

# The dollars and sense of business ethics

**If you believe and act on the basis of a written ethics code, you will be well on your way to running a successful practice.**

**MOST FINANCIAL ADVISORS** understand instinctively the financial value of ethical business practices. If you treat people right, they not only become and remain clients, they generate lots of referrals. But now there's some new research that quantifies the link between business ethics and a firm's financial performance. All insurance and financial advisors should read this study and apply its findings to their own practices.

Sponsored by the Center for Risk Management and Insurance Research at Georgia State University, the study found that life insurers certified by the Insurance Marketplace Standards Association have stronger financial performance, including a higher return on equity and more efficient use of capital.

As with most things in life, however, the gold is in the details. The Georgia State researchers found that IMSA-certified companies have:

- Almost two levels higher A.M. Best ratings
- 4 percent higher return on equity
- 8 percent increase in cost efficiency
- 3 percent increase in revenue efficiency
- 27 percent lower legal fees and expenses
- 88 percent lower investigation and policy settlement expenses

On the flip side, companies that aren't IMSA certified have:

- 3 percent to 4 percent higher policy lapse rates
- 10 percent higher rate of regulatory discipline
- 67 percent higher ranking on the study's Justified Complaint Index

Granted, the study's purpose was to evaluate the economic value that IMSA membership brings to insurance carriers. But at the National Ethics Bureau, we believe this study not only lends power to our belief that ethics

pays, it provides advisors with life lessons for building a profitable financial services business. Companies don't have to become IMSA certified to make their belief in ethics serve the greater good, but knowing what an organization like IMSA requires can help.

IMSA requires certified carriers to subscribe to six specific principles of ethical market conduct. Based on the study's findings, the lesson is that if you believe and act on the basis of a written ethics code, you will be well on your way to running a successful practice.

IMSA-certified companies have to go through a self-assessment process to make sure their internal procedures conform to IMSA standards. This says that at least yearly you should take a look at all of your business procedures and make adjustments where necessary.

Companies are required to hire an external assessor to verify that their business practices are totally above board. Not a bad idea for advisors with offices large and small. All advisors should subject their record of business ethics to external scrutiny. It's good for the soul — and for profits.

Clearly, big insurance companies and insurance or financial advisors are different animals. But ethical business practices generate handsome returns no matter what your size. As IMSA President and CEO Brian Atchinson told us recently, "In the medium and long run, there is a strong financial benefit for treating customers the right way."

You can download an executive summary of the Georgia State study from the IMSA pressroom at [www.imsaethics.org](http://www.imsaethics.org).

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STEVEN MCCARTY IS A DIRECTOR OF THE NATIONAL ETHICS BUREAU, A MEMBER ORGANIZATION THAT GIVES QUALIFIED INSURANCE AND FINANCIAL ADVISORS A PLATFORM TO MARKET AND GROW THEIR BUSINESS ON A FOUNDATION OF TRUST. TO APPLY FOR MEMBERSHIP, CALL (800) 282-1831 OR GO TO [WWW.ETHICSHECK.COM](http://WWW.ETHICSHECK.COM).