

KEY ETHICAL ISSUES IN THE KOREAN INSURANCE INDUSTRY¹

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Abstract

The purpose of this paper is to investigate key ethical issues and hindrances to ethical behavior faced by professionals working in the Korean insurance industry. For this purpose, a survey was conducted of actuaries in a variety of positions in insurance companies and insurance related institutions. The findings are then compared to those of American studies. Actuaries' perceptions of the key ethical issues tend to be restricted to actuarial aspects such as insufficient legal authority to perform professional services in an ethical manner and failure to receive an adequate ethics training program. But some issues arising in marketing are considered significant, similar to the U.S. As a whole, key ethical issues and challenges are not significantly different from the viewpoints of actuaries working in the life and non-life insurance business. Regarding key hindrances to ethical behavior, 15 factors are presented such as competitive pressures, performance-based evaluation and unethical demands made by clients. These findings are generally similar to those of the U.S. studies.

Introduction

Quite a few cases illustrate that ethical conduct of business is an important source of corporate competitiveness. For instance, bankruptcies of Enron, World Comm and Daewoo Group vividly point out the importance of trust in doing business. In Korea, in particular, companies have become aware of the ethical aspect of business since the financial crisis of 1998 and now they tend to see business ethics as a necessary factor for survival and growth. In this context, Korean companies have made various attempts to increase the level of business ethics, such as promulgation of a code of ethics, ethics training, and the issuance of a 'business ethics

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manual' in 2001, among others. From 2004, the Korean government announced its plan to evaluate the ethical behavior of the 100 largest firms and award a prize to the best ethical company.

In a similar manner, Korean insurance companies recently have devoted much attention to business ethics. Especially important was the revision of the Insurance Law in January 2000, by which every insurer is required to appoint a compliance officer and henceforth to operate a compliance department. According to Lee and Lee (2003), since then the Korean insurance industry has witnessed efforts to build up the system to foster ethical behavior. Almost every insurer in Korea has adopted a code of ethics, and for the most part, ethics training programs are in operation. Alien or large insurers showed a tendency to be ahead in ethics management compared to domestic and small insurers.

Globally speaking, the insurance industry seems to experience an image problem and a lack of trust, which largely results from the complex nature of insurance services (Eastman et al, 1996), (Diacon and Ennew, 1996). It is well known that bancassurance is most active in Europe. One important reason is that the bank is seen by customers as quite trustworthy relative to the insurer (Florido, 2002). Following Europe the United States and Japan, Korea has begun, since September of 2003, to introduce bancassurance in a progressive manner. Now Korean insurance companies have more reason to worry about the level of trust in order to compete with banks (among others).

Research on insurance ethics in Korea is scarce. Lee (1995) simply discussed general aspects of business ethics in relation to insurance marketing. Lee and Lee (2003) looked into ethical problems of insurers as a whole and investigated the current status of ethical management of insurance.

In this context, this paper first attempts to investigate key ethical issues and hindrances to ethical behavior facing the Korea insurance industry. For this purpose, a survey was conducted of actuaries in a variety of positions in insurance companies and insurance related institutions. Further, the authors also attempt to make an international comparison with studies by Cooper and Frank (2001, 2002).

Key Ethical Issues

This study first attempts to identify key ethical issues of actuaries working in the Korean insurance industry. In February 2004, 301 actuaries were surveyed by electronic mail with the cooperation of the Korean Actuarial Association. Unlike the U.S. or U.K., there are no professional designations corresponding with ChFCs, CLUs, CPCUs. In order to be designated as an actuary or a claim adjuster, candidates must pass a series of formidable examinations. Recognizing that the job activities of an actuary are wider than those of a claim adjuster, the

survey was made of actuaries working actively in the insurance industry and related institutions. The response rate was 27.9 percent. Of 84 respondents, 45 actuaries (53.6 percent) were working for life insurers, 29 actuaries (34.5%) for property and liability insurers, and 10 actuaries for related institutions such as regulatory body and rate bureau.

Participants were presented with a list of 41 ethics-related statements to identify key ethical issues. Of these statements, 32 are related to the overall insurance company operations including marketing, claims settlement and asset management and 9 questions more specifically related to actuarial activities and business activities, and 29 hindrances to ethical behavior. The actuaries were asked to rate each of the statements on a five-point scale where 5 meant that it is a major problem for business ethics and 1 meant that it is the least important.

Table 1 shows the mean ratings for each of the 20 issues and the rank of each issue as a descending order as perceived by actuaries. Only two issues were rated greater than 3.0 on average by all respondents. They are (1) insufficient legal authority to perform professional services in an ethical manner and (2) failure to receive an adequate ethics training program. This might suggest that actuaries seem to be reluctant to evaluate negatively the industry where they working Alternatively, the level of business ethics considered by actuaries may not be as high as that of insurance consumers.

However, this is not unique to this study. In their study, Cooper and Frank (2002) report similar results. For instance, 5 issues were rated more than 3.0 on average by MDRT while 3 issues rated more than 3.0 by CPCU.

Of the top 10 issues in Table 1, 5 issues related to actuaries are included. It is largely due to the fact that respondents are more concerned about actuarial aspects.

Table 1 Top 20 Issues in the Insurance Industry

No.	Ethical Issues	Mean	Standard Deviation	Rank
1	Insufficient legal authority to perform professional services in an ethical manner by actuaries	3.76	1.05	1
2	Failure to get adequate ethics training program	3.40	1.03	2
3	Ignorance of code of ethics of Korean Actuarial Association	2.96	1.13	3
4	Complaints or disputes arising out of failure to provide correct and adequate information on insurance contracts	2.87	1.04	4
5	Tendency of management to disregard actuarial judgment in making managerial decision	2.86	1.14	5

6	Churning or inducing a policyowner to replace an existing policy with a new one with lower assumed interest rate	2.82	1.19	6
7	Lack of internal ethics policy and/or effective Compliance Officer	2.77	1.01	7
8	Failure to do socially responsible investment	2.76	1.07	8
9	Failure to provide products and services of the highest quality in the eyes of the consumer	2.74	0.87	9
10	Failure to improve transparency of accounting by actuaries	2.73	1.16	10
11	Misrepresenting or concealing limitations in salesforce's abilities to provide services	2.71	0.90	11
12	Failure to recommend products and services that meet consumers' needs	2.70	0.93	12
13	Lack of transparency of governance structure of insurance companies	2.67	1.13	13
14	Failure to provide prompt, honest responses to customer inquiries and requests	2.65	0.88	14
15	Being passive to socially responsible activities	2.65	1.14	15
16	Offering rebate or soliciting Incomplete sale by sales force	2.58	0.95	16
17	Lack of necessary knowledge or skills by sales force	2.58	0.88	16
18	Making disparaging remarks about competitors, their products, or their employees	2.55	1.15	18
19	Unjust asset management such as preferential loan to the affiliated company, insider trading	2.51	1.06	19
20	Excessive use of business expenses	2.51	1.11	19

Table 2 shows the mean ratings and the rank of 20 issues by the participants working in the life and non-life insurance industry. As a whole, there is little difference as to the perception of each ethical issue between life and non-life actuaries. Only one issue was statistically different at the 5 percent level. Life actuaries tend to see the lack of disclosure as to products, rates, company conditions in an adequate and prompt manner as more problematic than non-life actuaries. It is noteworthy that the issue regarding replacement practices was ranked higher in life than non-life insurance industry. It seems to reflect that life insurers are increasingly concerned about the decreasing interest rates and the adverse effect on interest margin. Recent suspicion has been that some insurers encouraged solicitors and agents to be engaged in replacement activities to the detriment of policyholders. While not statistically significant, the issue of excessive use of business expense was ranked higher in non-life than life insurance

industry. It is not unexpected because it has been a chronic problem of sales in non-life business in Korea.

Table 2 Comparison of Key Ethical Issues Between Life and Non-life Insurance

No.	Issues	Life		Non-life	
		Mean	Rank	Mean	Rank
1	Insufficient legal authority to perform professional services in an ethical manner by actuaries	3.87	1	3.48	1
2	Failure to get adequate ethics training program by actuaries	3.33	2	3.28	2
3	Ignorance of code of ethics of Korean Actuarial Association	2.98	3	2.76	5
4	Churning or inducing a policyowner to replace an existing policy with a new one with lower assumed interest rate	2.82	4	2.55	13
5	Complaints or disputes arising out of failure to provide correct and adequate information on insurance contracts	2.80	5	2.86	4
6	Failure to provide products and services of the highest quality in the eyes of the consumer	2.76	6	2.62	8
7	Failure to provide prompt, honest responses to customer inquiries and requests	2.73	7	2.41	19
8	Failure to improve transparency of accounting by actuaries	2.73	8	2.66	6
9	Lack of internal ethics policy and/or effective Compliance Officer	2.67	9	2.62	8
10	Failure to do socially responsible investment	2.67	9	2.55	13
11	Lack of transparency of governance structure of insurance companies	2.67	9	2.45	17
12	Misrepresenting or concealing limitations in salesforce's abilities to provide services	2.67	9	2.59	11
13	Failure to recommend products and services that meet consumers' needs	2.66	13	2.50	16
14	Tendency of management to disregard actuarial judgment in making managerial decision	2.64	14	2.89	3
15	Being passive to socially responsible activities	2.59	15	2.55	13
16	False or misleading representation of products or services in marketing, advertising or sales efforts	2.58	16	2.24	21
17	Lack of necessary knowledge or skills by sales force	2.56	17	2.45	17

18	Lack of disclosure as to products, rates, company conditions in an adequate and prompt manner*	2.53	18	2.14	27
19	Making disparaging remarks about competitors,				
	their products, or their employees	2.49	19	2.59	11
20	Offering rebate or soliciting Incomplete sale by sales force	2.47	20	2.66	6
21	Excessive use of business expenses	2.36	23	2.62	8
22	Failure to use adequate ratemaking methods or assumed interest rates	2.47	20	2.34	20

*: significant at the 5 percent level

Table 3 includes the rating score and the rank of each issue specifically related to actuarial professionals. As mentioned before, 5 issues are ranked in the top 10 issues. It is somewhat surprising that actuaries still do not feel secure in providing actuarial services in an ethical manner even though insurance law was recently revised to strengthen their legal status to ensure the independence of the appointed actuary. It is also worth noting that actuaries are not educated in actuarial ethics by the company as well as by the professional association. The finding that actuaries seem not to contribute to improving transparency of accounting of insurers suggests that there can be some potential problem associated with insurance accounting. Past incidents, to underestimate or even omit reserves in the industry point to unethical accounting treatment.

Table 3 Ethical Issues Relating to Actuaries

No.	Ethical Issues	Mean	Standard Deviation	Rank
1	Insufficient legal authority to perform professional services in an ethical manner by actuaries	3.76	1.05	1
2	Failure to get adequate ethics training program by actuaries	3.40	1.03	2
3	Ignorance of code of ethics of Korean Actuarial Association	2.96	1.13	3
4	Failure to improve transparency of accounting by actuaries	2.66	1.14	5
5	Tendency of management to disregard actuarial judgment in making managerial decision	2.73	1.16	10

6	Satisfaction of solvency margin requirements in an expedient or less transparent method	2.41	1.13	23
7	Failure to pay policyholder dividends in an adequate and transparent manner	2.31	1.08	26
8	Failure to use adequate ratemaking methods or assumed interest rates	2.29	1.02	28
9	Failure to utilize statistical data for ratemaking in an adequate manner	2.20	0.95	29

This study also aims at international comparison. In fact, some consideration was made in constructing the survey form for this aim. Table 4 compares the findings of this study with those of Cooper et al (1996, 2002) in the life insurance business in USA. While the respondents of our study were actuaries, those of Cooper et al were MDRT members (most of whom are CLUs and /or ChFCs).

Because of differences in questions and ethical environments for professionals in both countries, key ethical issues are very significant. In our study, 5 issues relating to actuarial work are ranked in the top 10 ethical issues whereas questions regarding actuarial jobs were not included in Cooper et al's study. These results clearly indicate that Korean actuaries need to be authorized to work more independently and to get more ethical training appropriate for their professional work.

Of the top-ten issues listed by Cooper et al, the following 3 issues also were rated in our study similarly.

- failure to provide products and services of the highest quality in the eyes of the consumer
- failure to provide prompt, honest responses to customer inquiries and requests
- misrepresenting or concealing limitations in salesperson's abilities to provide services

According to the findings of Cooper et al, the issues ranked first and second were (1) false or misleading representation of products or services in marketing, advertising or sales efforts and (2) failure to recommend products and services that meet consumers' needs. But, in our study, they were ranked 16th and 13th respectively by actuaries working in the life insurance business.

These differences may reflect the different level of perception to business ethics and institutional developments in both countries. For instance, Korean actuaries ranked higher the issues such as the lack of internal ethics policy or lack of transparent governance structure. On the contrary, American insurance industry attempted to regain the public trust through industry-wide effort like the Insurance Marketplace Standard Association (IMSA). To summarise, the Korean insurance industry has started to build up the trust of insurance consumers in terms of

business ethics while the American industry has already made wide efforts whether voluntarily or mandatorily.

Table 4 International Comparison of Key Ethical Issues in the Life Insurance Industry: Korea versus USA

No.	Ethical Issues	Our study		Cooper et. Al (1996)	
		Mean	Rank	Mean	Rank
1	Churning or inducing a policyowner to replace an existing policy with a new one with lower assumed interest rate	2.62	4	-	-
2	Complaints or disputes arising out of failure to provide correct and adequate information on insurance contracts	2.60	5	-	-
3	Failure to provide products and services of the highest quality in the eyes of the consumer	2.76	6	2.83	9
4	Failure to provide prompt, honest responses to customer inquiries and requests	2.73	7	2.92	8
5	Lack of internal ethics policy and/or effective compliance Officer	2.67	9	-	-
6	Failure to do socially responsible investment	2.67	9	-	-
7	Lack of transparency of governance structure of insurance companies	2.67	9	-	-
8	Misrepresenting or concealing limitations in salesforce's abilities to provide services	2.67	9	2.99	6
9	Failure to recommend products and services that meet consumers' needs	2.66	13	3.42	2
10	False or misleading representation of products or services in marketing, advertising or sales efforts	2.58	16	3.54	1
11	Conflicts between opportunities for personal financial gain and proper performance of one's responsibilities	1.69	36	3.32	3
12	Making disparaging remarks about competitors, their products, or their employees	2.49	19	3.31	4
13	Lack of necessary knowledge or skills by sales force	2.56	17	3.21	5

14	Conflicts of interest involving business or financial relationships with customers, suppliers or competitors that influence one's ability to carry out his or her responsibilities	2.11	29	2.56	10
15	Misuse of sensitive information on policyholders	2.05	34	2.24	14

Table 5 shows the areas of insurance company operations considered by respondents to be most ethically important. Korean actuaries selected sales to be the most important area in terms of insurance ethics. Accounting and Finance was ranked the second.

Table 5 Areas of Occupation that Needs Ethics Most

Occupation	1 st Rank	2 nd Rank	3 rd Rank	4 th Rank	5 th Rank	Total
Sales	33	13	7	3	4	60
Accounting/Finance	10	14	12	12	4	52
Audit/Compliance	9	7	8	3	8	35
Investment	6	9	9	11	13	48
Actuarial/Risk Management	6	8	3	6	8	31
Claims Adjustment	4	7	8	9	9	37
Consumer Service	4	5	8	8	3	28
Marketing/Promotion	3	11	5	9	8	36
Planning/Strategy	3	1	6	4	5	19
Underwriting	1	1	5	3	3	13
General Management	0	2	1	4	3	10
Personnel	0	0	3	3	4	10
Education/Research	0	0	3	1	2	6

Key Hindrances to Ethical Behavior

As mentioned before, participants of the survey were also presented with the list of 29 questions to identify key factors hindering ethical behavior. They were asked to rate each of the statement on a five-point scale where 5 meant that it is a very significant challenge to conduct their work ethically, and 1 meant that it is not a challenge. Questions encompass macro environmental aspects, firm specific aspects and levels of ethical behavior by consumers and employees of insurers.

Table 6 shows the mean ratings for 20 hindrance factors in descending order. The mean ratings for 15 hindrance factors are above 3.0, indicating that the factors generally are viewed as presenting significant challenges which hinder ethical behavior when ethical dilemmas are involved. These results are in sharp contrast with those relating to key ethical issues in which only two issues were rated with mean ratings above 3.0. They indicate that in order to gain the public trust, the insurance industry needs to overcome various hindrances and the regulatory body has to play a certain role to boost ethical management of the insurance industry.

The highly ranked hindrances deal primarily with competitive pressures, performance measurement, will and tone of top management and unethical atmosphere from clients, company and society. The top-ten potential hindrances are as follows:

- intense competition in the insurance industry which forces owners, managers and agent to focus on business outcome and not business ethics;
- measuring performance only based on end results without considering ethical aspects;
- performance evaluation based on pre-assigned quotas such as amounts of insurance sold, claims processed;
- CEOs focusing on company profits and end results with little concern over business ethics;
- compensation structure including commission;
- unethical demands made by clients or customers such as illegal rebate;
- lack of expertise of solicitors, agents and brokers;
- corporate culture/environment that encourages you to compromise your ethical values to achieve organizational goals;
- lack of ethics of company employees and sales force;
- sales activity based on crony capitalism such as school or region relationship.

Table 6 Top 20 Hindrances to Ethical Behavior in the Insurance Industry

No.	Hindrance factors	Mean	Standard Deviation	Rank
1	Intense competition in the insurance industry , which forces owners, managers and agent to focus on business outcome and not business ethics	4.02	0.84	1
2	Measuring performance only based on end results without considering ethical aspect	3.87	0.93	2
3	Performance evaluation based on pre assigned quotas such as amounts of insurance sold, claims processed	3.81	1.00	3
4	CEOs focusing on company profits and end results with little concern over business ethics	3.65	1.18	4

5	Compensation structure including commission	3.54	1.00	5
6	Unethical demands made by clients or customers such as illegal rebate	3.53	1.05	6
7	Lack of expertise of solicitors, agents and brokers	3.50	0.92	7
8	Corporate culture/environment that encourages you to compromise your ethical values to achieve organizational goals	3.44	1.00	8
9	Lack of ethics of company employees and sales force	3.38	0.93	9
10	Sales activity based on crony capitalism	3.30	0.99	10
11	Fear of losing a job or insecurity in career	3.30	1.03	10
12	Lack of ethics of the society as a whole	3.26	1.05	12
13	Inability of regulatory authorities to supervise unethical behavior effectively	3.18	0.98	13
14	Financial pressures exerted on you to provide security for your family	3.08	0.93	14
15	Lack of ethics training by your company	3.06	1.08	15
16	Your inability to disclose unethical activity because of fear of management reprisal	2.99	1.05	16
17	Lack of ethics education in educational institutions like universities	2.95	1.04	17
18	Conflict between duty to the insurer and duty to clients	2.95	0.97	18
19	Personal need to achieve or succeed	2.95	1.02	19
20	Compensation that includes bonuses or opportunities for profit sharing	2.89	1.09	20

Table 7 reports the comparison of the hindrances factors between life and non-life insurance. It shows most hindrance factors are common to both life and non-life insurance business. The same two hindrances related to competition and performance are ranked identically as first and second. Unethical demand by clients is presented as a greater challenge in property and liability insurance business than in life business.

Statistically significant differences exist for the following 4 hindrance factors:

- intense competition in the insurance industry which forces owners, managers and agent to focus on business outcome and not business ethics;
- unethical demands made by clients or customers such as illegal rebate;
- weak penalty in terms of civil or criminal liability
- lack of code of ethics of insurance industry for employees of companies to live by

Table 7 Comparison of Hindrance Factors Between Life and Non-life Insurance

	Hindrance factors	Life		Non-life	
		Mean	Rank	Mean	Rank
1	Intense competition in the insurance industry which forces owners, managers and agent to focus on business outcome and not business ethics **	3.89	1	4.21	1
2	Measuring performance only based on end results without considering ethical aspect	3.80	2	3.86	2
3	Performance evaluation based on pre assigned quotas such as amounts of insurance sold, claims processed	3.67	3	3.79	4
4	CEOs focusing on company profits and end results with little concern over business ethics	3.66	4	3.37	7
5	Compensation structure including commission	3.58	5	3.48	5
6	Lack of expertise of solicitors, agents and brokers	3.53	6	3.41	6
7	Lack of ethics of company employees and sales force	3.42	7	3.31	9
8	Corporate culture/environment that encourages you to compromise your ethical values to achieve organizational goals	3.36	8	3.34	8
9	Unethical demands made by clients or customers such as illegal rebate*	3.34	9	3.83	3
10	Lack of ethics of the society as a whole	3.29	10	3.07	12
11	Inability of regulatory authorities to supervise unethical behavior effectively	3.27	11	3.00	15
12	Sales activity based on crony capitalism such as school or region relationship	3.24	12	3.31	9
13	Fear of losing a job or insecurity on career	3.24	12	3.28	11
14	Financial pressures exerted on you to provide security for your family	3.11	14	2.93	17
15	Lack of ethics training by your company	3.07	15	2.97	16
16	Your inability to disclose unethical activity because of fear of management reprisal	3.02	16	2.86	18
17	Lack of ethics education in educational institutions like universities	2.96	17	2.96	19
18	Weak penalty in terms of civil or criminal liability*	2.96	17	2.52	26
19	Compensation that includes bonuses or opportunities for profit sharing	2.93	19	2.72	22
20	Conflict between duty to the insurer and duty to clients	2.87	20	2.83	19
21	Personal need to achieve or succeed	2.84	21	3.07	12

22	Lack of code of ethics of insurance industry commonly employees of companies live by**	2.71	26	3.07	12
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*: significant at the 5 percent level

** : significant at the 10 percent level

Table 8 reports the comparison of the hindrance findings of this study with those of Cooper et al (1996). Noticeable is the difference in the mean rating. The number of hindrance factors above a 3.0 rating is sixteen in our study whereas just one in the study of Cooper et al. It points out that more effort from top managers and supervisors needs to be made to improve the ethical environment in Korea. It is well known that the tone at the top is very important to improve the ethical environment of an organization. The findings in our study show that top managers tend to be concerned with profits and the end results and thus on ethical climate of organization is not established. To reinforce ethical management, it is necessary for the regulatory body to take into account the extent of ethical conduct in evaluating the insurer.

Interestingly, competitive pressure is ranked as the first hindrance factor in both studies. It suggests that whether the economy is developed or not, market competition is the most significant factor hindering ethical conduct.

Table 8 International Comparison of Hindrance Factors in the Life Insurance Industry: Korea versus USA

No.	Ethical Issues	Our study		Cooper et. Al (1996)	
		Mean	Rank	Mean	Rank
1	Intense competition in the insurance industry which forces owners, managers and agent to focus on business outcome and not business ethics	3.89	1	3.02	1
2	Measuring performance only based on end results without considering ethical aspect	3.80	2	2.55	3
3	Performance evaluation based on pre assigned quotas such as amounts of insurance sold, claims processed	3.67	3	2.74	2
4	CEOs focusing on company profits and end results with little concern over business ethics	3.66	4	-	-
5	Compensation structure including commission	3.58	5	2.10	8
6	Lack of expertise of solicitors, agents and brokers	3.53	6	-	-
7	Lack of ethics of company employees and sales force	3.42	7	-	-

8	Corporate culture/environment that encourages you to compromise your ethical values to achieve organizational goals	3.36	8	1.88	12
9	Unethical demands made by clients or customers such as illegal rebate	3.34	9	1.79	13
10	Lack of ethics of the society as a whole	3.29	10	-	-
11	Inability of regulatory authorities to supervise unethical behavior effectively	3.27		11	--
12	Sales activity based on crony capitalism such as school or region relationship	3.24	12	-	-
13	Fear of losing a job or insecurity on career	3.24	12	-	-
14	Financial pressures exerted on you to provide security for your family	3.11	14	2.25	5
15	Lack of ethics training by your company	3.07	15	1.99	10
16	Your inability to disclose unethical activity because of fear of management reprisal	3.02	16	1.62	17
17	Compensation that includes bonuses or opportunities for profit sharing	2.93	19	2.02	9
18	Conflict between duty to the insurer and duty to clients	2.87	20	2.20	6
19	Personal need to achieve or succeed	2.84	21	2.31	4
20	Mid-level managers who are only concerned with their own personal gain and not ethics	2.71	26	2.19	7

Concluding Remarks

This study attempted to identify the key ethical issues and hindrance factors to business ethics of the Korean insurance industry through a survey of actuaries, and then to make an international comparison of the results of this study with that of Cooper et al (2001, 2002).

The findings of this study suggest several things. First, two issues were rated with mean rating above 3.0 and are related to the actuarial profession. From the standpoint of actuaries in business, an ethical environment conducive to adhering to high ethical standards is not yet satisfactory. Actuaries still think it is not easy for them to work in an ethical manner even though insurance law was revised to strengthen their legal status in 2000. In terms of corporate control, actuaries are important as an internal control mechanism because of the nature of the insurance business. This is why the independence and ethics of competent actuaries are so important. If this does not happen, accounting of insurance can become problematic. This worry is reinforced by the result that the issue of failure to improve transparency of insurance accounting by actuaries was one of the top-ten key ethical issues. Supervisors need to pay attention to this aspect.

Second, other top-ten ethical issues other than actuaries relate to market conduct, internal ethics policy, and investment. One comment on key ethical issues is relevant. According to statistics of complaints of insurance consumers filed to the Financial Supervisory Service, more than 50% focus on claim adjustments. However, according to our survey the issue of claim adjustments was rated the 29th out of 41 issues. This difference may be explained by the tendency of consumers with an economic grievance to be more likely to actively make a complaint.

Third, as a whole, we found that there were no significant differences between respondents in life insurance business and those in non-life business. Nevertheless, respondents in the life segment ranked the replacement issue under the environment of decreasing interest rates higher, whereas those in the non-life segment ranked higher the issue as to rebate and excessive use of business expenses.

Fourth, with regard to hindrance factors to business ethics, fifteen factors were rated with a mean rating above 3.0. It is in sharp contrast with the results of ethical issues. Even though respondents tended to regard the level of ethics of the insurance industry as acceptable in general, they saw many factors as nontrivial hindrance factors to improve the ethical standard of the insurance industry. Competitive pressure was rated the first and foremost hindrance factor, which was also the case with America. Findings suggest that competition becomes more problematic in the non-life insurance business than in the life business when ethical dilemmas are involved. But most hindrance factors were similar to both life and non-life insurance business.

Fifth, international comparison of hindrance findings suggest that more efforts from top manager, industry and supervisors need to be devoted to enhance the level of business ethics in Korea compared to America. Especially, the tone and commitment at the top are necessary to improve the ethical environment and shorten the period of time in which to gain public trust.

In an environment of financial convergence, who gains trust from the public most is one of the keys to success. Many scandals involving food recently in Korea keep consumers alert about trustworthy companies. In this context, this study tried to deepen our understanding of what are key ethical issues and hindrance factors for the insurance industry. But findings of this study are subject to limitation because only actuarial professionals were surveyed. In the future more research should be made to survey other professions such as claim adjustors, MDRTs and senior officers.

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