Ethical Habits to Build Trust in Business Relationships

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Agenda

- Why are we here?
- Definitions of Ethics and Trust
- Research on Ethics and Trust
- What Ethical Habits Can We Embrace as Industry Professionals
- Discussion, Questions & Answers
Why Are We Here?

- Ethics are important to us as benefits professionals
- We face complicated ethical issues every day
- Regulatory Requirements
- The DOL has broadened the scope of fiduciary liability
- It’s good for business
Why We’re Really Here
Are there Common Denominators?

Three Conditions Generally Present When An Ethics Violation Occurs

1. **Incentive** or **Pressure**
2. **Opportunity** for a violation to occur, the absence of controls, ineffective controls, or the ability to override controls; and
3. The ability for the violator to **rationalize** his or her actions
Small Group Discussions On Ethics

In Groups of 2-8, discuss........

- Ethical issues you have either been a part of directly or have observed in other companies and/or business interactions
- In what ways did the resolutions from these ethical issues impact your perspective of the individuals and/or companies?
- Draft definition(s) of Ethics and Trust
If you’re struggling, here’s some potential ethics discussion topics........

- Determining which Benefits to offer/not offer
- Determining which Vendors to partner with
- Allowing employees to make their own choices vs “saving them from themselves”
- Retirement communications, modeling fund choices and more
- Pharmacy issues: Which drugs should be in your formulary? What about experimental drugs?
- How about experimental procedures in general?
- What about stop loss lasering?
- Tracking Wellness/Measuring Wellness plan incentives?
If you’re struggling, here’s some potential ethics discussion topics........

- Mental and nervous treatment and claim issues
- Should you cover cosmetic dental procedures
- Various compliance issues.......Administrative burdens?
  What if there are regulations you choose not to comply with?
  What if there are regulations you don’t even know about?
- Do you have examples of benefit policies at your company you know conflict with overriding corporate philosophies? If so, do you share this with Management or leave it alone?
- Some say that Ethics and Trust are two of the most difficult terms to define. Do you agree with this? If so, why do you think this is?
- Other
What Are Ethics?
What is Trust?
Defining things like Ethics, Trust, Moral Character, etc., is not easy...........

So let’s look at a variety of definitions..............
What is Trust?

Webster Definition:

- assured reliance on the character, ability, strength, or truth of someone or something
- one in which confidence is placed
- dependence on something future or contingent
- a charge or duty imposed in faith or confidence or as a condition of some relationship
What is Trust?

- “Trust is a psychological state comprising the intention to accept vulnerability on positive expectations of the intentions of another” (Rousseau)
- Shaped by the characteristics of the trustor, trustee and situation*
- Trust can be calculative, emotional, instinctive, evidentiary, trait-based*
- Trust can be intrapersonal, interpersonal, institutional, societal*
- It is possible to trust and distrust another person*
- Trustworthiness is based on perceptions of both competence and character*

Source*: Brinsfield, University of St. Thomas, 2017
Ethics Definitions

- Moral principles or rules of conduct recognized by an individual or group of individuals.
- Rules of conduct that apply when an individual has to make a decision from various alternatives regarding moral principles.
- The process of determining what are, and what are not reasonable standards of moral conduct.
- A process of resolving actual or potential conflicts of interest.
- Synonym for “morally correct” or justified - set of justified moral principles of obligation, rights, and ideals.
- Particular beliefs or attitudes concerning morality.
- Area of study or inquiry - an activity of understanding moral values, resolving moral issues, and justifying moral judgments.

Source: Brinsfield, University of St. Thomas, 2017
Insurance Ethics

The study of the moral values, issues, and decisions involved in the insurance industry

- Responsibilities
- Ideals
- Character Traits
- Social Policies
- Relationships desirable from individuals and corporations engaged in insurance business
Benefits and Retirement Plan Ethics

▶ Fiduciary Duties
  - A fiduciary is any entity that exercises discretion over the plan
  - Entities that are not a “Named Fiduciary” can still be one
  - Can include agents, reps, brokers, plan consultants, TPA’s, broker-dealers, investment advisors and more

▶ Discretionary Authority
  - Plan language generally affords the Plan Administrator “maximum legal discretionary authority to construe and interpret the terms and provisions of the Plan, to make determinations regarding eligibility including what services, supplies, care and treatments are Experimental, to decide disputes........
Arbitrary and Capricious Standard

- ERISA actually provides no standard of review for benefit determination
- Court filled the gap with a provision to the Labor Management Relations Act
- Relevant factors include:
  - Uniformity of construction of the plan
  - Interpretation of the plan contrary to its terms
  - Fair and reasonable interpretation
  - Unanticipated costs
  - Administration of the plan in a manner which violates the law
Other Areas Within Our Scope Of Ethics

- Consumer Protection
  - Data Privacy
- Fraud Awareness
  - Provider Fraud
  - Plan Participant Fraud
- Compliance
  - State and Federal Law
Defining Ethics: What Ethics is NOT:

- Ethics is not the same as feelings.
- Ethics is not “just” following the law.
- Ethics is not following culturally accepted norms.
- Ethics is not science.

Source: Brinsfield, University of St. Thomas, 2017
Ethics includes Character

- Integrity
- Responsibility
- Forgiveness
- Compassion

Source: KRW International, 2013
What Does Research Tell Us About Trust?
Edelman 2016 Trust Barometer

Trust Matters
Percent who engage in each behavior based on trust

Behaviors for Distrusted Companies
- 46% Refused to buy products/services
- 42% Criticized companies
- 26% Shared negative opinions
- 35% Disagreed with others
- 20% Paid more than wanted
- 12% Sold shares

Behaviors for Trusted Companies
- 68% Chose to buy products/services
- 59% Recommended them to a friend/colleague
- 41% Shared positive opinions online
- 38% Celivered company
- 37% Paid more
- 18% Bought shares

Source: 2016 Edelman Trust Barometer (Q2). 568. Thinking back over the past 12 months, have you taken any of the following actions in relation to companies that you trust? Please answer yes or no to each action. General Population, 28-country global total; questions asked of half the sample. (Q177-380). 568 thinking about the past 12 months, have you taken any of the following actions in relation to companies that you do not trust? Please answer yes or no to each action. General Population, 28-country global total, question asked of half the sample.
Global Perception of Trust

Out of the top 28 GDP countries, which country’s survey participants has the highest trust in Business?

Out of the top 28 GDP countries, what is the US’ current ranking in trust in business?

Source: 2016 Edelman Trust Barometer
Global Perception of Trust

Who do Edelman survey participants say is more credible?
- A technical expert
- An academic expert
- A peer

Who do Edelman survey participants trust more?
- Business
- Government

Source: 2016 Edelman Trust Barometer
### Gallup Poll

Combining “Very High” and “High” Trust Ratings from various professions

<table>
<thead>
<tr>
<th>Profession</th>
<th>Rating</th>
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<tbody>
<tr>
<td>Pharmacists</td>
<td>67%</td>
</tr>
<tr>
<td>Doctors</td>
<td>65%</td>
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<tr>
<td>Police Officers</td>
<td>58%</td>
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<tr>
<td>Professors</td>
<td>47%</td>
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<tr>
<td>Clergy</td>
<td>44%</td>
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<td>Journalists</td>
<td>23%</td>
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<tr>
<td>Lawyers</td>
<td>18%</td>
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<tr>
<td>HMO Managers</td>
<td>12%</td>
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<tr>
<td>Senators</td>
<td>12%</td>
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<tr>
<td>Stock Brokers</td>
<td>12%</td>
</tr>
<tr>
<td>Advertisers</td>
<td>11%</td>
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<tr>
<td>____________________</td>
<td>11%</td>
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<td>____________________</td>
<td>9%</td>
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<td>____________________</td>
<td>8%</td>
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Source: Gallup, December, 2016
Findings from 2017 Ethisphere Summit

The price that companies pay for behaving in an unethical way noted a culture where misconduct is tolerated (or worse, encouraged) could result in:

- Higher Turnover
- Lower Morale
- A tarnished reputation
- Make sustainable success seem impossible to achieve

Source: Ethisphere, 2017
Ethisphere Finding on Business Results

Source: 2017 Ethisphere Global Ethics Summit
Categorizing CEOs by Character

Source: KRW International, 2013
CEO Character Impact on ROA

Source: KRW International, 2013
What Does Ethical Behavior Look Like?
Why Have a Code of Ethical Conduct?

- To Improve the company’s competitiveness
- To be a socially responsible company
- To create a united corporate culture
- To protect/improve the company’s goodwill
- To comply with stakeholders’ expectations
- To avoid legal sanctions
- That we, through our employees or other stakeholders, do not break the law

Source: KPMG Forensic, 2015 Study
CEBS Principles of Conduct Emphasize Ethics

Principle 1: In all professional, business or fiduciary relationships, a CEBS shall act with honor and integrity in dealings with the public, plan participants, employers, clients and other professionals.

Principle 2: A CEBS shall continually strive to maintain and improve the knowledge, skills and competence needed for effective performance in the profession. This not only includes the initial acquisition of professional knowledge and skills but also requires continued learning and development.

Principle 3: When serving an employee benefits plan, whether in a fiduciary capacity or otherwise, a CEBS shall apply care, skill, prudence and diligence in accordance with the “prudent person rule.”

Principle 4: A CEBS shall not allow the pursuit of financial gain or other personal benefit to interfere with the best interests of plan participants, beneficiaries, employers and clients.

Principle 5: In business, professional or fiduciary activities, a CEBS shall avoid any activity or conduct that constitutes a dishonest, deceitful, fraudulent or knowingly illegal act.
CEBS Principles of Conduct Emphasize Ethics

**Principle 6:** A CEBS shall maintain knowledge of and comply with the enforcement of laws, regulations and codes that foster the highest level of competence, performance and ethical conduct as it pertains to employee benefits plans.

**Principle 7:** A CEBS shall respect confidential relationships that may arise in business or professional activities.

**Principle 8:** A CEBS shall honor the integrity and respect the limitations placed on the use of the CEBS designation.

**Principle 9:** A CEBS shall only recommend for CEBS candidacy those individuals known by the member who engage in practices that conform with the Principles of Conduct.
Insurance Professionals’ Code of Ethics

- Conduct yourself at all times with honor and dignity
- Avoid practices the would bring dishonor upon your profession
- Continue studies throughout your working life
- Build your profession by providing appropriate assistance
- Comply with all State and Federal Insurance laws
## Trust Implications on People and Organizations

<table>
<thead>
<tr>
<th>Personal Implications</th>
<th>Organizational Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fulfilling interpersonal relationships</td>
<td>Strong innovation, engagement, confidence, loyalty, productive conflict</td>
</tr>
<tr>
<td>Positive energy &amp; high motivation</td>
<td>Efficient &amp; open communication</td>
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<tr>
<td>Positive impact on self-esteem</td>
<td>High collaboration and partnering</td>
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<tr>
<td>The focus is on work</td>
<td>Mistakes seen as learning opportunities and quickly forgiven</td>
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<tr>
<td>Energy-draining and joyless interactions</td>
<td>Bureaucratic rules and procedures, unnecessary hierarchy</td>
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<tr>
<td>Communications colored by fear, uncertainty, doubt, and worry</td>
<td>Climate of silence</td>
</tr>
<tr>
<td>Negative attributions and interpretations of behaviors and events</td>
<td>Intense political atmosphere with clear camps and parties</td>
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<tr>
<td>Psychological &amp; physiological symptoms (e.g., insomnia, depression, burnout)</td>
<td>High costs, slow approvals, slow to market. Unhappy stakeholders.</td>
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*Source: Brinsfield, University of St. Thomas, 2017*
Ethisphere’s 2017 World’s Most Ethical Companies Common Characteristics

- Measure Ethics
- Communicate on Ethics
- Empower those best positioned to lead it
- Governance behind Ethics

Source: Ethisphere, 2017
Kiel Common Ground in Virtuoso CEOs

3 Habits of Virtuoso CEOs

- The Empathy Habit
- The “I Screwed Up” Habit
- The “Others First” Habit

Source: KRW International, 2013
Covey’s Habits of Highly Effective (and Ethical) People That Build Trust

Begin With the End In Mind

Think Win-Win

Seek First to Understand
Building Trust in Sales Relationships

1. Understand the Client’s Needs and Situation
2. Ask open questions including the “What’s Important……” Question
3. Adapt Presentation and Sales Process to the client
4. Foster questions, conversations and development
5. Empower Client to “Close”
6. Undersell and Over-Deliver
7. Document, Monitor and Modify
How To Manage Ethical Dilemmas

- Create clarity, over communicate, reinforce
- Systems thinking
- Don’t tolerate abuse at the top level
- Training
- Build transparency into the culture and systems
- Treat people fairly
- Carefully consider the role of incentives
- Hire the right type of people

Source: Brinsfield, University of St. Thomas, 2017
Additional Best Practices For Ethical Dilemmas

- Properly assign SPD Interpretive Duties
- Conduct due diligence
- Establish objective final appeal review
- Define vendor fiduciary role
- Eliminate unnecessarily vague SPD language
- Avoid contracts that conflict with the SPD
- Do not let innovations lead to ethical violations
- Always act in good faith
Ethical Conclusions

- Ethics Matter
- When looking at Ethics, there’s opportunities for improvement for many organizations
- Ethics can be (partially) defined at least to ourselves
- Ethics can be taught, developed and used to build trust
- Data shows ethical companies have positive business results at multiple levels
Resources

Each State’s Department of Commerce
Sircon’s Educational Compliance: http://www.sircon.com/index.html
Fred Kiel Ted Talk: https://www.youtube.com/watch?v=vqBPZR63yfA
Fred Kiel 2015 Book: Return on Character
Ethisphere: http://ethisphere.com/
Berenstain Bear Books, 1962 - ????
Edelman 2016 Trust Barometer Summary:

https://www.ibe.org.uk/userassets/survey%20summaries/ibe%20summary%20edelman%20trust%20barometer%202016.pdf
THANK YOU!