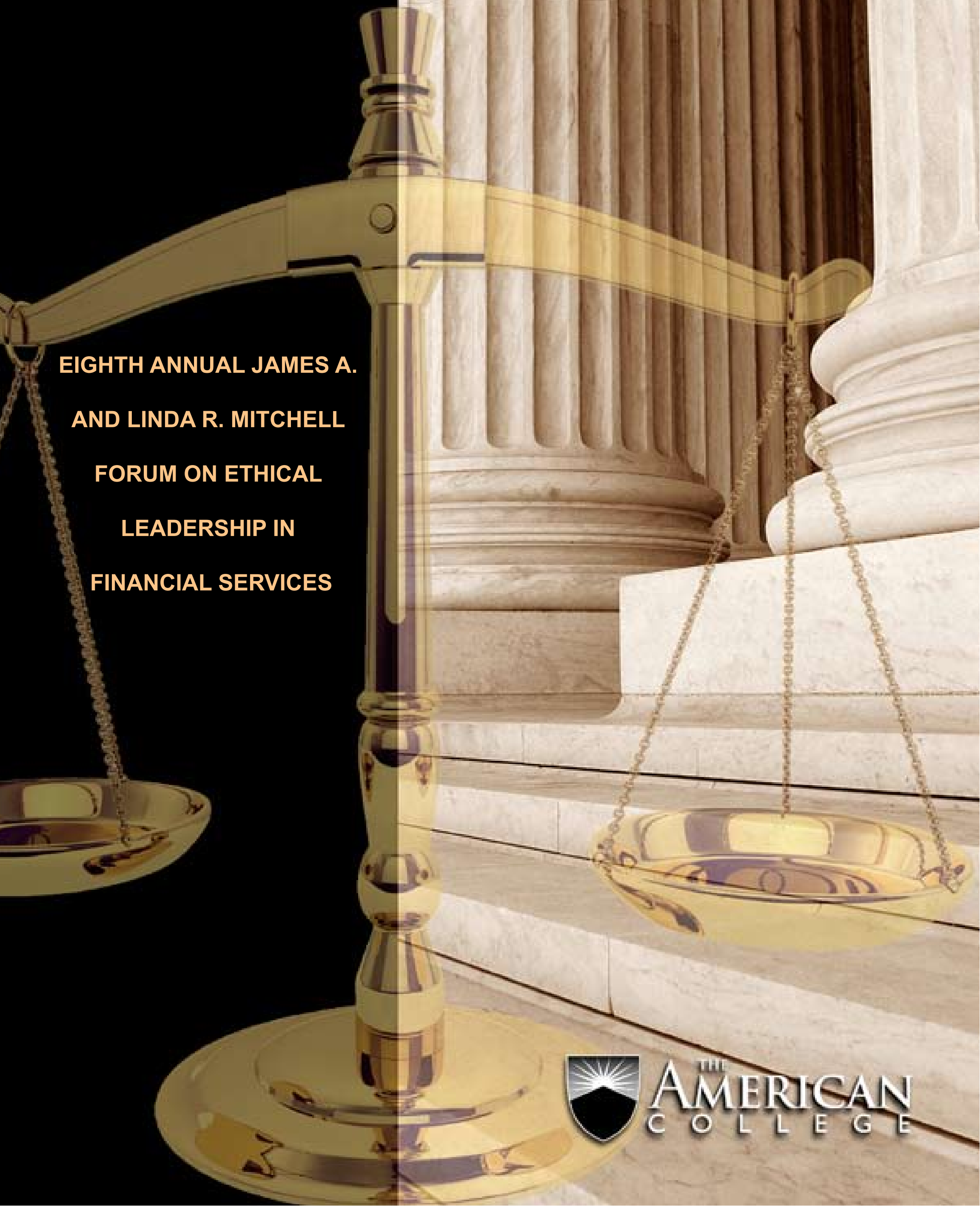
2008

PERSPECTIVES ON ETHICAL LEADERSHIP

EIGHTH ANNUAL JAMES A. AND LINDA R. MITCHELL FORUM ON ETHICAL LEADERSHIP IN FINANCIAL SERVICES



The American College

FORUM ON ETHICAL LEADERSHIP

The eighth annual James A. and Linda R. Mitchell/American College Forum on Ethical Leadership in Financial Services took place January 19, 2008, in Naples, Florida. The event featured a discussion of several key issues confronting the financial services industry, along with an examination of practical ethical dilemmas encountered by executives during their careers and questions raised by business ethicists from major colleges and universities around the country.

Participants

THE EXECUTIVES

Michael C. Davidson, Vice Chairman and Chief Agency Officer, State Farm Life Insurance Company, Bloomington, Illinois

Fred H. Jonske, President and Chief Executive Officer, The M Financial Group, Portland, Oregon

James A. Mitchell, Chairman and Chief Executive Officer (Retired), IDS Life Insurance Company, Longboat Key, Florida (Host)

Stuart H. Reese, Chairman, President and CEO, MassMutual Financial Group, Springfield, Massachusetts

Todd M. Schoon, Senior Vice President – Agencies, Northwestern Mutual Insurance Company, Milwaukee, Wisconsin

THE ETHICISTS

Thomas Donaldson, Mark O. Winkelman Professor of Legal Studies and Business Ethics, Wharton School of Business, University of Pennsylvania, Philadelphia, Pennsylvania

Ronald F. Duska, Charles Lamont Post Chair of Ethics and the Professions and Professor of Ethics, The American College, Bryn Mawr, Pennsylvania (Host)

R. Edward Freeman, Elis and Signe Olsson Professor of Business Administration, Darden School of Business, University of Virginia, Charlottesville, Virginia

John Hasnas, Associate Professor, McDonough School of Business, Georgetown University, Washington, D.C.

John J. McCall, Professor of Management and Philosophy, Saint Joseph's University, Philadelphia, Pennsylvania

Lori Verstegen Ryan, Professor of Management, San Diego State University, San Diego, California

EXECUTIVE SUMMARY

On January 19th, 2008, a group of five executives ("practitioners") and six academic ethicists ("philosophers") gathered in Naples, Florida to participate in the eighth annual James A. and Linda R. Mitchell/American College Forum on Ethical Leadership in Financial Services.

The purpose of this annual event, established in 2001 by Jim and Linda Mitchell, is twofold:

1. To provide executives with an opportunity to reflect on ethical issues that they confront on a regular basis, with questions posed to them by academics engaged in business ethics education.

2. To afford academics the opportunity to engage in discussion about these issues with top-level executives, so that they can bring that experience back to their classrooms.

LIFE SETTLEMENTS

Following introductions of the participants and discussion of their goals for the day, the first topic discussed was life settlements. The case study focused on the dilemma faced by a financial services professional whose long-term client would like to sell his life insurance policy on the secondary market in order to raise money for his daughter's medical care. The protagonist faces a difficult moral choice, since his firm prohibits participation in any life settlement transaction. Although the firm does offer to "buy back" its policies, the amount they offer is less than what can be obtained on the secondary market.

Jim and Linda Mitchell enjoying the concluding reception.

The participants were encouraged to consider the following questions:

- Should life insurance policies be considered the property of the insured and, as such, can the insured dispose of them as he or she pleases?

- What implications does the increasing prevalence of life settlements have on the insurance industry in general?

- Should individuals and institutions be required to think about the public policy implications of decisions regarding their life insurance policies?

- Finally, is there something morally repugnant about speculating on the duration of an individual's life? Does this sort of speculation undermine the original purpose of life insurance, which was to provide for the financial security of one's family in the event of an untimely death?

The participants began by distinguishing two different forms of life settlements. The first form occurs when an insured would like to sell a life insurance policy that was purchased with the intention of providing financial security for his family. The insured may be eager to sell either because the policy is no longer needed or because a more immediate need for liquidity has arisen.

A second form is referred to as an "investor originated life insurance" (IOLI) settlement. In an IOLI, the life insurance policy originates as an investment on the part of the insured. For a lump sum, the insured agrees to take out a policy on his life and make a life settlement company the beneficiary. The premiums are typically paid by a loan that is guaranteed by the policy itself. After two years, the insured has the option of repaying the loan and retaining the policy or, more likely, turning ownership over to the life settlement company. Such a policy is then bundled together with others like it and is formed into an asset-backed security, which usually guarantees a return on investment in the range of 8%.

The participants believed that morally relevant differences exist between the two forms of life settlements. Most of the participants sympathized with the protagonist and his long-time client and believed that the insured should have a right to dispose of his property, which was taken out many years ago and in line with insurable interest laws, in accordance with his interests. Most participants agreed that the secondary market for life insurance policies originated from the genuine demand of the public for the services they provide. They believed the issuing insurance companies were going to need to come up with more attractive alternative solutions for these clients than they currently offer.

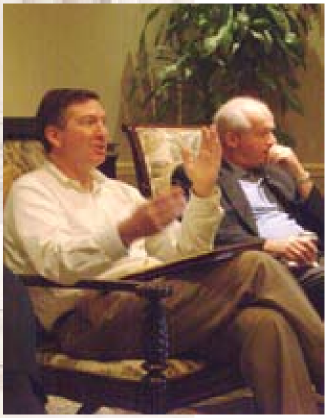
Ron Duska shares a laugh with Jen Schoon, Brenda Duska, and Lauren Boland at the concluding reception.

However, some of the participants were concerned that a significant increase in the number of policies that culminated in a death benefit would have the troubling effect of raising the price of life insurance, perhaps beyond that which the average consumer can afford. They believed that society has an obvious interest in keeping life insurance affordable and not a luxury available only to a few. Most participants felt that IOLIs were inappropriate uses of the life insurance mechanism. Finally, some of the participants expressed concern that if life insurance were perceived as an investment, rather than a social good, insurance could lose its important tax benefits.

EXECUTIVES' ETHICAL ISSUES

In this segment of the Forum, the executives each presented an ethical situation or problem that they had encountered in their careers.

The first issue raised the question of what the ethical leader should do when his firm is recruiting a high-performing team of professionals from another company, while concurrently trying to acquire the same company. There is at least an implicit understanding between the group of managers attempting to recruit the team and the team itself that its confidentiality will not be breached during the recruitment process. Does the CEO have a greater obligation to protect the confidentiality of the team or to build and maintain a trusting relationship with the target CEO?



Todd Schoon makes a point as Fred Jonske listens.

The second issue concerned disclosing interest rate crediting policies. Most insurance, other than term insurance, includes an investment component and is sold on a variable basis to consumers. Usually, however, the interest crediting policy used by the company is not disclosed specifically, and it could be argued that, when interest rates are declining, new policies are being sold on a sort of "bait and switch" basis. The ethical issue is whether more disclosure is called for at a time when interest rates are declining.

The third issue focused on how to handle an error that resulted in the retirees of a large company receiving a smaller pension than they had been led to expect by the company's own estimates. However, since it does not appear that most retirees were aware of the mistake, how should this situation be made right?

The final issue regarded whether or not to give two new recruits the benefit of the doubt and revise company policy so that they are not compelled to terminate external contracts until after they have been employed for a year.

ETHICISTS' QUESTIONS

In this portion of the program, each of the academics posed a question to the executives. The first question dealt with how it is possible to incent the right sort of behavior when compensation is based entirely, or almost entirely, on commissions. The second question concerned how it is possible to simultaneously maintain the sort of heavy-handed monitoring necessary to satisfy federal requirements and work to establish a culture based on trust and mutual concern. A third question dealt with "unknown unknowns," which are those behaviors that have the capacity to destroy an organization if discovered, but remain undetected because they are embedded in the company or the industry in such a way that even the most sophisticated compliance structures cannot detect them. A fourth question considered whether it is ever appropriate to violate the principle of confidentiality. Finally, a question was raised concerning whether the proxy votes of insurance companies are influenced by their hopes to establish sales relationships with the portfolio companies in question.

CONCLUDING THOUGHTS

The Forum concluded with each participant summarizing what he or she took away from the day's proceedings. The executives and the ethicists all agreed that the candid sharing of opinions was mutually helpful. They were all grateful for the opportunity to spend the day reflecting on the ethical dimensions of crucial issues facing the financial services industry today.

INTRODUCTION AND GOALS FOR THE DAY

The eighth annual James A. and Linda R. Mitchell/American College Forum on Ethical Leadership in Financial Services began with host Jim Mitchell welcoming the participants and asking them to address two questions:

- What does ethics mean to you in your organization?
- How do you hope to benefit from today's discussion?

"...Creating an ethical culture is the only sustainable competitive advantage a company can have...."

Jim Mitchell

THE PRACTITIONERS

To begin, Jim Mitchell noted that business leaders may at times be unwilling to speak candidly about ethical issues or to criticize actions of other companies, since to do either may make the leader's own company a "target" for certain regulators, the press, and prosecutors. This is troubling because "creating an ethical culture is the only sustainable competitive advantage a company can have," and speaking about how that sort of culture evolves and how it works day to day is important to pass along. Mitchell said that he believes most people really try to do what is right. However, he is concerned with whether today's leaders have sufficient time to reflect on their choices. He hoped the Forum would offer an opportunity for the participants to reflect on the ethical dimensions of issues in a way and to a depth that they typically do not in their busy, day-to-day lives.

"...Trust is perhaps more important in the financial services industry than in any other business. Trust is important since the entire industry is based on promises...."

Fred Jonske

Fred Jonske noted that trust is perhaps more important in the financial services industry than in any other business. Trust is important since the entire industry is based on promises, and for a segment like the life insurance industry, it is a promise that will not be fulfilled for a long time. He also noted that the CEO of an organization has a profound impact on the ethical tenor of a company, especially concerning its relationships both within the organization and with the public. Jonske pointed out that his organization, The M Financial Group, is different from the other companies represented at the Forum, in that it is a consortium of insurance agents who have their own independent agencies. He hoped that his experience might provide a different perspective on some of the problems faced by both practitioners and leaders in the financial services industry.

Mike Davidson, from State Farm, agreed that the financial services industry is based on promises and the trust that the commitments they entailed would be honored. He emphasized the fact that State Farm is an organization built on a foundation of trust and that "if you don't practice what you preach, then that trust is eroded." Davidson was interested in listening to and learning how other leaders approach similar ethical situations in the financial services industry.

Stu Reese, from MassMutual, stated that he believes ethics begins with customers and extends throughout the organization, which is why his company puts a premium on serving its customers. He hoped that participating in the Forum would provide a broader perspective on some of the issues facing the financial services industry and offer him alternative points of view.

"...Ethics begins with customers and extends throughout the organization...."

Stu Reese

Todd Schoon, from Northwestern Mutual, offered that in preparation for participating in this year's Forum, he asked some of his colleagues "what ethics means to them." He said that most of the replies indicated that "ethics demands doing the right thing when no one is looking" or that "ethics demands doing what is in the best interest of the customers." Schoon agreed with both of these definitions and noted that Northwestern Mutual has a historical commitment to ethical behavior. He thought that the trick is to figure out how to motivate people to do the right thing when they are on their own.

THE ETHICISTS

John McCall, from St. Joseph's University, offered that he wanted to learn what the executives saw as ethical difficulties in the current business climate. He looked forward to the unique opportunity to discuss ethical issues with high-level executives in the intimate setting provided by the Forum.

Tom Donaldson adds to the discussion.

John Hasnas, from Georgetown University, said that because of his legal training, he usually interprets corporate responsibility issues as including legal issues and that he hoped to improve his knowledge of real-world business practices by participating in the Forum. He noted that he understands ethics as concerned with the normative constraints upon an organization's pursuit of its objectives. Hasnas agreed with Mitchell's earlier observation that corporate executives might be reluctant to speak out on the subject of ethics, for fear of appearing to criticize other executives and firms. He also noted the concern that going on the record about ethical obligations to refrain from certain forms of compliance may place a target on their backs for regulators, prosecutors, and the media.

Tom Donaldson, from the University of Pennsylvania's Wharton School of Business, said that while interest in ethics education has been rising over the past several years, there has been precious little opportunity to bring academics and practitioners to the same table. He noted that it is crucial to bring these groups together because they each know things that the other doesn't; thus, it is especially fruitful to bring both sides to the table. Since this Forum offered that rare opportunity, he was eager to engage in such a much-needed dialogue.

Ed Freeman, from the University of Virginia, echoed Donaldson's point that the most important thing about ethics education in business is to try to bring the ethicists and practitioners together. He reminded the group that it is precisely this sort of dialogue that the Olsson Center of the Darden School of Business tries to bring about. As a proponent of the "anti-separation" thesis, he believes that ethical change can only happen when you integrate personal ethics and the principles of business. Because that integration is the primary goal of the Mitchell Forum, he was delighted to participate.

"If students carry these unethical and "corner-cutting" strategies into the marketplace, then it would seem that some of the problems faced by businesses are not the result of systemic or structural issues, but rather the result of the questionable character of some people who work in the system."

Lori Ryan

Lori Ryan, from San Diego State University, offered that she was concerned about the amount of dishonesty and cheating that occurs in classrooms and wondered how much of this sort of behavior carries over into the workplace. "By the time students get to business school, a sizable minority is convinced that cheating works. If students carry these unethical and 'corner-cutting' strategies into the marketplace, then it would seem that some of the problems faced by businesses are not the result of systemic or structural issues, but rather the result of the questionable character of some people who work in the system."

Ron Duska, Director of the Center for Ethics in Financial Services at The American College, described how he once detected three students cheating and announced at the next class that he expected those who had cheated to remain behind after the rest of the class was dismissed. To his surprise, not only did the three students whom he knew cheated remain, but nine additional students remained and admitted to cheating. The fact that this happened years ago indicated to him that cheating is not a new phenomenon, nor is it learned in business. Duska noted that ethics is woven into the fiber of The American College, since The College was founded by Solomon Huebner for the purpose of turning insurance sales into a profession, which for Huebner meant into an *ethical* profession.

Duska's goal for the day was to relish the dialogue that occurs when people sit down and talk "to" one another rather than "at" one another, which happens too often in conferences and meetings. He agreed with Freeman that we need to abandon the gaps between academia and business, and work on creating a constructive dialogue about ethics between members of the business community and academics interested in business ethics.

Linda Mitchell, Brenda Duska, Lauren Boland, and Jen Schoon gather for the evening events.

"...We need to abandon the gaps between academia and business, and work on creating a constructive dialogue about ethics between members of the business community and academics interested in business ethics."

Ron Duska

LIFE SETTLEMENTS, INVESTOR ORIGINATED LIFE INSURANCE, AND DEATH BONDS

A CASE STUDY

After the opening comments about expectations for the day, the participants turned to consider a case study and information on life settlements that they had been provided before the Forum.

Jack White walked into Wayne's office holding the note with the phone message that his assistant, Kate, had given him when he returned from lunch. Jack prided himself on being accessible to all of his clients to answer whatever questions they might have, but in this case, he was glad that Kate had answered the call from a long-time client, Roger Frederick, because he honestly had no idea what he was going to say to Roger.

Wayne and Jack were both senior representatives for Zeon Financial. They had worked together for many years, and they respected one another as professionals. Jack moved quickly to the point. "My client, Roger Frederick, called a little while ago, and according to Kate, he sounded pretty distraught about his daughter, Evie. Evie has had some pretty bad health problems. In fact, she needs another pancreas transplant."

"Another pancreas transplant," Wayne interrupted incredulously. "How many has she had? How old is she?"

"This will be her third transplant," Jack sighed, "and she is only 30."

"How awful," Wayne mused.

"Yeah, it's terrible, and what's worse, Evie's health insurance doesn't begin to cover all her medical costs. On top of that, there's all the stuff insurance doesn't cover, like Roger and his wife going down to the Mayo Clinic to stay with Evie during the procedure. Plus there's the expense of arranging for her care after the procedure. You name it. Now, as you know, Roger has done well for himself over the years. He had a small medical practice and always made a good living. But all those expenses are beginning to add up and put a dent in his income."

"I can't even imagine."

"From what Kate could make out, Roger is pretty worried. The bottom line is that he needs cash, and he needs it soon. He wants to set Evie up in her own place before the surgery, some place to stay while waiting for the procedure. As you know, they can be on those waiting lists for a while, and she is 30 years old and has never had a chance to live on her own. But since she can't work anymore, Roger has to foot the bill."

"So that's the reason he called. He thinks he has a way to raise some cash. He read some article online about life settlements, and he has decided that is the answer. He wants to sell the life policy he took out years ago. He told Kate to have me call him back with all of the details because he needs to move on this as soon as possible. He's convinced that this is the answer to all of his problems, and, Wayne, even if I can talk him through the issues, I can't do anything to help him, and neither can the company."

Wayne leaned back in his chair and looked at Jack, "You're right, Zeon has made it darn clear to us representatives that we can't participate in life settlements with any of our clients. And, in my opinion, for good reason. Most of that life settlement stuff is awful. Strangers being beneficiaries! But what about the Access Plan that Zeon just came up with? We got the information from the home office a couple of weeks ago. You know, the one where the company pays the future required premiums and gives the client some money, up front in a lump payment . . . even more money than the cash value! That way, he can keep the policy, and we can keep the relationship and, more important, keep Roger away from those parasites out there. How old is Roger – he's got to be over 65, right?"

"That's the problem. He just turned 63, and the Access Plan requires that the client be 65 and have undergone a decline in health since the policy was underwritten. That's not going to help me here. And even the Access Plan probably wouldn't give him what he could get for it on the secondary market. Wayne, not all the life settlement companies are parasites. That market grew because there was a legitimate need to be filled, like Roger's. And don't you think that Zeon is being a little uptight about this?"

"But more important, what are you going to do, Jack? You can't handle this for him, or your job will be on the line!"

"I have no idea what I'm going to do, but I know what I don't want to do," Jack said angrily. "What I don't want to do is tell this man, whose daughter is on death's

door and who has been a friend and a client for almost 20 years, that there is nothing I can do for him."

"Well," Wayne retorted mildly, "if he has had the policy for a while, he can take the cash value. That would give him something."

"Great," Jack retorted sarcastically, which was very out of character for him. "That is a nice reward for entrusting me with his financial security. We both know that the policy is worth a heck of a lot more than the cash value on the secondary market."

They were both silent for a moment, and then Jack looked at him sadly and said, "I'm sorry, Wayne, that was out of line. I just feel so frustrated."

"I know you do, Jack, and that's why you're such a good friend and a good financial planner. I know you want to help Roger. And I know too," Wayne continued, "that you think this policy is Roger's property, and he should be able to dispose of it as he pleases. But, Jack, you have to remember that a life insurance policy is not a security and it should not be treated as one."

"I know your feelings on this, Wayne," Jack began, "and I'm sympathetic to your point of view. I remember when I came to work in this business and you told me that buying a life insurance policy was an altruistic act, since the insured would never gain from the money they were paying towards the policy."

"They never gain financially," Wayne corrected, "but they know their loved ones are always secure. And that's the thing, Jack. You can't divorce the insurable interest from life insurance. When you sell a policy on the secondary market, the new owner is a stranger, who has no insurable interest in your life. Morally, I think that is wrong, and practically," he paused and looked at Jack carefully, "it could be the end of the tax advantages life insurance enjoys now. Life insurance could lose the tax benefits that people get now for doing the right thing and providing for their families. We can't contribute to that happening – it is just wrong."

"I hear what you're saying, Wayne, but this is not some sort of investor initiated thing. This isn't like those products you hear about in the news, where investors offer elderly people a dinner cruise and then have them sign up for a new policy on board. Roger bought this policy from me years ago to provide for his family, not as some sort of investment vehicle. We sell people life insurance with the

idea that they are buying security for their families. We convince people to pay these premiums to make sure that the money will be there when they need it. Well, now is when Roger needs it, and where is his money? I got into this business to help people, and this is not helping. We are standing on some sort of principle here that no longer applies."

"There are always those cases that make you doubt the rule, Jack, and maybe this is one of them. But you have to think about the Pandora's box you will be opening up here if Zeon and other companies start buying into things like this. Do you want to see life policies turn into unregulated securities? By the way, did you get a chance to read that article I gave you from Business Week?*"*

"I did, Wayne, and I have to agree that those 'death bonds' are very disturbing. I mean, the idea of some company collecting these life settlement policies and forming an asset-backed security, and then promoting it as a safe investment with an 8% return – it's just macabre. Weren't those the sorts of things that were used to finance wars in the 17th century?"

"Yeah, they were called 'tontines,'" Wayne explained, "and I think that they were the first government bonds issued anywhere in the world. The governments raised money by selling a bond, and here is the catch – the bond payments were divided among each of the tontine holders, so the last man standing, so to speak, got a bunch of money. They never did get the longevity calculations right, and the government was left holding the bag. They did not last long."

"Wayne, that is disturbing, but how does that have anything to do with Roger and me? Roger bought his policy, in good faith, to take care of his family. No one sold him anything with one of these premium financing deals. This isn't a 'wet paper' case. He has been paying the premiums all along. He just doesn't need it anymore. Wayne, you know it would be wrong to make him settle for the cash value. I was just reading in National Underwriter *that the average consumer who sells his policy on the secondary market receives three or four times the cash value. We did take an oath to look out for the best interest of our client."*

"And we also have a responsibility to look out for the industry, too, Jack. Is one person's situation, no matter how tragic, worth undermining an entire business that meets such an important need? Jack, if this keeps up and more and more policies are kept in force until they pay out death benefits, the price of life insurance will skyrocket and be unaffordable for people who need it the most. Do you really want to see that happen? Sometimes, it is about the greater good."

OBSERVATIONS ON THE CASE

1. The growth in the life settlements industry has been rapid. It is estimated that sales of life settlements were $2 billion in 2002 and rose to $10 billion in 2005 and $15 billion in 2006. It is possible that this number could double to $30 billion in 2007.[i]

2. A typical life settlement has the following characteristics:

   - Male over 65 and female over 70; the average age is 72.5.
   - Health of the insured must have declined significantly since the policy was purchased.
   - Average life expectancy is 9.5 years.
   - Average policy face value is $1.4 million.
   - The payment from the life settlement to the insured is about $350,000, compared to the policy's cash value of about $100,000.

3. Insurable interest must exist at the time of the issuance of the life policy, or the policy is void as a matter of law. "Insurable interest is lacking when life insurance is underwritten in a scenario in which benefits arise or appreciate only from the death, disability, or injury of the insured person." There are various definitions of insurable interest:[ii]

   - *"The owner and the beneficiary of a life policy are closely related by blood or by law."*
   - *"There exists a substantial interest between the insured, the owner, and the beneficiaries of the policy, which is based in love and affection."*
   - *"The owner and the beneficiaries have a lawful, substantial economic interest in the continued life, health, and safety of the insured person."*

4. One of the questions often raised is how referring agents are paid when their client enters into a life settlement transaction. No specific formula exists for determining compensation; "rather the potential maximum compensation is largely determined by the funder or buyer in the deal." However, the industry has an accepted guideline of 6% of the face value of the policy or 30% of the gross value offer.[iii]

5. A Breakdown of a Life Settlement Transaction[iv]

- Detailed health history is obtained from the insured's doctors by the life settlement firm and sent to reviewers to assign a life expectancy.

- Detailed information about the policy structure and pricing is obtained and analyzed by the life settlement firm.

- The issuing company must have certain minimum financial strength ratings.

- Based on life expectancy, policy pricing, and structure, a purchase price is calculated so that the life settlement firm can earn a return of 12 to 15%.

- Commissions of 10 to15% of the purchase price are paid to the insurance salesperson or other soliciting agent.

- The policy seller must include his gain in income and pay taxes on this amount. If a policy's cost basis is $650K, the cash value is $750K, and the life settlement purchase price is $1 million. One possible tax result is the recognition of $350K (the difference between the sales proceeds and the cost basis) as ordinary income. However, some tax experts claim that only the difference between the cost basis and the cash value is ordinary income, while the rest is capital gains.

- When the insured dies, the life settlement firm recognizes insurance proceeds less cost basis as ordinary income.

6. How a Life Insurance Policy Becomes a Death Bond[v]

- The Seller: A person, typically 70 or older, who wants to cash out of a life insurance policy, hires a "life settlement" broker to find prospective buyers. The buyers keep paying the premiums until the seller dies, and then they collect.

- The Broker: A person paid to link buyers and sellers. The broker typically seeks three bids from specialty finance firms called "life settlement providers," which are financed through hedge funds and investment banks. Commissions, paid by the seller, usually range from 5 to 6%.

- The Provider: The "life settlement provider" resells the insurance policy to a hedge fund or investment bank, which warehouses it in order to build a big pool of policies.

- The Investment Bank/Hedge Fund: After an investment bank or a hedge fund collects a sufficient number of policies, typically 200, it turns them into asset-backed securities called "death bonds" to sell to investors. The pitch is that death bonds will produce steady returns (around 8%) and aren't correlated with stocks, bonds, or other investments.

- The Investor: Hedge funds and other big investors are already buying up death bonds in Europe and expect a big bond issue in the U.S. soon.

- The Bond Rater: Big debt rating agencies, such as Moody's Investors Service and Fitch Ratings, are expected to start issuing ratings on death bonds in the U.S. soon, opening the market to big investors, including mutual funds.

7. Recent Regulatory and Legislative Developments on Stranger Owned Life Insurance (STOLI)

- June 4, 2007: The National Association of Insurance Commissioners (NAIC) adopts its "Model Act," which allows insurers to contest settlements up to 5 years after the policy is issued. "The Model Act strengthens several consumer protections and imposes a five-year ban on selling a life insurance policy with specified elements indicative of a STOLI transaction."[vi]

- November 19, 2007: The National Conference of Insurance Legislators adopts a "Model Act" on life settlements, which allows insurers to contest settlements up to 2 years (rather than 5 years) after the policy is issued.

- November 28, 2007: Rep. Richard Neal (D-MA) and Rep. Phil English (R-PA), of the House Ways and Means Committee, wrote to Treasury Secretary Henry Paulson and asked the federal government to warn seniors about the possible tax consequences of getting involved in STOLIs. "The STOLI policies themselves are under the jurisdiction of the states, not the Treasury Department, but the federal rules governing split dollar arrangements and cancellation of indebtedness also may come into play."[vii]

- December 3, 2007: The U.S. Supreme Court declined to hear a case that could have challenged the extent to which states can regulate life settlements. The Court's move effectively allowed an appellate court decision in favor of the states' stand. States have the power to regulate life settlements under the McCarran-Ferguson Act, which gives the states authority over businesses that "relate to" insurance.[viii]

QUESTIONS ON THE CASE

1. "Life insurance is a form of property, and an owner has fair discretion over what they do with it," according to Doug Head, Executive Director of the Life Insurance Settlement Association (LISA).[ix] Mr. Head seems to be making a fair claim. What, if anything, is wrong with life settlements? Who is potentially being harmed?

2. Some critics say that families would generally benefit more by hanging on to their policies and waiting for the death benefit to pay out. It is typical that referring insurance agents and life settlement brokers each receive 10 to 15% of the settlement amount, making the transaction cost of a life settlement very substantial. What facts about a proposed life settlement transaction should be disclosed? To whom?

3. If life settlements were deemed to be securities, they could only be sold by people with a securities license and would be subject to more rigid "suitability" requirements. Should life settlements be treated as securities?

4. A recent *New York Times* article on life settlements contained the following statement: "Insurers are worried because they count on many customers canceling their policies before they die, usually because their children have grown up and no longer need financial protection, their pensions kick in, or premiums become too expensive. If far more policies result in payouts, the insurance business becomes much less profitable."[x] This seems to imply that life companies depend, in perhaps an unethical manner, on people not reaping the full benefit of their policies.[xi] Is it unethical for insurance companies to depend on a certain "lapse rate"? Do you think that life settlements will cause insurance companies to adopt better business practices?

5. "Some of us cannot (under threat of contract termination) help our clients maximize the value of policies they no longer want or feel that they need. Others can engage in such transactions, but only with those life settlement companies on the approved list. What if there are other settlement companies who would pay 10, 20, or 30% more to the client? Nope, you cannot use them! Would we, in the same circumstances, go for the higher settlement on a

policy on our own life? You bet that we would!"[xii] This quotation highlights the dilemma of advisors who believe that their "hands are tied" in their attempts to serve their clients. Is it legitimate for companies to impose a "gag rule" on their representatives? Is this fair to their clients?

6. Joe Belth, Professor Emeritus of Insurance at Indiana University, states that "life insurance is not intended as a vehicle for speculating in human life."[xiii] Is it unethical for consumers to use life insurance in ways not intended by the issuer? How much would the purpose of life insurance be undermined by even more rapid expansion of life settlements? By the increased use of investor initiated life insurance?

7. Life settlement providers are vexed by the efforts of the American Council of Life Insurers (ACLI) and state regulatory organizations to "shut down" investor originated life insurance. Bryan Freeman, President of Habersham Funding, queried, "Why are you asking Congress to tax your insurance? Once the camel's nose is under the tent, it may open up life insurance contracts to the possibility of further taxation, including a contract's inside buildup and death benefit."[xiv] What role do regulatory concerns play in your opinion about life settlements? Do you think a solution can be found in terms of higher taxation of policies that are owned by strangers or initiated by investors?

8. A *New York Times* article discussed the manner in which seniors are being persuaded to purchase investor originated life insurance: "The deals are so lucrative that older people are being wooed in every fathomable way. In Florida, investors have sponsored free cruises for seniors willing to undergo physical exams and apply for life insurance while on board."[xv] Does the expansion of life settlements make seniors more vulnerable to abuse? What can be done to prevent such abuse?

9. *Business Week* states: "Firms say that death bonds should return around 8% a year, right between the expected returns of stock and treasury bonds. Moreover, they are 'uncorrelated assets,' meaning that their performance is not tied to what's happening in other markets. After all, death rates do not rise and fall based on what is happening to commodities."[xvi] Bear Stearns, Credit Suisse, Goldman Sachs, and UBS[xvii] are some of the investment houses involved with life settlements. Do you think that death bonds are an appropriate investment tool?

THE DISCUSSION

At the outset, the participants recognized the importance of distinguishing between different forms of life settlements. The case focused on a form of life settlement in which the original owner of the insurance policy, who initiated the policy with the intent of his beneficiaries collecting a death benefit, was seeking to sell his policy on the secondary market to raise needed cash. However, in other forms of life settlements, individuals agree to allow a policy to be taken out on their lives in return for immediate financial compensation. These policies, referred to as investor originated life insurance, are typically financed through loans taken out by the insureds and guaranteed by the policies themselves.

Both types of life settlements embody ethical and practical difficulties, and each raises its own unique set of concerns. In the case presented, the original owner, because of financial exigencies, would like to sell his policy for as much money as possible. Roger is eager to sell his policy on the secondary market since, as the notes to the case indicate, he can receive a great deal more money than simply taking the cash value offered by the issuing insurance company. Some insurance companies are responding to the difference between the "cash value" and the market value by developing some sort of alternative to life settlements.

The participants generally agreed with the validity of the claim made by Doug Head, mentioned in the "questions" section of the case – namely that life insurance is a form of property, and an owner should have some control over what he or she can do with it. Some of the participants believed that this is particularly true in the case of viaticals, which are life settlements designed to help terminally ill insureds sell their policies on the secondary market to raise money for medical needs and final expenses.

The participants also noted that one of the problems encountered by the industry in explaining their condemnation of life settlements is the perception that some companies sell life insurance policies "hoping" that they will lapse, since life insurance companies may profit when long-time insureds lapse their policies.

Stu Reese noted that if there were no lapses and all insurance policies resulted in paying out a death benefit, "insurance costs would go up for everyone else, and this would make insurance less affordable for the average man on the street."

Reese also mentioned that as the frequency of life settlements increases, it will affect the policy holders of mutual companies, who will receive lower dividends, and the shareholders of publicly held companies, who will also suffer financial setbacks.

Fred Jonske pointed out that "companies are trying to find innovative ways to deal with the demand for life settlements by trying to find company-specific solutions and develop alternative measures for their clients."

Tom Donaldson was concerned about the circumstances surrounding the participants in a life settlement. "What about a person in dire straits who needs the money now, versus a wealthy person to whom this is a one-off investment transaction?"

The participants noted that a possible consequence of an increase in life settlements is that ordinary citizens could find themselves priced out of affordable life insurance. An additional concern raised was that individuals, particularly seniors, could be pressured or persuaded to agree to a life settlement that really might not be in their long-term interests. This pressure could come from financial services practitioners who may not disclose their compensation fully, because they are motivated by large commissions.

Ed Freeman wondered about who is looking out for the consumer in a life settlement transaction, which is well known for generating large fees and relatively generous compensation. However, for Freeman, this is part of a larger problem of how the financial services professional can adequately work in the best interests of the client, when they also have an obligation to their employer. He noted that "sometimes there is a conflict of interest for an insurance agent who is both an employee of the company and an advisor with a moral obligation to do right by the customer."

Reese indicated that "some 'scurrilous activity' in the area of life settlements has recently come to light. The risk of disputes is high, and we educate our agents about the risks of life settlements." Referring to the investor originated life insurance, he added that "if a stranger is speculating on someone else's mortality, then there should be a regulatory environment that deals with that."

Jim Mitchell agreed, but noted that part of the problem is that the regulations do not keep up very well with changing circumstances and new product developments.

"Companies are trying to find innovative ways to deal with the demand for life settlements by trying to find company-specific solutions and develop alternative measures for their clients."

Fred Jonske

The participants also recognized that one of the problems with life settlements, particularly investor originated life settlements, is that if life insurance is transformed into an investment vehicle through a process of securitization, this transformation could jeopardize its characterization as a socially valuable financial instrument.

In response to Donaldson's question – "What is the rationale for tax benefits for insurance?" – Reese answered that, like many other tax policies, its social benefits give life insurance its current tax status, and "if the consumer doesn't get a tax benefit from insurance, then he or she is less likely to buy it." Consequently, the failure of persons to purchase life insurance to protect their families from financial hardship in the case of untimely death will place additional pressure on an already overstrained social benefit system in this country. Since, as Reese stated, "We cannot lose sight of the fact that the 'insurance industry is recognized as providing a public good,' we need to consider those effects on the public good."

"We cannot lose sight of the fact that the 'insurance industry is recognized as providing a public good,' we need to consider those effects on the public good."

Stu Reese

Todd Schoon reminded the participants of the extent to which the government, through a system of tax incentives, relies on private individuals to provide for their financial security. "Consider what the claims would have been if the government had insured the victims of the World Trade Center attacks."

In summary, all of the participants agreed that the distinction between an owner initiated life settlement and an investor originated life settlement is morally relevant. They all believed that in the future, life insurance companies are going to need to develop an alternative product to respond to the demand from the market for greater flexibility in the way that insureds can use their life insurance policies in response to their changing needs. However, it was crucially important to the participants that this new phenomenon not be allowed to jeopardize the gains made by the life insurance industry in establishing life insurance as a socially responsible means to provide for the security of one's family in the event of death.

THE PRACTITIONERS' ETHICAL ISSUES

At this point, each of the practitioners was asked to present an ethical dilemma that he has faced in his career.

ISSUE #1: CONFIDENTIALITY IN ACQUISITIONS AND HIRING

Part of my role as a CEO is to look for other companies to acquire. Additionally, my company is always trying to hire the best "investment teams" away from our competitors. Currently, one of the companies we are looking to buy out has a team that we are concurrently trying to recruit. My ethical dilemma is whether one or both activities should be discontinued. Further, what explanation do we offer to either group if we choose to terminate our interactions with them? Concerning the team we are attempting to recruit, there is an agreement in place that we "won't compromise their cover." We were recruiting this group before my team and I began looking at the company as a possible acquisition. Concerning our negotiations with the company, which is publicly traded, I told my senior executive to do what he needed to do to move the negotiations forward, but to proceed as slowly as possible.

Linda Mitchell, Lori Ryan, Mike Ryan, and Fred Jonske compare notes from the day.

At this point, I would say that there is less than a 50% chance that we will acquire the company. The firm has had trouble retaining people in the past, and we are also concerned about dealing with their culture and other social issues. My intuition tells me that the management of the target company knows about the team we are trying to recruit, but of course, I cannot be sure. I think that if we "fessed up," they would demand that we stop trying to get the team in order to continue their negotiations with us. Also, I have not said anything about the possible acquisition to the group that is recruiting the team. If I even told them to "slow it down," they would suspect that something else was going on. The issue is, "what can we ethically keep from the other side?"

Ed Freeman asked, "What are the trust issues here? It seems that one of them is that you're 'going behind the other CEO's back' to recruit his team, while negotiating to buy his company. At what point do you trust the other CEO to tell him of the recruiting effort?"

Tom Donaldson indicated that it's necessary to be concerned about the fate of the team being recruited. "You don't want to be in a position where you have to hang the team out to dry."

Lori Ryan agreed. "There's a cautionary tale here. This is tricky for the team being recruited. If you tell the CEO, the fact that they met with you and were open to your proposals could be used against them. Also, that couldn't help you in the long run if other teams from other companies found out that you had violated a confidence."

"Relationships are about trust. If you don't have trust, you don't have a relationship."

Todd Schoon

Todd Schoon discussed the importance of trust. "Relationships are about trust. If you don't have trust, you don't have a relationship." Schoon wasn't sure that there is a relationship with this other CEO at this point, but he would be interested in knowing the expectations of the other CEO and whether the other CEO believed trust was appropriate at this point in the negotiations.

Ed Freeman comments on the case presentation.

John McCall believed that this case raises questions about loyalty. "What you have to figure out is what loyalty was owed by whom to whom? This is always an issue in acquisitions and in hiring people away from other firms, but these questions have become more fraught in the current business climate of layoffs, outsourcing, and downsizing."

Ryan was concerned that if you violate a promise of confidentiality when it is financially advantageous to do so, it sets a bad precedent. She believed that the team members only acted the way they did because they believed that you would keep your promise and not betray them to their current employer. "If you break your promise, what other obligations will you violate in the name of making money?"

Ron Duska raised the issue of the ethics of recruiting other agents in the first place. "We all know that companies invest large sums of money to recruit and train agents. Is it even fair for a company to raid another company's agents?"

"What you have to figure out is what loyalty was owed by whom to whom?"

John McCall

Freeman thought that perhaps this concern was undermined by the fact that everyone knows the best people are always "in play" and that it's naive to think they are not getting offers from other firms. "Perhaps your company is not the only company going after this group?" Freeman believed that the best way to prevent this from happening was to treat your employees in such a way that they have no incentive to go anywhere else.

Donaldson returned to the case in question and noted that there are two principles in conflict. The first was a commitment to working for the growth of the company and the benefit of its shareholders or policyholders. The second was a commitment of confidentiality to the team being recruited. In a situation like this, "you need to be creative, and we have to remember that holding dear to our principles is the guts of integrity." However, Donaldson did admit that it is inappropriate to refuse to take circumstances into account and, when we do so, we find that there are circumstances in which consequences can overturn principles. "If a madman were to show up with a gun demanding to know where his wife was, we all know that even if you knew where she was, you shouldn't be truthful in your reply."

But John Hasnas offered a warning that such circumstances are exceptional and that generally one must adhere to principles, even though one may suffer a loss by doing so. "Principles are not taken seriously, if they are observed only when doing so carries no cost."

Jim Mitchell offered the following possible resolution. "You've made a commitment to the team, but you haven't made a commitment to the other company, so stop now."

ISSUE #2: DISCLOSING INTEREST RATE CREDITING POLICIES

Most insurance, other than term insurance, includes an investment component and is sold on a variable cost basis to customers. When someone buys a policy, his or her policy is put into a pool with other similar policyholders, who are told at the time of sale that premiums can change. Frequently, new insureds are put into the same pool as those with policies already in force and credited with a single overall "portfolio" rate on their assets. Usually, however, the interest crediting policy used by the company is not disclosed specifically. It can be argued that, when interest rates are declining, new policies are being sold on a sort of "bait and switch" basis. When interest yields are in a down cycle, actual interest credited to the new policy will be less than was illustrated, and premiums will rise compared to the illustration.

The ethical issue is whether more disclosure is called for at a time when interest rates are declining. There do not seem to be any class-action lawsuits on this so far. Fifteen years ago, though, the industry paid huge settlements on a type of policy that promised premiums would "vanish" after a few years. In fact, interest rates fell, and that promise couldn't be sustained.

Ron Duska and John McCall taking a short break from the proceedings.

Jim Mitchell asked whether "the issue was how much you subsidize new business with revenue from the old? And is that fair?"

Ed Freeman was concerned about whether the lack of disclosure in such a case had the potential of misleading the public with overly optimistic illustrations. If this were the case, then, "it would be like the diet commercials that say results are not typical."

Stu Reese agreed that Freeman had a legitimate concern, but the insurance industry is based on "the theory that if you're in it for the long run, the ups and downs will average out."

John McCall thought that the problem may be due to a lack of consumer understanding, and in order to correct this misperception, "perhaps a survey should be commissioned to find out where the misunderstanding lies, and then the necessary steps should be taken to correct it."


Stu Reese continues the discussion with Jim Mitchell.

Freeman recommended an alternative approach. "Companies should focus on selling customers on what a great experience they will have with your company. As a customer, I want to know what the product will do for me, and I want to know that you are telling me the truth."

For Tom Donaldson, the solution here should be a matter of principle. "People deserve to have all of the information a reasonable person would want to have when they make a decision about what product to purchase, particularly with regard to something as important as life insurance." He recommended that "in a situation where it is likely the rates will change, then the customer should be informed."

Mitchell pointed out that a company could avoid this issue by using a so-called "new money" approach to crediting interest on new contracts. Such a policy would, however, make that company's products less competitive when interest rates are low (and more competitive when interest rates are high).

"People deserve to have all of the information a reasonable person would want to have when they make a decision about what product to purchase...."

Tom Donaldson

ISSUE #3: A FAULTY SYSTEM

Our agents are independent contractors, and recently a vice president came to me with complaints from two of our retired agents that their compensation was less than projections said it would be. Each year, we send our agents projections of their retirement compensation. They can use these projections to help them determine when they want to retire or how close they are to meeting their retirement goals. The payments can fluctuate during the first year, but after that, they are locked in. The problem was that we were using a faulty template to calculate the projections. Since 1997, there have been approximately 2,000 retirees. The projections were presented as reliable, based on the best data that we had at the time. If this would've been a similar situation with a customer, where we gave a customer incorrect information, *it would be covered by errors and omissions insurance. My initial reaction was that the morally right thing to do was that we had to fix this.*

So that is what we ended up doing. In fact, we are still trying to make it right, since some of the people are deceased and we have to deal with their estates. We need to have ongoing credibility with our agents, and if we make a mistake, we will own up to it. So I had some nice Christmas cards this year from agents who had received these checks in December. It was a really good learning experience for everyone who was trying to figure out how we were going to get this done. It is a pretty good internal case study, and it gives you a template to run on for the future.

"I think you want to be careful not to give the impression that your action was based on how it would make the company appear. You would take the action even if it had no PR benefit, and that is what is important."

John Hasnas

John McCall thought that part of the ethical problem in this situation was psychological reliance. "If the agents thought that they were going to receive a certain amount and the amount they were underpaid is close to that, then there might not really be a significant reliance argument. But if it is about \$500 to \$600 a month, then I think you do have a problem."

Tom Donaldson noted that this story would have a positive impact on the organization. "The silver lining here is what a terrific story to tell to anyone new to the company about what you stand for. I mean, those stories are probably more powerful than anything you have written down in the codes of ethics and so on. It sends a message to everyone in the organization that you are serious about doing the right thing."

Lori Ryan and Ron Duska listen intently.

John Hasnas disagreed. "This is a great story. However, you diminish it slightly if you attempt to use it for PR purposes. You took a financial hit because you believed it was the right thing to do, not because you wanted to make yourself look good. I think you want to be careful not to give the impression that your action was based on how it would make the company appear. You would take the action even if it had no PR benefit, and that is what is important."

Still, Donaldson thought that it was important to get the message out. "I think especially when you are in front of a group of employees, it is perfectly appropriate for you to tell that story. It has huge power. It also speaks to your principles as a leader. You know about the pressure to compromise and so on. I would hate to see this not told."

Ed Freeman was impressed that the first instincts of the executive were morally correct. "Initially, your first impulse was that this was a no-brainer, and after you went through all of the calculations, you still realized that this was a no-brainer."

ISSUE #4: A QUESTION OF INTENTIONS

At our company, our agents have exclusive contracts. Currently, one of my best managing partners has been recruiting two new agents for the last six to nine months. They have to go through our contracting and licensing process, and we usually bring them into the home office, where they meet with several people. We try to disclose everything so that they can make a good decision, since they are walking away from quite a bit to come here. One of the things that I was initially impressed about with these recruits was that they said one of the things driving them to our company was the values that we have and that our values were so consistent with their own. They said that they could go to places for bigger money and places that would "buy them," but they knew we were not going to do that.

But here is the problem – these agents claim that they will lose substantial (approximately $4 million) from the other companies they currently work with if they sever their connections to them immediately, instead of one year from now. It's some sort of bonus situation. Our policy is that if they are going to work with us, they need to terminate those contracts immediately. The managing partner obviously wants to bring these people on board and wants this to work out. He is saying that we should put it all in his hands and trust him to make sure that they keep their commitments. He is saying that he will be responsible for them and that he will have a separate agreement with the home office laying everything out and assuring us that these agents will terminate all of their other relationships within a year.

This all seems reasonable, but I have an issue with putting our managing partner in this sort of position. Let's say it gets down to a year, and they haven't terminated their other relationships. They are independent contractors, and I can't fire them, which means that the only recourse I do have is to fire the managing partner, if he doesn't terminate them himself. I don't feel comfortable with that. I think that, at the end of the day, what I am troubled by is what are the "true intentions" of these two recruits?

Lori Ryan was concerned about the secretive approach taken by the two recruits. "So they have to deceive their current employer in order to get the money?

Are they getting the $4 million under false pretenses? It sounds like a secret is required in order for them to receive this money. It seems odd that they would lose the $4 million by telling the truth."

Fred Jonske tried to clarify the issue. "It sounds like it is a production bonus based on sales sold this year, paid next year."

Ron Duska raised the issue of values. "And these are the people who want to come to you because of the values that you stand for?"

Ed Freeman noted that it all comes back to trust. "If someone that you trust has looked them in the eye and they believe that the recruits are going to do this (i.e., terminate at the end of the year), then this is just 'working out the details.' But on the other hand, if there is some uneasiness, and I am saying this partly as a philosopher and partly as a customer, you have a lot of risk here. Are you willing, going forward, to say that you will allow this practice under these circumstances?"

"If these individuals came to you in the first place because they liked your values but then asked you to do something that involved deception, you should say 'no.' If they really like you for your values, it is probably the answer that they expect."

John Hasnas

John Hasnas wanted to bring the question back to the company values. "The question of what precedent you are setting is a good one. If these individuals came to you in the first place because they liked your values but then asked you to do something that involved deception, you should say 'no.' If they really like you for your values, it is probably the answer that they expect."

Freeman went back to the role of the managing partner, who wants to accommodate the recruits. "If the managing partner's judgment is something that you trust, then I wouldn't be so distraught if I had to get rid of a managing partner who turned out to be wrong in an important way."

For Ryan, the problem came back to the ongoing deception. "If they are deceiving an employer to get money that they otherwise wouldn't, at least from a self-serving point of view, you know that they could do that to you. If they say that they are coming to you for your values, then that makes me very uncomfortable."

Freeman wondered if this could be placed in a larger context. "It's like Wall Street, where no one leaves until after bonus time – the process itself is ethically suspect. It's a process where one side tries to belittle the contributions that you have made in the last year and pay as little as they can get away with, and you try to bump up your contributions. You know how it goes. The problem isn't just the deception; it's the process through which the bonus is paid."

THE PHILOSOPHERS' QUESTIONS

QUESTION #1: MCCALL

There is a question that we have been dancing around, and this is the question about incentives. There is a classic case, the Sears Auto case, where the agents were paid on commission, and the incentive structure encouraged people to sell unnecessary products. How can you create a culture that establishes a bulwark against perverse incentives when you are using a commission system? Obviously, the more I sell, the more I'm going to make. I don't know how you design a commission-based system that can serve as a bulwark against unethical behavior.

Todd Schoon offered his own experience. "Our persistency rate is pushing 97%, and you would think that if there were a real problem or an issue with any of our employees, our clients would figure out within the first 13 months that they bought something they don't need, and they would lapse it. Our supervision and compliance area has a computer program that flags these people so that we can go out and see what is going on."

Jim Mitchell and John McCall consider the speaker's points.

Stu Reese said he believed that good customer service begins with the hiring process. "We work hard to recruit people who have the right cultural attributes. Then you try to train them to do the right thing, and you bring them into a culture where they are constantly hearing that it matters to do the right thing. You have them supervised by people who have, hopefully, been trained to do the right thing. After that, you have ratios and that sort of thing to help you find out if they are doing what is right, and then you have to enforce it. But it is still a complicated question, no matter how you cut it. But if you just hire people and train them and you don't take steps to inculcate the culture, I think that you *are* dead. You really have to focus on the people and the culture. The monitoring is going to catch the stray dog, but if you've got a whole bunch of stray dogs, then you are in trouble."

"But if you just hire people and train them and you don't take steps to inculcate the culture, I think that you *are* dead. You really have to focus on the people and the culture."

Stu Reese

Jim Mitchell noted that the current form of compensation and the resulting incentive structure are, in part, historical. "I think that in a perfect world, insurance agents wouldn't be compensated so much by front-end commissions, but they would get paid over time as a function of the persistence of their policies. The problem is to the extent that a company tries to move in the direction of more levelized compensation, it just increases their costs of financing new agents. The system we have now rewards an individual agent's success directly and immediately. This is part of why high front-end commissions continue to exist. They are incentives from the company's standpoint."

Ron Duska brought up the issue of first-year commission disclosure. "We did a case a couple of years ago about the 'best kept secret in the financial services industry,' which is the amount of commission producers get on a first-year premium. The ethical issue for me is that if that amount were disclosed, a client could ask, 'Why is this guy getting all of that money for the little bit of work that he did?' Of course, there is a perfectly good explanation for why it's done that way, but that explanation has not been made to the public."

Reese indicated that he believes this kind of commission disclosure is coming. "I think that it is going to come slowly and painfully because there are going to be varying impacts on different stakeholder groups. The more the industry can get out in front of it, though, I believe it will be better for us in the long run. But this is a minority opinion."

QUESTION #2: HASNAS

My recent research focus is on the tension between the need for legal compliance and the desire on the part of business to create an ethical culture. My colleagues' work on organizational and procedural justice demonstrates the importance of mutual trust so that employees see that the things that are important to them are the same things that are important to the company. Research also shows that this process is defeated if you take a command-and-control approach to enforcing good behavior – for example, by constantly looking over employees' shoulders and monitoring their key strokes. Persistent monitoring undermines trust. Research shows that a sanction-oriented, intrusive approach to compliance destroys the trust you are trying to engender. As a result, there are respects in which a flourishing ethical culture and certain aspects of legal compliance programs are incompatible.

Currently, there is massive pressure from the federal government to adopt the intrusive command-and-control approach to legal compliance. A company's good intentions are completely irrelevant legally if one of its employees commits a federal offense. Not only is the company liable for the federal offense, but the company receives no benefit from any of its efforts to build an ethical culture that don't include the seven features the federal government recognizes *as necessary to an effective legal compliance program. The crux of the problem is that what is required for such a program is just the sort of heavy-handed monitoring and sanctions that is so damaging to any attempt to build a trusting and ethical culture.*

When I check the websites of Fortune 200 companies, 185 publicly state that they guarantee confidentiality to employees who report suspected wrongdoing, declaring that confidentiality will be violated only to the extent necessary to investigate the matter. Not one of the 200 companies who informed their employees that if they related information suggesting the possible violation of federal law, the company would report it to federal prosecutors. Yet all companies do this to avoid being regarded as uncooperative, per the federal government's definition of cooperation in the McNulty Memorandum and Organizational Sentencing Guidelines. To me, this is either a misrepresentation or an indication of a profound lack of awareness of the incentive structure that federal criminal law imposes on companies. I guess that my question is whether this is something on your radar screen? Is this something that you are aware of, and how do you address these kinds of concerns?

"...We have always tried to teach our employees that this oversight is to help you make sure that you are doing what is right for the client...."

Todd Schoon

Stu Reese wasn't sure that the research referred to would apply to all corporations in the financial services industry. "I will respectfully disagree with you and suggest that your database does not include companies that have done it (i.e., successfully merged legal compliance with an ethical and trusting culture). You've got two companies here that have been around for over 150 years and that, I think, have done it. It is an interesting thing that companies who tend to be more frequently cited in these cases are public companies that haven't been around as long."

The group continues the discussion over lunch.

Todd Schoon said that he could see where tension would result between these competing imperatives. "But we have always tried to teach our employees that this oversight is to help you make sure that you are doing what is right for the client, which ultimately may bring about more sales for you since you now have a great persistency ratio. I believe this because we conduct an attitudes survey among our representatives about every three to four years. To have any area

"If you have a haphazard way of seeing how many people you can bring in and then throw them up against a wall to see who sticks, you're in trouble. Those sorts of people destroy value, and they destroy culture over the long haul."

Mike Davidson

where 90% of your representatives say you are doing 'very well' is a real outlier. And there was a survey where 93% of our representatives said that our compliance person was 'very helpful.' I was absolutely blown away by this, but the more I considered it, the more I think that it was a result of the culture we created where ethics and compliance are intertwined."

For Mike Davidson, building an ethical culture and ensuring legal compliance all come down to the people you hire. "I think, for sure, you have to know who you are bringing into the organization. If you have a haphazard way of seeing how many people you can bring in and then throw them up against a wall to see who sticks, you're in trouble. Those sorts of people destroy value, and they destroy culture over the long haul. You need to have an attitude of trust, and you also need to have some sort of system of verification."

Fred Jonske noted that there is a fine line between instilling a healthy respect for the law and regulations, while also encouraging your employees to come to you with their concerns. "It is easy to shut down everything and be that policeman, but that is obviously highly destructive. I think you want to develop a relationship with your employees so that when they see something troublesome, they do not hide it from you. They come and talk about it so that you can collectively make the best decision about how to handle it."

John Hasnas listens to Stu Reese's comments as Mike Davidson looks on.

John Hasnas was not convinced that reconciling these imperatives is possible. "Everything you say sounds great to me, but the reason I am still skeptical is that you are addressing what you are doing to minimize intentional wrongdoing by your employees. But that is just a small part of what legal compliance is about. A company has committed a federal offense if any employee has committed a federal offense. To avoid corporate indictment, the company must immediately accept responsibility for the offense, report it to the federal authorities, and refrain from aiding the suspected employee. These employees are not necessarily ill-motivated. They may simply have made a mistake. They may have been misguided or did not fully understand the legal rules. But unless you are willing to 'throw the employee under the

"...You want to develop a relationship with your employees so that when they see something troublesome, they do not hide it from you."

Fred Jonske

bus,' to use the phrase employed by corporate counsel, then the company may be on the hook for their offenses. It is this type of compliance that tends to be antithetical to the kind of culture you want to develop – one where you trust your employees, you care about them, and you want them to care about you."

Ed Freeman wasn't so sure that the imperatives are in tension. "Compliance works best, in my experience, within a culture where there is a high degree of engagement and ethical action."

At this point, Stu Reese was asked to share his experiences at MassMutual on building an ethical corporate culture.

The background is that our former CEO did a number of things that were either just outright violations of company policies or unethical. One of those things was that he was having secret relationships with two of his female senior executives, both of whom reported to him and were in positions of "trust" in the company. There were a significant number of other indiscretions, and to keep people who knew about his indiscretions from talking about them, he stifled the organization. He used the power of compensation, bonus, and position to conceal his behavior.

"Compliance works best, in my experience, within a culture where there is a high degree of engagement and ethical action."

Ed Freeman

The interesting thing for me is that even though I was with the company when this was happening, I was not aware of the entire picture and specific facts because, in my former position, I was physically separated from the insurance company itself. Therefore, my interaction with most of the people in the home office was significantly less than it might've been otherwise. I did have my suspicions about the CEO and his behavior, but it was nothing where you would call a board member and say, "Hey, I saw something a little strange." So when all of this exploded and suddenly I was in a position of leadership, the question arose, "How do you bring ethics back to the organization?"

At the outset, there was a real firestorm going on because you've got the Massachusetts regulator on the phone saying, "I want to talk, and I don't want to talk in two minutes. I want to talk now." And then you've got the Attorney General calling you, and you don't get to say, "Can we talk next week?" At the same time, you've got 4,000 agents and a whole bunch of employees saying "What is going on, and who is this guy?" and "What has happened here, and where are we going?" You really need to take a couple of quick actions to begin to tell people who you are and what you are all about.

As difficult as it was, two of the first official actions I quickly performed were to have the two female senior executives who had the relationships with the former CEO leave the business. Of course, this wasn't an easy thing since most people didn't know all the underlying facts that had been discovered, and you can't explain it to them since the investigation and decisions were confidential. Then you need to rebuild diversity at the executive level without the inappropriate relationships of the past. So we had to be careful to ensure that the people we entrusted with these senior positions would not replicate any of the inappropriate behaviors of the past. I needed a team that was a clear break from the past.

We also hired an independent individual to come in to investigate who had really been involved in improprieties and who had not. We needed objective information, and so in fairness to the people who were there, we got an objective person for them to talk to about their experiences. On the one hand, you know a senior executive was having an inappropriate relationship with the boss, and that was pretty clear-cut. On the other hand, you may have a lower-level employee who actually may not have seen anything that was clearly wrong, but was suspicious. However, the person may not have said anything since he or she had concerns about losing a bonus or job. Of course, there were also people in between, with varying levels of responsibilities to the company and knowledge of the behavior.

Although not required for a mutual company, one of my early decisions was to commit the company to conduct an SOX 404 internal controls analysis to show that we were world-class and that we had or were putting best-in-class controls in place. This was a big commitment to do in 15 months, and it was a very expensive commitment as well. But this sent a message to the regulators that we were serious. We also enacted changes in terms of our governance practices, and we changed how management interacted with the board – what the board saw or didn't need to see. The chief compliance officer and head of our internal audit team now functionally reports to the chair of the audit committee. We updated our governance practices to best-in-class and developed a better hotline. The hotline is anonymous and goes to a third party, and that third party makes an independent evaluation, but if the call has anything to do with senior executives, ethics, or financial issues, it goes directly to the audit committee and bypasses management.

You have to walk the talk, the actions you take have to be consistent with a culture of high ethics and integrity, and you have to go around and tell people

what is going on. We had to be overly "transparent" to compensate for the past. With every decision you make, you have to be comfortable if that decision is on the cover of USA Today, *and if it is going to stand up to the scrutiny of daylight.*

"With every decision you make, you have to be comfortable if that decision is on the cover of *USA Today* and if it is going to stand up to the scrutiny of daylight."

Stu Reese

At this point, Jim Mitchell invited the other participants to share their thoughts on how to create, strengthen, and reinforce an ethical culture.

Mike Davidson said that you need to live the values every day. "I think that you are provided with multiple opportunities over the period of a day, a week, a month, or a year to demonstrate your values, since people are watching the senior leadership so closely. You have to remember that employees need to feel that if they spot something that is not quite right, they can challenge it without repercussions. We have had an employee line for years where employees can call in. This past year, we implemented one for our agents and their staff members. People need to know that there are recourses available to them if they feel like there is something that is not right. They need to believe that their concerns will be addressed."

Todd Schoon presents a case.

Todd Schoon agreed with what had been said so far. "When you know that people are watching, it reinforces your shared values. After preaching the values of helpfulness, commitment, education, and excellence for seven years, it is probably not surprising that the level of joint work being done in our office was larger than in any of the other 36 network offices. I think that you start to draw the right people to you."

"People need to know that there are recourses available to them if they feel like there is something that is not right."

Mike Davidson

Mitchell said that it is crucial for employees to believe that they can tell the truth up the chain of command and ask whatever questions they have without fear of intimidation. "We need to remember that there were a lot of good people at Enron who did not feel that they had an opportunity to stick up their hands and ask what was going on. Enron management intimidated people who asked questions by telling them they 'just didn't get it.'"

"We need to remember that there were a lot of good people at Enron who did not feel that they had an opportunity to stick up their hands and ask what was going on."

Jim Mitchell

Ed Freeman noted that corporations need to make a deliberate effort for employees to feel comfortable volunteering their concerns. "We know from Milgram and other psychologists that, for the most part, people will not push back against authority. You have to build into the system places where people can push back. I have yet to see a company err on the side of building too much of that into the system. It is just the opposite – companies err on the side of not having enough push-back."

QUESTION #3: DONALDSON

It is possible, as Donald Rumsfeld did, to distinguish between "known unknowns" and "unknown unknowns." In some instances, we know that we don't know, and in other instances, we don't know that we don't know. The latter instances are the worst. I see finding out about these "unknown unknowns" at the heart of what we have to do in business ethics.

"Unknown unknowns" are those things that we don't know, but that we can sense in a gnawing and sort of intuitive way. But real recognition of them has been covered over by time and habit. I think that these "unknown unknowns" lie at the heart of the most serious ethical episodes in business. You take the scandals at Enron, for example, or in the mutual funds arena, and you see that typical compliance functions, even at their best, would not have uncovered those problems. For example, at WorldCom, only one call came in to the helpline relating to the way that expenses were being done.

I think that if there is an event that is going to be a "Chernobyl-like" event at your firm (and by "Chernobyl-like," I mean something that is either going to destroy your firm or bring it close to half of its value), it will have the following characteristics. First of all, it will be something that isn't going to be brought to the attention of managers through a survey. Second, it will be systemic, and systemic in the sense that it will be pervasive through policies that are accepted throughout the entire organization or are accepted throughout the industry. Third, it will almost always have been approved or understood to have existed at the very top or near the top of the food chain. Fourth, it will be regarded as ethical either inside the industry, or inside of the firm, but it will be the kind of thing that almost instinctively and intuitively is regarded as unethical outside of the firm or industry. Finally, it will not be the sort of thing that is picked up even by very sophisticated compliance systems. It will be recognized and even accepted in some sense, but there will be some people whose stomachs will be unsettled just a little bit when they think of it. This dim awareness exists despite the process of slow numbing over time that allows it to be tolerated.

Jim Mitchell discusses a point with Stu Reese.

What types of things do I have in mind? Perhaps the most dramatic was the problem that KPMG had with tax shelters. I have had the opportunity to work for the past three years with the directors of KPMG, and this was a company that was almost driven out of business by the tax shelter fiasco. This was a policy that was approved by the 'number two' in the chain of command at KPMG.

Another example is the involvement of both sides of the house in investment banking regarding the analysis of securities. I cannot tell you how many times I have heard someone say, "Hey, what about those studies in the '90s that said their analysts tended to rate the stock higher than other analysts?" This practice is common knowledge, and what I hear when I talk to people on Wall Street about this is that "This is not a big deal. What are you telling us, Professor Donaldson, that we shouldn't bring the analysts along on the roadshow to sell the corporate plan?" I'm telling you, these are smart people, and they didn't have a clue of what it was going to look like when this blew up, and it landed on the front page of The Wall Street Journal. *I don't know the details very well in your industry – what the patterns of activity might be that people have come to accept that may fit this mold. But my challenge is that you cannot rely on your compliance system to uncover these threats, and they represent the biggest threats to your organizations. So the question is "how do you get to know and deal with these 'unknown unknowns'?"*

Ed Freeman and John McCall at the evening's banquet.

Jim Mitchell thought that the group may have already touched on one "unknown unknown" in their discussion. "It may be that if first-year compensation for insurance agents were widely known, it would not be well accepted. That might meet the criteria."

Stu Reese agreed that these "unknown unknowns" are the issues that have the potential to cause the most serious damage to the organization. "From time to time, we close the door and try to brainstorm about what is going on that we should be worried about. We try to think outside of the box. But then again, how do you know if you are capable of even seeing it anymore? Hopefully, you have a board of directors, and that is part of what they are supposed to do, and in some good boardrooms, they do. But what else can you do?"

"We try to think outside of the box. But then again, how do you know if you are capable of even seeing it anymore?"

Stu Reese

Ed Freeman wondered what sort of process you could design to detect these issues. "You know that by the time that stuff comes to you it is 'PowerPointed' and scrubbed and made nice. What sort of process do you put in place? Since, if all this is true, then relying on people inside will not do it because we have come to accept stuff over time. At Johnson and Johnson, they have instituted 'challenge meetings' to determine whether the company is living up to its values. I think that you need to make these challenge meetings a part of the culture of a corporation. But we have to remember that it isn't a one-answer thing here. Because the game is so rigged, you've got to work on it on a few different levels."

Tom Donaldson didn't claim to have the "silver bullet" to this problem, but believed there are action steps that can be taken. "I think that brainstorming the senior team in a guided way can make a difference, and I think that having an active board can make a difference as well. I think that drawing on information from the outside and culling it for those impressions that could be a shock later is helpful also. Another possibility that I have toyed with is actually finding someone on the senior team who is very well-respected to serve as a kind of 'ear' for any kind of concern or worry that somebody might not feel comfortable introducing to the entire board. These are not the sorts of things that get called into the third-party hotline since they tend to be systemic at the policy level."

QUESTION #4: FREEMAN

I teach a class called "Leadership Ethics in the Theatre" and use theatre to teach my business graduate students about collaboration and working together. At the end of the semester, the final product is a production we put on together for the public. The play we were going to do is called "Pillow Man." The play ran on Broadway, and it is about a guy who writes stories about murder, and then his brother goes out and enacts them. It is a very violent play, but it is terrific, and this is what we were going to go with when the Virginia Tech shootings happened.

John McCall, John Hasnas, Tom Donaldson, and Todd Schoon pose for the camera.

As a class, we had a long conversation about whether it was appropriate to do this, given that Virginia Tech is not very far away and we certainly have alums who were affected by this tragedy. There were a number of questions about confidentiality that were raised, as the class began to deal with difficult and personal issues. The students did a great job of having a conversation about this and ultimately came to the conclusion that it wouldn't be responsible to put this play on. In having this conversation and in performing another play, the students had to answer many questions, some of which simply could not be answered except by revealing confidential conversations.

According to John Hasnas, this was a case that should be familiar to all professionals. "If I am an attorney, I make certain promises. For example, I promise I am going to keep certain information confidential. I've got to keep this promise, even though I know that, in some cases, good could be done and lives could be saved if I didn't. It is the conflict that all professionals face – are you going to do what you think is best in this particular case and violate your professional obligation, or are you going to adhere to your professional commitment and hope that there is an alternative mechanism to handle the problem? It is the balance between the greater good and the lesser good. Sometimes to uphold the greater good of maintaining the integrity of the system that serves the interests of all, one must make really heart-wrenching decisions in particular cases. If you are not able to do that, you shouldn't have agreed to your role in the first place."

Tom Donaldson was reminded of a similar case. "It turns out that Chiquita Banana was paying off the FARC in Columbia. There is good reason to believe that they were paying them off only so that their people and the local employees could keep their lives. Anyway, it turns out that this sort of payment was legally okay before the FARC was determined to be a terrorist organization by the United States government. But then, Chiquita Banana was required to stop making the payments immediately, in order to satisfy the terrorism laws, when the FARC was determined to be a terrorist organization. But it is impossible to get word out to everyone out there that quickly, and if they don't pay, they have good reason to believe that they may lose some employees. I can't help thinking that as much as I take principles very seriously, there are situations in which the circumstances have to intervene when we decide what to do. For example, if you have a Japanese student who has no experience participating in class discussion taking a class in which participation is a large part of the grade, don't you try and make some allowance for his inexperience?"

John Hasnas makes a point.

"I can't help thinking that as much as I take principles very seriously, there are situations in which the circumstances have to intervene when we decide what to do."

Tom Donaldson

John McCall believed the whole notion of "entitlement," particularly with regard to students, is reinforced by our use of language. "Someone like McIntyre has argued that these entitlement problems result from our over-reliance on the language of rights, without much attention to the substantive content of rights or the corresponding responsibilities that go along with being a member of a society in which there are rights. The more people are socialized into those thoughts, the more people think that they have a right to whatever they want."

"Entitlement is the belief that 'I can do whatever I want' without incurring the costs that may be associated with that action."

John Hasnas

Hasnas agreed and expanded on McCall's point, "I think that you are right. People are acting with a greater sense of entitlement, but I see this going hand-in-hand with something else. There is an absence, in many places in our society, of the possibility of failure. Responsibility is tied to rights when one bears the consequences, for good or ill, of one's own choices. When individuals do not have to fear the consequences of their own failures, you end up with entitlement. Entitlement is the belief that 'I can do whatever I want' without incurring the costs that may be associated with that action. We frequently remove the penalties for failure in the market, which produces recurring financial crises. Certainly, something similar is occurring in our schools."

QUESTION #5: RYAN

I am involved in research on institutional investing, and people in this area of research say some interesting things about insurance companies. I wanted to bounce them off you and see if, as insurance company executives, you think that this is true of insurance companies as investors. My operating assumption is that shareholders have an obligation as investors to monitor and control their portfolio firms. They have a responsibility to keep an eye on what is going on in their portfolio firms and to take action if bad things are happening, to get the bad directors out and get new directors in, if that is what is needed. The general wisdom about insurance companies is that you are "pressure sensitive," and since you may some day want to sell insurance to your portfolio firms, you will never interfere with their operations or decision-making. The thought is that insurance companies will sit back and "play dead" as investors, since you may want to sell insurance to them. So I am wondering, based on the theoretical obligation to monitor and control the actions of a portfolio firm, what kind of roles you think you or your investment advisors should play in terms of your activism as investors?

"...We would never say we are *not* going to vote against the management as an equity owner because we hope to do business with them one day. We have to vote what we think is appropriate as an investor."

Stu Reese

Stu Reese did not believe it was true that insurance companies would refrain from voting their interests in order to ensure a sale at some time in the future. "We have a fiduciary obligation to vote our proxy positions. We get outside advice on some of these votes. There are organizations that research and give advice on proxy votes, and we utilize them. But we would never say we are *not* going to vote against the management as an equity owner because we hope to do business with them one day. We have to vote what we think is appropriate as an investor."

John Hasnas questioned the claims about the responsibilities of investors. "I didn't know that I had that obligation. Can't I just sell the stock if I do not like what the portfolio firm is doing?"

Lori Ryan noted that she believed it is possible to delegate some of this responsibility. "You have a lot of rights, and you have a lot of responsibilities. If you own 1/10,000 of a firm, you have a pretty good reason for delegating your responsibilities to someone else."

Fred Jonske was surprised that academics would make such an assumption about insurance companies. "I think that nowadays there is so much disclosure and so much emphasis on transparency, that if companies were biased in this way, it wouldn't make sense."

"...Nowadays there is so much disclosure and so much emphasis on transparency, that if companies were biased in this way, it wouldn't make sense."

Fred Jonske

Jim Mitchell noted that there was a related ethical dilemma worth looking at. "Major companies delegate the management of their pension funds to institutional investors and hold those managers responsible for the short-term performance of the pension funds. Yet the companies themselves like to have patient, long-term investors, who will stick by them through an occasional downturn. Maybe the companies need to tell their pension fund managers to take a longer-term view, too. From my perspective, that would remove some of the pressure that causes some executives to cut ethical corners to improve short-term results."

Fred Jonske, Tom Donaldson, Ed Freeman, and Lori Ryan found the day's proceedings beneficial.

CONCLUDING THOUGHTS

At the end of the day, the participants were asked to indicate what benefits they had received from participating in the Forum and what they would take away from the discussions to reflect on afterwards.

"...Trust is so fundamental and that this message is one you try to communicate in your organization."

John McCall

John McCall was reassured by the emphasis that each of the executives placed on the importance of trust. "I think that the benefit to me is hearing the recognition that trust is so fundamental and that this message is one you try to communicate in your organization. I believe that this is the case, and I try to convince my students that being focused only on yourself and not being concerned about other people is not only personally destructive, but you also can't run a complicated economy on that basis."

John Hasnas believed that he was able to participate in an "extremely enlightening and fascinating conversation, where I learned not just from fellow academics, but also from the people who are actually doing business." He was convinced that this conversation would be of great value to him in his research. "I am hearing a real disjunction between the information I have been able to gather previously and what you all said today. I will need to pursue this further in my writing."

Ron Duska and Jim Mitchell just prior to closing the day's events.

Mike Davidson said he learned that "school is never out and that the issues you face continue to evolve. Think about it. Five years ago, the case of life settlements that we began with today wouldn't have been an issue. But now it is, and the question becomes 'how quickly does your organization adapt to a new set of issues?' As to what I am going to do tomorrow, I'm going to see if there is a place in my own organization to bring in some academics from the outside and get my peers together and just test each other, so that we can keep learning."

For Todd Schoon, "Today was a great day from the standpoint that two of my guidelines were really hit upon. The first guideline is growing your mind, and my mind was expanded by digging into the life settlements issue. The second guideline is 'being helpful,' and I felt really helpful to you guys. And at the same time, you guys were really helpful to me when I was working through my issue and the other issues."

Fred Jonske wasn't sure that the whole issue of life settlements was any clearer than it was at the beginning of the day, but he was convinced of the value of the exercise of bringing academics and executives together for a day of conversation. "I found the lively interchange fascinating. I am going to walk away thinking that it could be an interesting exercise to have an academic involved at the board level of my organization."

Tom Donaldson applauded the unique nature of the gathering, "My hat is off to the ingenious format that we have had the privilege of working with today. It is striking, and there should be a lot more like it. But one of the lasting impressions that I have is how a genuine concern for the welfare of the customer and the client is embedded into the insurance industry. I think that is something to celebrate."

"...One of the lasting impressions that I have is how a genuine concern for the welfare of the customer and the client is embedded into the insurance industry. I think that is something to celebrate."

Tom Donaldson

Ed Freeman thought it was important to be a part of a group of different people struggling to find answers to the same questions, even though each approaches the question from a different perspective. "I'm an old blues guy, and there is a blues guitarist who says, 'When you play the blues, it don't matter how many notes you play; you just have to mean the ones you do play.' I'm not sure that I'm closer to knowing the answers, but I think that spending time together talking is a good way to spend time."

Lori Ryan was surprised to learn the extent to which the insurance companies are regulated. "In this economy, it's always surprising to learn that there are corporations that can't do what they want, and you guys sound like you do not have the freedom to do much of anything that you want to do. The other thing is that I spent 11 years at Honeywell, and it was full of good people. Spending time with you today reinforced how many good people are out there doing business and how well the system does work on a day-to-day basis. So I remain an optimist about capitalism."

"Spending time with you today reinforced how many good people are out there doing business and how well the system does work on a day-to-day basis. So I remain an optimist about capitalism."

Lori Ryan

Ron Duska thanked Jim Mitchell for his generosity and all of the participants for their time and attention. "I said that I wanted to have fun, and I did have fun. I had the chance to learn more about corporate cultures and how they work. I spend a lot of time with producers, who live in a whole different world than you guys, and it is neat to get to know the guys who are running the show for the producers."

"By reflecting on these questions and recognizing ethical dilemmas when they arise, all of us are more likely to make good choices."

Jim Mitchell

Jim Mitchell concluded the day. "I think this day was important because all our participants had the opportunity to step back and think deeply about the kinds of ethical issues business people face daily. By reflecting on these questions and recognizing ethical dilemmas when they arise, all of us are more likely to make good choices. We are also more likely to invest the energy it takes to create and maintain an ethical and profitable business culture. Beyond that, I had a wonderful time 'rubbing minds' with all of you. I always learn and grow from working with a group like this. Thank you."

The Ritz-Carlton, Naples where the proceedings were held.

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[xiv] Connolly, Jim. "Are Today's Battles Déjà Vu All Over Again?" *National Underwriter*. April 30, 2007. Page S-5.

[xv] *Ibid.*

[xvi] Goldstein, Matthew. "Profiting from Morality." *Business Week*. July 30, 2007.

[xvii] *Ibid.*

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