding the similarities in the findings of the four studies are noteworthy. First, while differences do exist in the order of the 32 ethical issues based on their means, the correlation coefficients calculated from the mean ratings of the 2011 study and those of each of the three earlier studies were .746 for the 1989 and 2011 studies, .942 for the 1999 and 2011 studies, and .882 for the 2005 and 2011 studies. These rather high positive correlation coefficients, especially those for the two pairs based on a comparison of the means of the three most recent studies, suggest that the order of the ethical issues was actually quite similar overall for the four studies.

Several similarities also exist with respect to the key ethical issues (those with means greater than or equal to 2.50) identified in the four studies:

- The same two issues related to ethical responsibilities of professionals (Issues 29 and 30) ranked first and second in all four studies.
- Six of the key ethical issues identified in all four studies, including all four of the issues related to ethical responsibilities of professionals, are the same:
    - False or misleading representation of products or services in marketing, advertising, or sales efforts (Issue 7).
    - Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities (Issue 8).
    - Lack of knowledge or skills to competently perform one's duties (Issue 29).
    - Failure to identify the customer's needs and recommend products and services that meet those needs (Issue 30).
    - Failure to be objective with others in one's business dealings (Issue 31).
    - Misrepresenting or concealing limitations in one's abilities to provide services (Issue 32).

These findings suggest that a number of the key ethics issues facing the property-casualty insurance industry today are quite similar to those in 1989, 1999, and 2005.

Differences

Comparison of the ethics issue means in the 2011 study with those of each of the three earlier studies also indicates a number of significant differences in the extent to which various issues are perceived as presenting problems for those working in the industry. Perhaps the best place to start is with the comparison between the findings of the 2005 and 2011 studies. Both were conducted at times when rates (particularly those for commercial lines) were decreasing as a result of excess capacity — that is, an increase in the supply of insurance that was not matched by a comparable growth in demand. The main difference was that the 2011 survey was conducted after a period of recession and slow recovery in which an actual drop in demand (reflecting a decrease the number of exposures insured and the amount of insurance purchased on those that were) put additional downward pressure on insurance prices as compared with excess supply alone in 2005.

As indicated in Table 7 and summarized in Table 8, there were significant differences in the 2005 and 2011 means for 14 issues. Although the means for four issues (Issues 6, 25, 27, and 28) increased significantly from the 2005 study to the current one, a considerably larger number, ten issue means (Issues 1, 2, 8, 9, 14, 15, 16, 18, 21, and

23), were lower in 2011 than 2005. Moreover, among these ten lower issue means were the means for five of the key issues in the 2005 study (Issues 1, 2, 8, 9, and 21) that decreased significantly by 2011. Thus, overall, the 14 issues with significant differences were perceived as creating *less of a problem* for those working in the industry today than in 2005.

Table 8
Significant Changes in CPCU Ethics Issue Means from 2005 to 2011

		2005 Study		2011 Study	
Issue		**Mean**	**Rank**	**Mean**	**Rank**
	4 Issues with Significantly Higher Means in 2011				
6	Improper methods of gathering competitors' information	2.08	23	2.26	14
25	Office/agency closings and layoffs	2.45	12	2.81	3
27	Drug and alcohol abuse	1.69	31	1.99	25
28	Employee theft	1.80	29	2.09	21
	10 Issues with Significantly Lower Means in 2011 (5 Bold Issues were Key Issues in 2005)				
1	**Failure to provide products and services of the highest quality in the eyes of the customer**	**2.61**	**7**	**2.38**	**11**
2	**Failure to provide prompt, honest responses to customer inquiries and requests**	**2.68**	**5**	**2.47**	**9**
8	**Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities**	**2.93**	**3**	**2.68**	**7**
9	**Conflicts of interest involving business or financial relationships with customers, suppliers or competitors that influence, or appear to influence, one's ability to carry out his or her responsibilities**	**2.78**	**4**	**2.47**	**10**
14	Giving excessive gifts or entertainment	2.26	15	2.05	23
15	Receiving excessive gifts or entertainment	2.23	16	1.98	26
16	Offering or soliciting payments or contributions for the purpose of influencing customers or suppliers	2.15	21	1.94	27
18	Offering or soliciting payments or contributions for the purpose of obtaining, giving, or keeping business	2.35	14	2.10	19
21	**Inaccuracy of books, records, or reports**	**2.55**	**10**	**2.36**	**12**
23	Antitrust issues	2.02	26	1.84	31

The 1989 and 1999 surveys were conducted near the beginning of one soft market and end of the next soft market that were separated by a one-year hard market in 1996 (Catlin, Peters and Walker, 2008). As indicated in Table 7, one issue mean (Issue 6) increased significantly from the 1999 study to the current one, whereas the means for eight issues (Issues 1, 2, 24, 25, 26, 29, 30, and 32) were significantly lower in the 2011 study. Moreover, among these eight lower issue means were the means for six of the key issues in the 1999 study (Issues 1, 2, 25, 29, 30, and 32) that decreased significantly by 2011. Thus, the nine issues with significant differences were perceived overall as creating *less of a problem* for those working in the industry today than in 1999.

As shown in Table 7, comparison of the 2011 study issue means with those from the 1989 study produces a different result in terms of the relative number of issues whose means increased as compared with decreased. In this case, thirteen issue means (Issues 3–6, 10–16, 19, and 25) increased significantly from the 1989 study to the current one, whereas the means for nine issues (Issues 1, 2, 23, 24, 27, 29–32) were significantly lower in the 2011 study. Nevertheless, despite the greater number of issues whose 1989 means increased as compared with those that decreased, the means for several, in this case seven, of the key ethical issues in the 1989 study (Issues 1, 2, 24, and 29–32) were significantly lower by 2011, suggesting that overall, the 22 issues with significant differences may again have been perceived as creating *less of a problem* for those working in the industry today than in 1989.

Effects of the Recession on Ethics in the P&C Insurance Industry versus U.S. Business in General

The final goal of this paper is to compare the effects the recession and sluggish recovery have had on the ethical environment of the P&C insurance industry and that of U.S. business in general. In addition to using information gained from even earlier surveys to provide further support for indications that their latest results appear to be consistent with similar conditions in the past, KPMG (2008) and the ERC (2009) relied most heavily on a comparison of the findings of their most recent pre-recession study with those yielded by their survey conducted during or shortly after the recession as a basis for reaching their recently published conclusions. For this reason, the findings of the comparison of the 2005 and 2011 CPCU surveys seem the most appropriate for use in making a comparison of the effects of the recession on ethics in the property-casualty insurance industry with its impact on the ethical environment of U.S. business in general.

As mentioned earlier, comparison of the findings of the 2005 and 2011 surveys indicated that considerably more issues (ten versus four issues) were viewed as being less of a problem in 2011 than were perceived as presenting greater problems for those working in the property-casualty insurance industry today. Moreover, all five of the key issues in 2005 that changed significantly by 2011 were perceived to present less of a problem at this time. Although not a key issue in 2005, Issue 25 was perceived as a key issue in 2011. However, none of the key issues in 2005 were seen as causing greater problems today. This appears to most closely resemble the ERC's finding of improvement in the ethical environment of U.S. business in hard times. In comparing its 2007 and 2009 studies, the ERC (2009) found that the percentage of employees indicating they had witnessed misconduct on the job dropped from 56 percent to 49 percent over the course of the recession.

In comparing the findings of two of its earlier studies, the ERC found the same pattern of improvement in the ethical environment of U.S. business from 2000 to 2003 despite several major corporate scandals experienced during this period. However, between the two periods of improvement — that is, from 2003 to 2007 — the ERC (2007, p. 1) found that despite the freedom from "Enron and other corporate ethics debacles . . . new regulation and significant resources now dedicated to decreasing misconduct," the ethical environment worsened as the percentage of surveyed employees who indicated they witnessed misconduct on the job rose and the number of companies perceived as having strong ethical cultures declined. The ERC (2009, p. 41) sums up its findings as follows:

> We are beginning to see an important connection between workplace ethics and the larger economic and business cycle: when times are tough, ethics improve. When business thrives and regulatory intervention remains at status quo, ethics erode. We expect this pattern to continue.

Comparison of the findings of the 1999 and 2005 CPCU studies covers a period in which the property-casualty insurance industry encountered both "the tough times" and "the time that business thrives" mentioned by the ERC. From 2001 to 2003, the P&C industry faced the same situations that, according to the ERC (2009), gave rise to the "tough times" experienced by business in general — a recession along with the shock of the 9/11 disaster in 2001, and the series of corporate ethical scandals during the period 2001 to 2003. However, the property-casualty insurance industry also experienced favorable business results from 1999 to 2005, including a decrease in the supply of insurance (reflecting a drop in policyholders' surplus) and a rise in insurance prices until near the end of the period, and a substantial improvement in the quality of underwriting, underwriting results, and the return on equity over the last 4 years. Given the ERC's findings, one would expect the existence of countervailing forces, some seeking to worsen the industry's ethical environment while at the same time others seeking to improve it, thereby producing a mild change in ethical behavior one way or the other. Comparison of the findings of the 1999 and 2005 CPCU studies produces such a result — in this case, a slight improvement of the industry's ethical environment. While nine ethics issues were perceived as presenting less of a problem in 2005 than 1999, the same number of issues was viewed as presenting a greater problem over that period. However, five key ethics issues were perceived as causing less of a problem for the industry in 2005 than in 1999, whereas only one key issue in 1999 was viewed as being a greater problem in 2005. Also, although not identified as being key issues in 2005, Issues 9 and 21 were perceived as key issues in 2005.

Finally, comparison of the findings of the 1989 and 1999 surveys indicates the property-casualty insurance industry's ethical environment may have deteriorated somewhat during that period —a period that overall experienced an increase in supply (policyholders' surplus), a drop in prices, a low rate of growth in written premiums, and sizable underwriting losses. While 7 ethics issues were perceived as presenting less of a problem in 1999 than in 1989, 12 issues were viewed as presenting a greater problem over that period. Four key ethics issues were perceived as causing less of a problem for the industry in 1999 than in 1989, whereas no key issues in 1989 were viewed as presenting a greater problem in 1999. However, although not key issues in 1989, Issues 3 and 25 were perceived as key issues in 1999. Rather than improve when times were tough in U.S. business as found by the ERC (2009), the ethical environment of the property-casualty insurance industry appears to have deteriorated somewhat when facing a period of troubling financial results.

Thus, like the ERC's (2009) findings of its 2009 NBES, which indicated some improvement in the ethical environment of U.S. business during the recession, comparison of the 2005 and 2011 CPCU surveys found that overall, the ethical issues whose means were significantly different between the two studies were perceived as creating *less of a problem* for those working in the industry today than before the recession and slow recovery. With the period between the 1999 and 2005 CPCU studies including both what the ERC identified as tough times for business as well as a period of favorable financial results, comparison of the findings of the two studies indicated a slight change — in this case, an improvement — in the ethical environment of the property-casualty insurance industry, a result consistent with the ERC's research. On the other hand, contrary to the ERC findings, comparison of the findings of the 1989 and 1999 CPCU studies indicated that rather than improving, the ethical environment of the property-casualty insurance industry appears to have deteriorated somewhat when facing a period of troubling financial results.

Implications for the Future

While it is tempting to view the perceived improvement in the ethical environment of the property-casualty insurance industry during and following the recession as an end in itself, response to the ERC's (2009) similar finding for U.S. business in general has raised questions about the veracity of its finding of improvement as well its implications for the future. For example, in summarizing the findings of several recent business ethics surveys, including those discussed earlier, Plinio, Young, and Lavery (2010, p. 173) interpreted the ERC's finding of a reduced level of misconduct differently than did those who conducted the 2009 NBES, indicating:

> [W]hen we look at the level of observed misconduct over the past decade, we find it as more or less flat, ranging from 46 to 56 per cent. We conclude that it is not a positive indicator of the state of ethical behavior in business when nearly half of all respondents observed misconduct in the year before the survey. To support our conclusion we found the results of the KPMG 2008-2009 Integrity Survey to reflect even higher levels of misconduct. . . . The KPMG survey indicated that three out of four employees have observed misconduct in the 12 months prior to the survey.

The difference of the findings of the specific levels of observed misconduct in the two studies aside, the key question relates to whether a reduction from 56 percent to 46 percent of the respondents observing misconduct can *truly* be considered as an improvement or rather should be viewed as a drop from one excessive, and thus unacceptable, level of unethical behavior to another, thereby suggesting the need for further action if the ethical environment of U.S. business is to be perceived as having truly improved. Moreover, meaningful improvement will not occur on its own but rather requires a concerted effort by top executives to reduce, if not eliminate, the many existing barriers to achieving positive ethical outcomes erected and/or tolerated by business itself, such as those identified in recent studies by KPMG (2008), the ERC (2009), and CELC (Currell and Bradley, 2010). These existing barriers to self-improvement of the ethical environment are reflected in the negative ethical outcomes identified recently, such as (1) despite a drop in overall misconduct levels reported in 2009, the more serious types of misconduct actually increased in that year (Currell and Bradley, 2010); (2) 22 percent of the employees surveyed by the ERC (2009) indicated that the recession had negatively impacted the ethical culture in their company; (3) nearly half of the employees surveyed by KPMG (2008) believed they would not be protected against retaliation if they were to report misconduct; (4) depending upon the relative strength or weakness of the ethical culture in their company, between 24 percent and 43 percent of the employees surveyed by the ERC (2010a) indicated they had failed to report observed misconduct; and (5) as high as 24 percent of the employees working in businesses with weaker ethical cultures indicated they had been retaliated against when reporting misconduct observed in their firm (ERC, 2010b).

While the industry's ethical environment was found to improve during the period 2005 to 2011, 50 percent or more of the CPCUs responding to the current survey rated eight key ethical issues 3, 4, or 5, indicating that they are widely perceived as presenting significant problems for the property-casualty insurance business today. The 8 key ethical issues included all 4 of the issues related to the ethical responsibilities of professionals as well as 4 issues of interest to businesses and their employees in general. In addition, 23 of the 24 remaining ethical issues were rated 3, 4, or 5 by 20 percent or more of the respondents, indicating that, while less significant than the 8 key issues, they must still be identified and handled by management as they arise. Thus, as was the case with U.S. business in general, despite some improvement in its ethical environment from 2005 to 2011, the property-casualty insurance industry still has considerable room for improvement. This need for further improvement is reinforced by the finding that when asked how they perceived conditions related to the recession and slow recovery as having impacted the industry's ethical environment overall, the CPCUs responding to the 2011 survey indicated that these events have made it more difficult for those working in marketing, underwriting, claims settlement, and the industry in general to respond ethically to various challenges encountered in the course of their work. Moreover, since business firms in the property-casualty insurance industry are likely to encounter some, if not all, the barriers to achieving positive ethical outcomes faced by business in general, further improvement of the industry's ethical environment will require increased leadership from top managers.

In addition to the need for a continuing effort on the part of business to further improve the post-recession ethical environment, the ERC (2009) warns that the overall favorable results of its 2009 NBES are likely to be temporary — that is, an ethics bubble that can be expected to pop when the business environment improves. Pointing to the findings of its earlier studies, the ERC (2009) indicates that following improvement in the ethical environment in business during the last period of major turbulence from 2000 to 2003, unethical behavior once again increased as market conditions improved. The same expectation was voiced by 59 percent of U.S. respondents to the 2010 Edelman Trust Barometer Survey (2010, p. 2) who indicated "business and financial companies will revert to old habits when the financial crisis is over," a prediction that proved accurate when after experiencing an increase during 2009, trust in U.S. business by Americans dropped in 2010 (Edelman, 2011). The ERC (2009) contends that unless ethical climate is strengthened, the same pattern of increased misconduct following a period of tough economic times, in this case the recession, is likely to occur.

While the pattern of changes in the ethical environment of the property-casualty insurance industry prior to the recession did not precisely follow that of U.S. business in general and thus, the industry may not experience an increase in unethical behavior as market conditions improve, there will still be a critical need for insurance executives to provide the leadership essential to strengthening ethical culture in their organizations if ethics is to improve within the industry in the future. In conducting the 2009 NBES, the ERC (2010b, p. 5) found "Ethical culture continues to have a profound impact on pressure, observed misconduct, reporting of observed misconduct, and rates of retaliation against reporters." In stronger as opposed to weaker cultures, ethical outcomes are more positive — that is, pressure, observed misconduct, and rates of retaliation are reduced, and reporting of observed misconduct increases. While the actions and perceptions of both managers and workers influence the strength or weakness of an organization's ethical culture, top managers exert the greatest positive impact by "keeping employees informed, living up to promises and commitments, modeling a commitment to ethics and setting a good example" (ERC, 2011b, p. 13). However, participation of employees at all organization levels is essential if a firm's culture is to be most effective in producing positive ethical outcomes. The ERC (2006) found that employees reported encountering more positive ethical outcomes the more they perceived their managers, supervisors, and coworkers setting a good example; keeping promises and commitments; and supporting others in adhering to ethics standards. Thus, as professionals with a commitment to ethical behavior, CPCUs at all organization levels have an opportunity as well as an obligation to contribute to the strengthening of their organization's ethical culture, a key factor in improving the industry's ethical environment in the future.

Endnotes

1) The supply of insurance is a function of the availability of resources to bear risk (policyholders' surplus) and the willingness of insurers to commit those resources to writing insurance in pursuit of profit. Changes in these two factors and, thus, shifts in the supply of insurance depend on expectations of profits. If profits (rate of return on equity) are expected to increase, additional resources will become available to bear risk, and the willingness of insurers to commit those resources to writing insurance will improve, thereby increasing the supply of insurance. Expectations of lower profits will have the opposite effect on supply.

2) While the demand for insurance tends to increase slowly over time, supply changes are substantial and occur quickly. This difference in the rate and magnitude of change between supply and demand produces excesses in supply (excess underwriting capacity) when profits are expected to increase in the future and shortages in supply when expectations of future return weaken.

3) The significant role played by the decrease in demand due to the recession in suppressing insurance prices is illustrated by the drop in net premiums written from the fourth quarter of 2007 to the first quarter of 2009 despite the $85 billion (16.2 percent) drop in policyholders' surplus (supply) resulting from a serious decline in asset values during the same period (Advisen, 2010; Hartwig, 2009).

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