

Key Ethical Issues and Hindrances to Ethical Behavior in Insurance Industry : Perceptions of Korean Actuaries

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본 연구의 목적은 우리나라 보험산업이 당면하는 핵심적 윤리 이슈 및 윤리적 행동에 대한 장애요인이 무엇인지를 보험계리사들을 통해 알아보고자 하였다. 이를 위해 보험 및 보험유관 기관에서 현재 종사하는 보험계리사들을 대상으로 설문조사가 이루어졌다. 특히 미국의 경우와 국제적인 비교를 통해 우리의 윤리적 인식에 대해 살펴보고자 하였다. 저변 요인을 추론하고자 통계적 요인분석도 이루어졌다. 윤리적 이슈에 대한 보험계리사들의 관심은 계리서비스의 윤리적 수행을 위한 미흡한 법적 기반, 부적절한 윤리교육과 같은 측면에 집중되는 경향을 보였지만, 마케팅과 관련된 인식은 미국의 경우와 유사했다. 전체적으로 계리사가 손해보험에 근무하던 생명보험분야에 근무하던 별 차이가 없었다. 윤리적 행동을 저해하는 핵심요인으로 경쟁시장, 성과지향적 평가, 고객의 비윤리적 요구 등 15가지가 추출되었다. 그리고 미국의 경우와의 비교할 때 전반적으로 유사했으며, 그 정도는 핵심 윤리 이슈의 비교보다 더 유사한 경향을 보였다.

※ 국문색인어: 기업윤리, 윤리이슈, 윤리 장애, 장애 요인

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I . Introduction

Quite a few cases illustrate that ethical conduct of business is the important source of corporate competitiveness. For instance, bankruptcies of Enron, World Comm and Daewoo Group vividly point out the importance of public trust in doing business. In Korea, in particular, companies have become aware of 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 code of ethics, ethics training and issuance of 'business ethics manual' in 2001 among others. From 2003, Korean government also has 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, by the revision of the Insurance Law in January 2000 every insurer is required to appoint a compliance officer and henceforth to operate a compliance department. According to Lee and Lee(2003), since then Korean insurance industry has witnessed efforts to build up the system to foster ethical behavior. Almost every insurer in Korea adopted a code of ethics. For the most part, ethics training program was in operation. Alien or large insurers showed a tendency to be ahead of the ethics management compared to domestic and small insurers.

Globally speaking, the insurance industry seems to experience an image problem and a lack of trust, largely as a result of complex nature of insurance services(Eastman et al(1996), Diacon and Ennew(1996)). It is well known that bancassurance is most active in Europe on earth. One

important reason is that the bank is seen as quite trustworthy relative to the insurer by customers(Florida(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 public trust to compete with banks among others. What is interesting, however, is that under the environment of bancassurance, banks in Korea are now severely blamed for the way to sell insurance products in their branches despite of their superior image relative to insurers.

The existing research on insurance ethics in Korea is scarce. Lee(1995) simply discussed general aspect 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, the purpose of this paper is twofold. One is to investigate first both key ethical issues and hindrances to ethical behavior facing Korea insurance industry. For this purpose, conducted is a survey of actuaries in a variety of positions in insurance companies and insurance related institutions. Another is to make an international comparison with the case of American studies by Cooper and Frank(2001, 2002) under the era of globalization.

The rest of the paper consists of as follows: Section 2 analyzes the ethical issues based on the survey. Section 3 reports hindrance factors to ethical behavior. Summary and suggestions are described in Section 4.

Ⅱ . Key Ethical Issues

In order to identify ethical issues and hindrances to ethical behavior, in February 2004, 301 actuaries working in the Korean insurance industry were surveyed by electronic mail with the cooperation of 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 adjustor, candidates must pass a series of formidable examinations. Recognizing that job activities of actuary are wider than those of claim adjustor, the survey was made to 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 the list of 41 ethics-related statements to identify key ethical issues. Of these questions, 32 questions are related to the overall insurance company operations including marketing, claims settlement and asset management and 9 questions more specifically related to actuarial activities. In addition, the list of 29 questions regarding hindrances to ethical behavior was presented to participants. They were asked to rate each of the statement 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. This section reports the findings of the survey relating to key ethical issues.

Appendix 1 consists of statistical summary on 41 ethics-related questions. Factor analysis was made to investigate underlying factors associated with ethical issues. Given that Kaiser-Meyer-Olkin(KMO) measure of sampling adequacy is 0.80, factor analysis seems to fit well. Table 1 shows factor

loadings suggesting that there are eleven factors. These factors might be labeled as issues related to accounting(F1), competence(F2), transparency(F3), social responsibility(F4), cognitiveness(F5), actuarial profession(F6), claim settlement(F7), misrepresentation(F8), responsiveness(F9), privacy(F10) and product service(F11). Of these factors, five factors(competence, misrepresentation, responsiveness, privacy and product service) are closely related to marketing activities.

〈Table 1〉 Factor Loadings for Ethical Issues*

Questions	Factor											Communalities
	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	
I19	0.74	0.20	-0.01	0.18	0.26	0.14	0.17	0.01	0.04	0.14	0.13	0.78
I20	0.65	0.21	0.37	0.17	0.01	0.11	0.13	0.26	0.11	0.06	0.00	0.75
I17	0.63	0.21	0.13	0.00	0.42	0.01	0.00	0.00	0.19	0.13	-0.02	0.69
I21	0.58	0.01	0.40	0.13	0.00	0.14	0.13	0.37	0.00	0.19	0.12	0.74
I11	0.50	-0.01	0.18	0.48	0.01	0.18	-0.13	0.00	0.39	0.28	-0.02	0.80
I12	0.50	0.16	0.23	0.37	0.00	0.12	0.15	0.01	0.24	0.43	-0.15	0.78
I26	0.50	0.24	0.18	0.30	0.00	0.20	0.24	0.00	0.40	-0.03	0.19	0.72
I29	0.37	0.31	0.17	0.01	0.24	0.22	0.28	0.34	0.16	0.20	0.09	0.63
I31	0.10	0.72	0.21	0.00	0.16	0.01	0.00	0.11	0.08	0.06	0.16	0.66
I28	0.18	0.65	0.29	0.00	0.01	0.25	0.17	0.00	0.04	0.19	0.11	0.70
I24	0.33	0.61	0.22	0.30	0.13	0.28	0.00	0.00	0.07	-0.06	-0.04	0.73
I32	0.24	0.59	0.00	0.26	0.15	0.16	0.25	0.13	0.23	0.02	0.18	0.68
I34	0.00	0.51	0.00	0.38	0.01	0.01	0.41	0.17	0.33	0.19	0.03	0.77
I35	0.00	0.51	-0.01	0.34	0.14	0.43	0.18	0.28	0.27	0.01	-0.04	0.78
I18	0.41	0.48	0.31	-0.01	0.35	0.00	0.01	0.00	-0.12	0.16	-0.356	0.79

Questions	Factor											Communalities
	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	
I40	0.20	0.27	0.73	0.24	0.00	0.17	0.00	0.17	0.19	-0.08	0.00	0.81
I41	0.00	0.32	0.66	-0.01	0.19	0.01	0.36	0.01	0.21	0.17	0.00	0.79
I39	0.50	0.11	0.55	0.16	0.12	0.01	0.21	0.16	0.06	0.11	-0.14	0.71
I23	0.24	0.01	0.55	0.43	0.14	0.00	0.00	0.13	0.22	0.32	-0.01	0.74
I15	0.00	0.16	0.16	0.75	0.00	0.11	0.00	0.01	-0.12	0.05	0.10	0.68
I13	0.29	0.22	0.00	0.61	0.01	0.00	0.50	0.00	0.14	0.15	-0.01	0.82
I25	0.38	0.42	0.18	0.43	0.01	0.00	0.13	0.17	0.09	0.05	-0.17	0.63
I6	0.12	0.17	-0.00	0.01	0.85	0.00	0.00	0.02	0.10	-0.06	-0.05	0.80
I5	0.32	0.01	0.24	0.00	0.75	-0.01	0.01	0.05	0.07	-0.03	0.12	0.76
I36	0.26	0.01	0.16	0.13	0.10	0.79	0.18	-0.05	0.27	0.01	0.00	0.85
I37	0.10	0.31	0.18	0.01	-0.13	0.73	0.00	0.10	0.06	0.16	-0.05	0.71
I38	0.00	0.16	0.45	0.01	0.37	0.56	0.17	0.13	-0.24	0.17	0.13	0.84
I9	0.17	0.15	0.00	0.00	-0.11	0.18	0.74	-0.06	-0.03	-0.03	0.00	0.65
I8	0.00	-0.01	0.25	0.23	0.21	0.00	0.61	0.40	0.21	0.11	0.09	0.77
I14	0.23	0.24	0.11	0.21	0.20	0.20	0.46	0.31	-0.01	0.33	-0.22	0.71
I2	0.13	0.20	0.15	0.00	0.00	0.00	0.00	0.84	0.22	0.01	0.12	0.86
I22	0.22	0.23	0.45	0.23	0.32	0.17	-0.27	0.45	0.03	0.11	0.07	0.78
I30	0.30	0.14	0.32	0.28	0.18	0.23	0.21	0.44	-0.01	0.17	-0.01	0.65
I3	0.17	0.10	0.11	-0.13	0.19	0.11	0.01	0.23	0.73	0.08	-0.05	0.72
I27	0.13	0.38	0.23	0.17	0.00	0.32	0.00	0.19	0.59	0.17	-0.14	0.79
I33	0.14	0.30	0.36	0.24	0.11	-0.12	0.13	-0.10	0.47	0.38	0.19	0.75
I16	0.30	0.01	0.00	0.01	-0.01	0.23	0.00	0.01	0.09	0.78	0.15	0.80
I7	-0.11	0.19	0.13	0.01	0.55	0.01	0.01	0.15	0.14	0.56	0.01	0.74

Questions	Factor											Communalities
	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11	
I10	0.24	-0.00	0.00	0.14	0.00	-0.01	0.17	0.37	0.07	0.47	-0.46	0.69
I4	0.16	0.28	0.00	0.01	0.01	-0.01	0.13	0.24	-0.04	0.16	0.75	0.79
PVE**	10.6	9.7	8.3	6.9	6.6	6.1	5.9	5.7	5.6	5.6	3.4	
CVE	10.6	20.3	28.6	35.5	42.1	48.2	54.2	59.9	65.5	71.1	74.5	

* : Varimax with Kaiser Normalization was employed.

** : PVE refers to percent of variance explained while CVE referring to cumulative variance explained. Minimum eigenvalue is 1.0.

Another attempt was made to look into specific issues considered important. Table 2 shows the mean ratings for each of the top 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.

<Table 2> 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

No	Ethical Issues	Mean	Standard Deviation	Rank
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

They are (1) insufficient legal authority to perform actuarial professional services in an ethical manner and (2) failure to get adequate ethics training program. This might suggest that actuaries seem to be reluctant to evaluate the industry where they working in a negative manner. Alternatively, the level of business ethics perceived by actuaries may not be as high as that of insurance consumerists.

However, this is not unique to this study. In their study, Cooper and Frank(2002) reports 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 top 10 issues in Table 2, 5 issues related to actuaries are included. It seems to be largely due to the fact that respondents are more concerned about actuarial aspects. Nevertheless, their perceptions encompass various factors as shown above in factor analysis such as accounting, social responsibility, transparency as well as marketing conduct.

It is worthy to note that they covertly embrace the concept of Corporate Social Responsibility(CSR) in answering the questions regarding social responsible investment and social contribution. CSR nowadays includes various issues such as compliance with the law, corporate ethics, corporate governance, environmental preservation measures and so on(Ariu(2005), p.43). Considering the fact that, in practice, corporate ethics is interchangeably used with CSR from time to time, respondents understand the broad aspects of CSR. This suggests that somewhat relatively large number of factors of the factor analysis are rather sensible.

Table 3 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 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 3〉 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

No	Issues	Life		Non-life	
		Mean	Rank	Mean	Rank
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	2.23	28	2.34	20

* : significant at the 5 percent level.

Table 4 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 the legal status to ensure the independence of the appointed actuary. To sum up, Korean actuaries tend to attribute their inability to act with integrity to system and company culture¹⁾. This tendency might be reinforced by the uniqueness of corporate governance structure in Korean insurance industry. Namely, most of insurers controlled by Korean ownership are under the influence of a dominant shareholder in the end.

It is also worth noting that actuaries are not educated about the actuarial ethics by 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 the unethical accounting treatment.

1) Code of professional conduct of the American Academy of Actuaries stipulates professional integrity, qualification standards, standards of practice, disclosure, conflict of interest, control of work product, confidentiality, courtesy and cooperation, advertising, titles and designations and collateral obligations.

〈Table 4〉 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

As mentioned, this study also aims at international comparison. In fact, deliberate consideration was made in constructing the survey form from the start. Table 5 compares the findings of this study with those of Cooper et al(1996). in the life insurance business. While the respondents of this study were actuaries, those of Cooper et al were MDRT members (most of whom are CLUs and /or ChFCs)²⁾.

Because of differences in questions and ethical environments for professionals in both countries, key ethical issues are significantly different. In our study, 5 issues relating to actuarial work are ranked in top 10 ethical

issues where as questions regarding actuarial job 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 top-ten issues listed by Cooper et al, 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 the 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

2) In the study of Cooper et al(1996), 1500 MDRT members of the U.S. were surveyed in May 1995 with a 22.6 percent response rate to identify key ethical issues. They made their first survey in 1990 to 1173 CLUs and ChFCs. They found that major findings were very similar as a whole in both studies. Similar results were also reported in the property and liability insurance with time span of ten years(see Cooper and Frank(2001) p.104).

contrary, American insurance industry attempted to regain the public trust through industry wide effort like Insurance Marketplace Standard Association(IMSA). To sum up, Korean insurance industry has just started to build up the trust of insurance consumers in terms of business ethics while American industry has already made wide efforts whether voluntarily or not.

〈Table 5〉 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

No	Ethical Issues	Our study		Cooper et al.(1996)	
		Mean	Rank	Mean	Rank
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

* : Note again that this study is based on the responses of actuaries whereas Cooper et al(1996). is based on the responses of MDRT members. Therefore, there might be discrepancies in perceptions.

Ⅲ . 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 level of ethical behavior by consumers and employees of insurers.

Appendix 2 is composed of summary statistic on 29 questions. Factor

analysis was made to investigate underlying factors associated with hindrances to ethical behavior. Given that Kaiser–Meyer–Olkin(KMO) measure of sampling adequacy is 0.79, factor analysis appears to perform well. Table 6 shows factor loadings suggesting seven factors. These factors might be labeled as immature ethical culture(F1), competition(F2), less education(F3), unethical consumer(F4), personal insecurity(F5), lack of industry awareness(F6) and incompetent salesforce profession(F7).

〈Table 6〉 Factor Loadings for Hindrances to Ethical Behavior*

Questions	Factor							Communality
	F1	F2	F3	F4	F5	F6	F7	
H23	0.76	0.39	0.02	0.15	0.05	0.11	0.05	0.77
H21	0.73	0.20	0.09	0.13	0.22	0.07	0.18	0.68
H24	0.71	0.14	0.33	0.19	-0.04	-0.08	0.20	0.72
H28	0.64	0.10	0.27	0.15	-0.01	0.35	0.06	0.64
H25	0.60	0.15	0.05	0.39	0.08	0.19	0.19	0.62
H22	0.55	-0.04	0.21	0.50	0.24	-0.12	-0.01	0.66
H13	0.53	0.01	0.24	-0.05	0.43	0.43	-0.04	0.71
H5	0.27	0.77	0.12	0.00	-0.07	0.01	0.06	0.68
H2	0.29	0.75	0.08	0.01	0.10	0.14	-0.01	0.69
H3	-0.07	0.73	-0.03	0.12	0.16	-0.11	0.35	0.72
H4	-0.02	0.72	0.11	0.30	0.25	0.00	-0.16	0.70
H1	0.16	0.65	0.03	-0.11	0.18	0.22	0.20	0.58
H16	0.21	0.12	0.85	0.11	0.11	0.12	0.15	0.84
H15	0.09	0.04	0.82	0.02	0.01	0.32	0.01	0.79
H14	0.44	0.19	0.67	-0.02	0.16	0.42	0.04	0.80

Questions	Factor							Communality
	F1	F2	F3	F4	F5	F6	F7	
H17	0.44	-0.20	0.49	0.44	0.31	-0.07	0.05	0.77
H7	0.20	0.20	0.43	0.42	0.26	-0.14	0.07	0.54
H6	0.13	0.06	0.03	0.66	-0.02	0.01	0.16	0.48
H29	0.02	0.13	0.05	0.59	0.19	0.25	-0.06	0.47
H27	0.30	-0.07	-0.07	0.56	0.23	0.19	0.00	0.50
H26	0.34	0.03	0.28	0.48	-0.04	0.28	0.31	0.60
H9	0.15	0.31	-0.06	0.23	0.74	0.22	-0.09	0.79
H10	-0.06	0.24	0.19	0.42	0.68	-0.13	0.09	0.77
H18	0.12	0.11	0.15	0.07	0.65	0.22	0.44	0.72
H8	0.44	0.08	0.16	0.00	0.50	0.29	0.03	0.57
H11	0.03	0.10	0.16	0.30	0.06	0.72	0.04	0.64
H12	0.30	0.05	0.29	0.06	0.26	0.69	0.16	0.74
H20	0.37	0.24	0.00	0.13	-0.11	0.24	0.68	0.74
H19	0.15	0.11	0.28	0.13	0.39	-0.06	0.64	0.71
PVE**	14.9	11.4	9.9	9.3	9.2	7.6	5.4	
CVE	14.9	26.2	36.1	45.4	54.6	62.2	67.7	

* : Varimax with Kaiser Normalization was employed.

** : PVE refers to percent of variance explained while CVE referring to cumulative variance explained. Minimum eigenvalue is 1.0.

In addition, the attempt was made to look at specific hindrances to ethical behavior. Table 7 shows the mean ratings for top 20 hindrance factors in the descending order. The mean ratings for 15 hindrance factors are above 3.0, indicating that the factors generally are viewed as presenting significant

challenges to 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 rating above 3.0. They indicate that in order to gain the public trust, insurance industry needs to overcome various hindrances and the regulatory body has to play certain role to boost ethical management of 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 the 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 aspect;
- 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 like school or region relation;

〈Table 7〉 Top 20 hindrances to ethical behavior in the insurance industry

No	Hindrance elements	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 on 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

No	Hindrance elements	Mean	Standard Deviation	Rank
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 8 reports the comparison of the hindrances factors between life and non-life insurance. It shows most of hindrance factors are common to both life and non-life insurance business. The same two hindrances relating 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. It suggests that the sales activities providing illegal rebates to clients in the non-life insurance industry have been pervasive such that they don't feel guilty for unethical demands.

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 commonly employees of companies live by

〈Table 8〉 Comparison of hindrance factors between life and non-life insurance

No	Hindrance elements	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 relation	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

No	Hindrane elements	Life		Non-life	
		Mean	Rank	Mean	Rank
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

* : significant at the 5 percent level.

** : significant at the 10 percent level.

Table 9 reports the international comparison of the hindrance findings of this study with those of Cooper et al(1996). in the life insurance industry. On the other hand, Table 10 shows the international comparison in the non-life insurance industry. Before moving on, discussing the difference in research design is in order. This study aims at actuaries while Cooper et al(1996). focused on sales agents, namely, MDRT and Cooper and Frank(2001)³⁾ surveyed underwriters(CPCU).

3) In their unpublished paper Cooper and Frank(2000) mailed their survey form nearly identical to MDRT hindrance study to 1,500 CPCUs in January 2000. They report their results in Cooper and Frank(2002) and also report that what they found in their 1990 study generally held similar as well a decade later in 2000(Cooper and Frank(2002), pp.15~16.

Noticeable is the difference in the mean rating. The number of hindrance factors above 3.0 rating is sixteen in our study whereas it is just one in both American studies. This is very striking difference in the sense that even if agents and underwriters are surveyed in America, they see few hindrance factors in the marketplace. It vividly points out that more efforts from top managers and supervisors need to be made to improve the ethical environment in Korea compared to America.

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 ethical climate of organization is not established. To reinforce the ethical management, it is desired 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 Korean and American studies. It simply suggests that whether the economy is developed or not, market competition is the most significant factor hindering ethical conduct.

In addition, in spite of rating less than 3.0, as in the case of Korean life insurance industry, measuring performance only based on end results and performance evaluation based on pre assigned quotas are ranked as the important hindrance factors in America as well.

What attracts attention is that in case of Korea, CEOs focusing on profits are ranked fourth while it was not ranked at all in American life insurance industry. Basically the same results are found in American non-life insurance industry. Again, these findings suggest that the top management of Korean insurance industry needs to be more responsible for improvement of the ethical climate of the company. In addition, unlike Korea, the factor of mid-level managers only concerned with personal gain is ranked seventh in

the American life insurance industry while ranked twentieth in Korea. Hence, interestingly, mid-level managers rather than top managers are blamed as the hindrance factor in the U.S.

〈Table 9〉 International Comparison of hindrance factors in the life insurance industry : Korea versus USA*

No	Hindrance Factors	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	-	-

No	Hindrance Factors	Our study		Cooper et al.(1996)	
		Mean	Rank	Mean	Rank
12	Sales activity based on crony capitalism such as school or region relation	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

* : Note again that this study is based on the responses of actuaries whereas Cooper et al(1996). is based on the responses of MDRT members. Therefore, there might be discrepancies in perceptions.

** : This survey is based on 1500 MDRT members with a 22.6% response rate.

Similar observations can be made in the comparison of non-life insurance industry as well. Ranked order of predominant hindrance factors are similar in both countries. In particular, unethical demands made by clients are ranked third in both countries. As in the case of life insurance industry, CEOs are more responsible for ethical climate in Korea while mid-level managers are so in America.

〈Table 10〉 International Comparison of hindrance factors in the non-life insurance industry : Korea versus USA*

No	Ethical Issues	Our study		Cooper and Frank(2000)	
		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	4.21	1	3.04	1
2	Measuring performance only based on end results without considering ethical aspect	3.86	2	2.40	5
3	Unethical demands made by clients or customers such as illegal rebate	3.83	3	2.43	3
4	Performance evaluation based on pre assigned quotas such as amounts of insurance sold, claims processed	3.79	4	2.56	2
5	Compensation structure including commission	3.48	5	2.10	8
6	Lack of expertise of solicitors, agents and brokers	3.41	6	-	-
7	CEOs focusing on company profits and end results with little concern over business ethics	3.38	7	-	-
8	Corporate culture/environment that encourages you to compromise your ethical values to achieve organizational goals	3.34	8	1.84	12
9	Lack of ethics of company employees and sales force	3.31	9	-	-
10	Sales activity based on crony capitalism such as school or region relation	3.31	9	-	-
11	Fear of losing a job or insecurity on career	3.28	11	-	-
12	Lack of ethics of the society as a whole	3.07	12	-	-
13	Personal need to achieve or succeed	3.07	12	1.72	17
14	Lack of code of ethics for insurance industry as a whole	3.07	12	2.43	3

No	Ethical Issues	Our study		Cooper and Frank(2000)	
		Mean	Rank	Mean	Rank
15	Inability of regulatory authorities to supervise unethical behavior effectively	3.00	15	-	-
16	Lack of ethics training by your company	2.97	16	1.91	10
17	Financial pressures exerted on you to provide security for your family	2.93	17	2.25	5
18	Conflict between duty to the insurer and duty to clients	2.83	19	2.25	6
19	Compensation that includes bonuses or opportunities for profit sharing	2.72	22	1.95	9
20	Mid-level managers who are only concerned with their own personal gain and not ethics	2.52	26	2.06	8

* : Note that this study is based on the responses of actuaries whereas Cooper and Frank(2000) is based on the responses of CPCUs. Therefore, there might be discrepancies in perceptions.

IV. Concluding Remarks

This study attempted to identify both key ethical issues and hindrance factors to business ethics of Korean insurance industry through a survey of actuaries in a variety of jobs and at various organization levels. In addition, an international comparison of the results of this study and Cooper et al(1996, 2000, 2002).

The findings of this study suggest several things. First, two ethical issues were rated with mean rating above 3.0 and all are related to actuarial professions. From the standpoint of actuaries in business, ethical

environment to adhere 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 the legal status of actuaries a couple of years ago. In terms of market for corporate control, actuaries are important as an internal control mechanism especially in insurance business. This is why independence and ethics of competent actuaries are emphasized. If this aspect is not warranted, accounting of insurance can become problematic among others. This worry is reinforced by the result that the issue of failure to improve transparency of insurance accounting by actuaries was one of 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 in order. According to statistics of complaints of insurance consumers filed to Financial Supervisory Service, more than 50 percent centers on claim adjustments. However, according to the survey the issue of claim adjustments were rated the 29th out of 41 issues. This gap may be explained by the tendency that consumers at stake economically are more likely to raise the complaint actively.

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

Fourth, with regard to hindrance factors to business ethics, fifteen factors were rated with 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 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 of 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 ethical environment and shorten the period of time to gain the public trust.

Finally, international comparison of key ethical issues shows that there are significant gaps in terms of perceptions as to the importance attached to ethical issues. However, with regard to hindrance factors, relatively little differences are found in both countries. Market competition, results oriented performance measurement and performance evaluation based on pre assigned quotas are ranked similarly. Even in the case of non-life insurance industry, unethical demands made by clients are ranked high in the U.S. as well.

Under the business 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 on the trustworthy companies. Further, with the introduction of bancassurance since September of 2003, the way in which products are sold by bank agency have been subject to blame. In this context, this study contributes to deepen our understanding of what key ethical issues and hindrance factors are for the insurance

industry.

But findings of this study are subject to limitation because only actuarial professions are surveyed. In the future more research should be made to survey other professions such as claim adjusters, solicitors and/or agents, and senior officers to identify ethical challenge to improve ethical environment of Korean insurance industry.

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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 Korean insurance industry. For this purpose, conducted is a survey of actuaries in a variety of positions in insurance companies and insurance related institutions. In particular, the findings are compared to those of American studies to evaluate the level of ethical perception. Statistical factor analyses are made to make inferences on underlying constructs. 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 get adequate ethics training program. But some issues arising in marketing are considered significant similar to those the U.S. studies. 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, the 15 factors are presented such as competitive pressures, performance-based evaluation and unethical demand made by clients. These findings are generally similar to those of the U.S. studies.

※ Key Words: business ethics, ethical issues, ethical challenges, hindrance factors

〈Appendix 1〉

Key Statistics on 41 Ethics-related Statements in the Questionnaire

No	Ethical Issues	Percent of scale			Standard Deviation
		3	4	5	
I1	too early to implement the ethical conduct of business in the Korean insurance industry	20.0*	11.8	0.0	1.01
I2	false or misleading representation of products or services in marketing, advertising or sales efforts	27.1	20.2	0.0	1.01
I3	failure to provide prompt, honest responses to customer inquiries and requests	28.2	18.8	1.2	0.89
I4	failure to provide products and services of the highest quality in the eyes of the customer	32.9	20.0	1.2	0.87
I5	conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities	8.2	7.1	0.0	0.84
I6	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	18.8	12.9	1.2	1.08
I7	Making disparaging remarks about competitors, their products or services, or their employees or sales forces	17.6	22.4	3.5	1.15
I8	Lack of disclosure as to products, rates, company conditions in an adequate and prompt manner	28.2	12.9	3.5	1.04
I9	failure of the insurance company to act promptly and transparently on insurance claim settlements such as calculation and payment of insurance amounts	20.0	8.2	2.4	0.98
I10	embezzlement and misuse of company's assets and policyholder's insurance premiums by company's employees and sales forces	12.9	8.2	0.0	0.87

No	Ethical Issues	Percent of scale			Standard
		3	4	5	Deviation
I11	Insider trading/other security trading problems	22.4	12.9	1.2	0.98
I12	unjust asset management such as preferential loan to the affiliated company, insider trading	22.4	21.2	1.2	1.06
I13	failure to do Socially Responsible Investment(SRI)	30.6	21.2	4.7	1.07
I14	disturbance of the insurance system due to the improper collusion of insurance companies	24.7	10.6	0.0	0.95
I15	being passive to socially responsible activities (relations with local communities)	23.5	18.8	5.9	1.14
I16	misuse of sensitive information on policyholders	15.3	10.6	0.0	0.92
I17	giving or receiving excessive gifts or entertainment by insurance company's employees	7.1	1.2	0.0	0.67
I18	offering or soliciting payments or contributions for the purpose of influencing customers or suppliers	8.2	2.4	0.0	0.74
I19	offering or soliciting payments or contributions for the purpose of influencing government officials and politicians	17.6	16.5	2.4	1.12
I20	Inaccuracy of book keeping	9.4	5.9	0.0	0.87
I21	Improper accounting practices and unreliable auditing practices	14.1	5.9	0.0	0.88
I22	excessive use of business expenses(abuse of expense accounts)	21.2	21.2	2.4	1.11
I23	Improper office/agency closings and layoffs	28.2	15.3	2.4	1.12
I24	lack of internal ethics policy and/or effective compliance Officer	25.9	25.9	2.4	1.01
I25	lack of willingness of the CEOs of insurance companies to ethical management	18.8	10.6	2.4	1.06
I26	lack of transparency of governance structure of insurance companies	22.4	24.7	3.5	1.13

No	Ethical Issues	Percent of scale			Standard Deviation
		3	4	5	
I27	complaints or disputes arising out of failure to provide correct and adequate information on insurance contracts	27.1	30.6	2.4	1.04
I28	failure to recommend products and services that meet consumers' needs	27.1	18.8	2.4	0.93
I29	offering rebate or soliciting incomplete sale by sales forces	25.9	18.8	1.2	0.95
I30	churning or inducing a policyholder to replace an existing policy with a new one with lower assumed interest rate	24.7	24.7	7.1	1.19
I31	lack of necessary knowledge or skills by sales forces	27.1	16.5	1.2	0.88
I32	misrepresenting or concealing limitations in sales force's abilities to provide services	40.0	17.6	1.2	0.90
I33	Ignorance of code of ethics of Korean Actuarial Association	27.1	30.6	5.9	1.13
I34	failure to get adequate ethics training program by actuaries	21.2	47.1	9.4	1.03
I35	Insufficient legal authority to perform professional services in an ethical manner by actuaries	18.8	40.0	25.9	1.05
I36	failure to improve transparency of accounting by actuaries	21.2	23.5	5.9	1.16
I37	tendency of management to disregard actuarial judgment in making managerial decision	23.5	17.6	10.6	1.14
I38	failure to use adequate ratemaking methods or assumed interest rates	18.8	14.1	1.2	1.02
I39	use of improper or questioning means to meet solvency standards	15.3	24.7	0.0	1.13
I40	failure to provide policyholders with dividends in a proper and transparent manner	27.1	16.5	0.0	1.08
I41	failure to use statistical data used for rate-making properly and transparently	24.7	10.6	0.0	0.95

*: 20.0 percent of all respondents chose the scale of 3.

〈Appendix 2〉

Key Statistics on 29 Hindrance-related Statements in the Questionnaire

No	Ethical Issues	Percent of scale			Standard Deviation
		3	4	5	
H1	intense competition in the insurance industry which forces owners, managers and agent to focus on business outcome and not business ethics	15.3	50.6	28.2	0.84
H2	performance evaluation based on pre assigned quotas such as amounts of insurance sold, claims processed	10.6	51.8	22.4	1.0
H3	compensation structure including commission	25.9	43.5	14.1	1.0
H4	compensation that includes bonuses or opportunities for profit sharing	28.2	28.2	4.7	1.09
H5	measuring performance only based on end results without considering ethical aspect	10.6	56.5	21.2	0.93
H6	unethical demands made by clients or customers such as illegal rebate	20.0	45.9	14.1	1.05
H7	mid-level managers who are only concerned with their own personal gain and not ethics	22.4	22.4	4.7	1.12
H8	conflict between duty to the insurer and duty to clients	35.3	29.4	2.4	0.97
H9	financial pressures exerted on you to provide security for your family	35.3	31.8	3.5	0.93
H10	personal need to achieve or succeed	31.8	31.8	2.4	1.02
H11	lack of code of ethics of insurance industry commonly employees of companies live by	36.5	21.2	4.7	0.99
H12	lack of ethics policy in your company	36.5	23.5	1.2	0.97
H13	weak penalty in terms of civil or criminal liability	34.1	21.2	4.7	1.0
H14	lack of ethics training by your company	30.6	37.6	3.5	1.08

No	Ethical Issues	Percent of scale			Standard Deviation
		3	4	5	
H15	lack of ethics education in educational institutions like universities	35.3	27.1	4.7	1.04
H16	a lack of communication of ethics policy by your company	36.5	24.7	2.4	1.04
H17	unethical behavior or demands by co-workers	32.9	23.5	1.2	1.02
H18	fear of losing a job or insecurity on career	25.9	36.5	10.6	1.03
H19	sales activity based on crony capitalism such as school or region relation	32.9	37.6	8.2	0.99
H20	lack of expertise of solicitors, agents and brokers	29.4	42.4	11.8	0.93
H21	corporate culture/environment that encourages you to compromise your ethical values to achieve organizational goals	24.7	47.1	9.4	1.0
H22	your inability to disclose unethical activity because of fear of management reprisal	34.1	31.8	3.5	1.05
H23	CEOs focusing on company profits and end results with little concern over business ethics	9.4	48.2	21.2	1.18
H24	lack of ethics of company employees and sales forces	28.2	47.1	5.9	0.93
H25	inability of regulatory authorities to supervise unethical behavior effectively	34.1	34.1	5.9	0.98
H26	lack of NGOs to monitor insurance companies' unethical behaviors effectively	41.2	21.2	2.4	0.98
H27	improper relationship between insurance companies and politicians	35.3	8.2	4.7	1.06
H28	lack of ethics of the society as a whole	29.4	36.5	9.4	1.05
H29	widespread fears for survival by insurance companies due to the introduction of Bancassurance in 2003	41.2	12.9	3.5	0.96