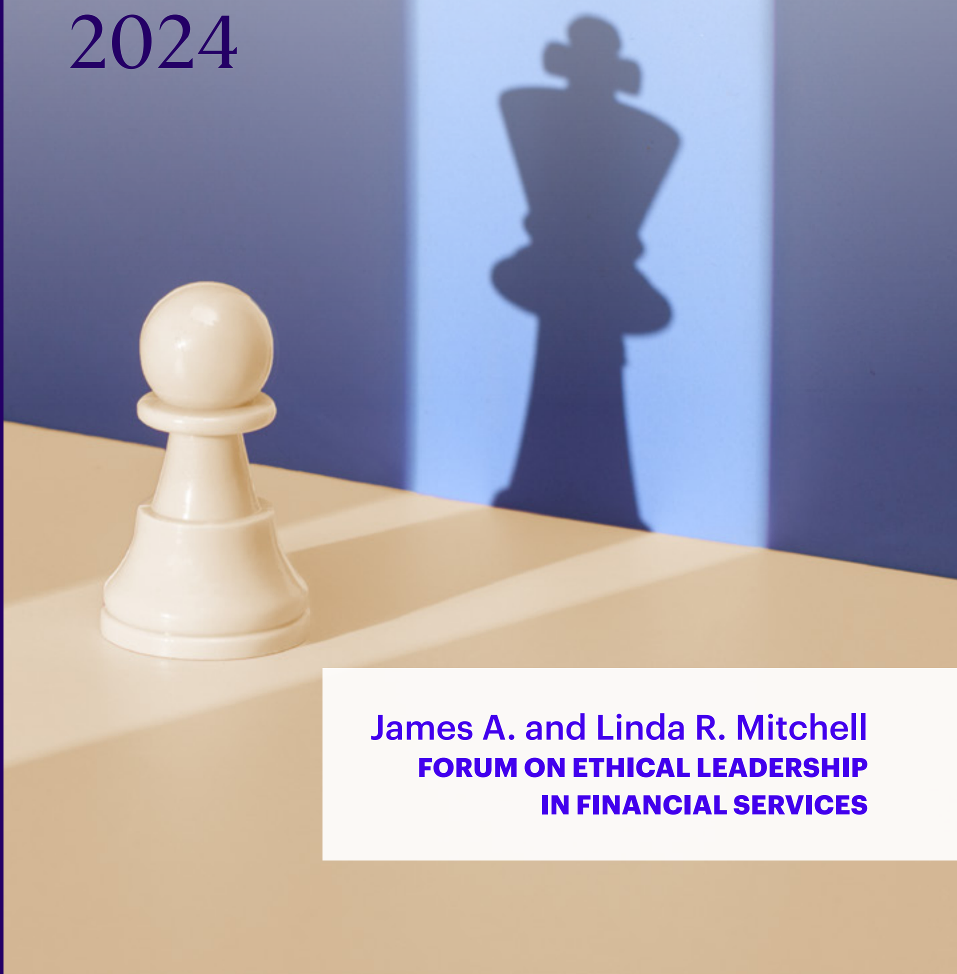
THE AMERICAN COLLEGE
CARY M. MAGUIRE
CENTER FOR ETHICS
IN FINANCIAL SERVICES

Perspectives on Ethical Leadership

2024

Twenty Third ANNUAL



James A. and Linda R. Mitchell
FORUM ON ETHICAL LEADERSHIP IN FINANCIAL SERVICES

Foreword

The American College Cary M. Maguire Center for Ethics in Financial Services aims to raise the level of ethical behavior in the financial services industry. In my fourth year as Executive Director, I'm thrilled to share with you our progress and the continued opportunities to lead the development of novel research insights and high-quality education to support industry leaders.

The rise of AI and persisting consumer distrust of societal institutions has intensified the demands on business to lead with integrity. As the only ethics center within an academic institution focusing exclusively on the financial services industry, we aim to assist leaders in positioning their companies to advance business and stakeholder outcomes.

In a report released in April 2023, we highlighted the sources of consumer anxiety when dealing with financial services companies and which companies were more likely to earn the public's trust. Notably, our signature research initiative, the ***Trust in Financial Services Study***, was selected by WealthManagement.com as a 2023 "Wealthies Awards" finalist for industry research.

Taking key insights gleaned from our trust research, we launched our executive education offering, the **Trust & Leadership Certificate Program**. This program equips home office leaders with the skills necessary to build and restore trust, backed by proprietary research and data only available through The American College of Financial Services.

The Center also leads research and education on the use of AI in the industry. This past spring, we hosted an exclusive AI Ethics Summit that convened business leaders across several functions (e.g., regulatory affairs, data science, product, legal, compliance, privacy, et al.). It was an immersive gathering, covering a range of topics from fairness in insurance to self-governance approaches (e.g., technology standards and guardrails) and regulatory updates, among others.

It is our vision to be *the* go-to Center advocating for ethics in financial services. We accomplish this by developing evidence-based education offerings that equip our Alliance for Ethics in Financial Services corporate supporters to put financial knowledge to use.

We invite you to join us on our journey by reviewing and sharing the 2024 Perspectives report with your colleagues and associates, **joining our Alliance for Ethics in Financial Services**, signing up to receive EthicAlly, our monthly **newsletter**, or exploring the resources on our **website**.

Sincerely,

Azish Filabi, J.D., M.A.

Executive Director, Cary M. Maguire Center for Ethics in Financial Services

Associate Professor and Charles Lamont Post Chair of Business Ethics

Highlights of the Center's Activities

Holding the Profession to a Higher Standard

The American College Cary M. Maguire Center for Ethics in Financial Services is led by academics, researchers, financial professionals, and ethicists focused on shaping the culture of the industry for the benefit of society. The Center for Ethics in Financial Services brings together professionals from a broad range of backgrounds to find common ground and solutions to today's biggest ethical challenges. Explore our research and knowledge offerings.

Executive Education from the Leaders in Applied Education

[Trust and Leadership Certificate Program]

Artificial Intelligence in the Financial Services Industry

AI Ethics in Financial Services Summit (April 2024)

AdviceTech & AI: Beyond Fiduciary Duty (November 2023)

Trust in Financial Services

Factors Influencing Trust Formation in Financial Services
(December 2023)

Get to know the Center for Ethics at
Ethics.TheAmericanCollege.edu

Shaping the Future of Ethical Practices in Financial Services

With a focus on diverse fields of study within the financial services industry, our faculty, staff, fellows, and scholars at the Center for Ethics are at the forefront of connecting ethical theory with the evolving business landscape. Our work generates impactful insights that are frequently highlighted in leading media publications, demonstrating our commitment to driving conversations at the intersection of ethics and business practices.

Money Life with Chuck Jaffee | Sierra's St. Aubin: What's Uncertain is the Depth of the Coming Recession. *Azish Filabi, JD, MA, speaks about the Center's signature research on consumer trust and the factors that help consumers trust financial advisors.* ***Listen now*** *(the segment begins at 00:18).*

Reuters | **From Principals to Laws: Consumer Protection Can Galvanize AI Regulation**
By Azish Filabi, JD, MA

The FCPA Blog | **Can You Tell the Difference Between Acceptable Networking and Wrongful Hiring Practices?**
By Azish Filabi, JD, MA

American Banker | **The Roots of Trust Are More Varied Than You Think**
By Domarina Oshana, PhD

View our latest insights and announcements at **TheAmericanCollege.edu/Insights**

Community of Ethic*Allies*

EthicAlly is the monthly newsletter of the Center for Ethics and aims to inform readers about the latest on ethics in financial services, as well as to help industry leaders get ahead of stakeholder management challenges. We strive to be your source of expert knowledge on ethics. Sign up by visiting our **website**.

23rd Annual James A. and Linda R. Mitchell Forum on Ethical Leadership in Financial Services

The Twenty-Third Annual James A. and Linda R. Mitchell/The American College Forum on Ethical Leadership in Financial Services took place on January 19–20, 2024, in Palm Beach, Florida. The event featured a discussion on trustworthy artificial intelligence in financial services and examined practical ethical dilemmas encountered by executives during their careers. The case study was analyzed by industry and academia professionals who considered how companies are integrating business and ethics considerations into their strategic discussions. This laid the groundwork for exploring the challenges encountered by executives in their careers and thought-provoking questions posed by business ethicists from renowned universities.

Participants

Academics

Marc A. Cohen, PhD, Professor, Department of Management, Professor, Department of Philosophy, Program Director, Professional MBA and Online MBA, Albers School of Business and Economics, Seattle University

Azish Filabi, JD, MA, Executive Director, Cary M. Maguire Center for Ethics in Financial Services, Associate Professor of Business Ethics, Charles Lamont Post Chair of Business Ethics, The American College of Financial Services

Beverly J. Kracher, PhD, The Robert B. Daugherty Endowed Chair in Business Ethics and Society, Professor, Heider College of Business, Creighton University, Founder, Business Ethics Alliance

Harry Van Buren III, PhD, Z. Lupton Patten Endowed Chair of Business Ethics, Gary W. Rollins College of Business, The University of Tennessee at Chattanooga, Honorary Professor, Queen's University Belfast School of Law

Danielle E. Warren, PhD, Professor of Management & Global Business, Rutgers Business School – Newark and New Brunswick, Rutgers, The State University of New Jersey

Executives

Russell Bundschuh, President and CEO, M Financial

Timothy J. Gerend, President, and next CEO (effective January 1, 2025), Northwestern Mutual

Misty Kuamoo, SVP & Chief Technology Officer, Corporate Technology, Nationwide

James Mitchell, CLU®, ChFC®, Chairman of the Advisory Council, Cary M. Maguire Center for Ethics in Financial Services; Chairman and CEO (Retired), IDS Life Insurance Company

George Nichols III, CAP®, President and CEO, The American College of Financial Services

Executive Summary

On January 19–20, 2024, a group of academics and executives convened in Palm Beach, Florida to participate in the Twenty-Third Annual James A. and Linda R. Mitchell Forum on Ethical Leadership in Financial Services.

The Forum's purpose is to engage practitioners from the financial industry and business ethicists from academia in meaningful dialogue about ethics in the industry.

In advance of the Forum, participants reviewed a case study on artificial intelligence (AI) in financial services, and how companies are integrating business and ethics considerations into their strategic discussions. The case study guided the initial discussion and sparked further analysis and insights.

On the first day of the Forum, each participant briefly shared what they hoped to learn from their participation in the Forum. On the second day, participants engaged in an in-depth analysis of the case study.

This was followed by discussion of ethical dilemmas experienced by the executives. To bridge the gap between theory and practice, the academics followed with questions for the executives, engaging in meaningful discussion based on the experiences of these industry leaders. The academics also shared insights from their teaching and research.

The case study set the stage for participants to view AI in financial services through the lens of the long-term purpose of business to benefit society. Participants acknowledged that good governance is at the heart of successful AI-enabled innovation yet recognized several areas of risk that make AI integration challenging. For instance, competitive pressures in the race to lead AI create urgency for companies to lead even though the technology is still developing. Based on discussion prompts, the group considered how to manage safety versus speed now that generative AI is publicly available, including for use by employees in and outside of the workplace. The role of executive leadership in balancing safety and speed emerged as a key factor, given that it's impractical to reign in AI's use.

The group poses for a photo in a Mediterranean-style courtyard.

The group coalesced around the idea of having a strong focus on transparency and a culture of constructive dissent as values when integrating AI into organizational culture. There was also acknowledgment of the challenges that rapid growth can bring to maintaining a cohesive culture. Additionally, the big learning curve with AI came under scrutiny, with the group acknowledging that many users are not even aware they are engaging with AI, often because the technology is seamlessly embedded in email or search features. They deliberated on how education can help address the skill set needs relating to the use of AI.

Next on the Forum's agenda was analysis of ethical dilemmas experienced by executives in their careers as leaders in business. Topics included advancing fair and unbiased underwriting practices; branding of companies that position themselves as ethical but fall short of their claims; data as the new currency at the intersection of fintech and insurance; and navigating ethics across diverse cultures. Following are key takeaways:

- *The technology landscape presents opportunities and challenges in data privacy and ownership*. There is an emerging regulatory policy debate highlighting ethical considerations. In this context, the industry is currently navigating the complexities of addressing inherent limitations of data science and algorithms, particularly in respecting privacy and fairness.

- *Ethical decision-making is a multi-faceted process.* Ensuring integrity and compliance within organizations requires navigating complexities. Education provides a space for organizations seeking to enhance their ethical standards.
- *At the intersection of fintech and insurance, data is the new currency.* Some companies prioritize meeting regulatory requirements without delving deeper into the ethical implications of their actions.
- *Navigating ethics across cultures requires strong leadership built on a foundation of unwavering judgment and integrity.* While there may be cultural nuances, what appears universal is that leaders inspire confidence in their organizations when they communicate their decisions transparently.

George Nichols and Jim Mitchell share a laugh as Danielle Warren and Harry Van Buren regard with amusement.

The final substantive segment of the Forum focused on discussion of the academics' questions. One academic asked the group what they would suggest teaching students at the intersection of philosophy and leadership in business. Another academic sought the group's feedback on strategies for a business ethics advocacy organization to guide leaders in addressing complex ethical challenges.

A third academic reflected on the asymmetry in information between buyers and sellers in financial services, prompting the question, "How do you educate employees to not take advantage of consumers, but to build value?"

The final question posed involved a miniature cognitive task analysis, whereby participants were asked to think about the first step they take in addressing an ethical dilemma. The purpose of this exercise was to reveal the underlying cognitive processes of an ethical mindset and decision-making process.

In conclusion, participants shared constructive thoughts about the Forum program. Reflecting on the Forum's content and their overall experience, participants conveyed their appreciation for the exceptional case study, the quality of the dialogue, and the white-glove treatment provided by the venue and event organizers.

Opening

> *"Is ethics universal?"*
>
> Russell Bundschuh

> *"Can you teach AI to feel compassion? Can you teach AI trust and values?"*
>
> Misty Kuamoo

Jim Mitchell initiated the session with a thought-provoking exercise where each participant was asked to respond to two key questions: What has ethics meant to you and your organization? What do you want to get out of today?

Guiding the group toward engaging and deep discussion, Mitchell shared that the Forum is an opportunity for thoughtful reflection. By fostering a safe space for contemplation, participants can pause and reflect on organizational challenges they are experiencing and collaboratively identify ethical solutions to take back to their respective organizations. Mitchell related his timeless lesson, "It's hard to do the right thing if you don't reflect on what the right thing is."

The executives participating in the Forum were a diverse group of leaders, representing various demographics and experiences. Enthusiastic about the opportunity to engage in guided reflection on organizational challenges, the executives conveyed commitment to continuous learning and leveraging their experience to drive positive change within their organizations. Drawing on his vast international work experience, Russell Bundschuh piqued interest with a deeply challenging question to the group, remarking "Is ethics universal?" Bundschuh added that he is interested in learning from the group if ethics is a relative or universal concept.

Resonating with Bundschuh's query, Misty Kuamoo shared a question of her own, "Can you teach AI to feel compassion? Can you teach AI trust and values?" As a technologist who started her career before the Internet, Kuamoo has wrestled with questions about trust and technology innovation throughout her career. Underscoring a critical point from the Forum's case discussion, Kuamoo added, "The hardest decisions for leaders are rarely determined by data." Tim Gerend echoed Kuamoo's perspective and emphasized that the pace of change is accelerating.

Misty Kuamoo communicates expressively as Beverly Kracher, Russell Bundschuh and Marc Cohen ruminate.

Among the academia participants, Beverly Kracher spoke of her experience working at a Jesuit university for 35 years, underscoring that her entire career experience has been about ethics. Kracher added that she is a farmer's daughter and was raised on "cowboy ethics," implying a foundation built on values such as authenticity, courage, strength of

character, humbleness, chivalry, heart, and a presence of mind. Kracher delights in the perspectives shared in the Forum and looks forward to sharing what she learns with others.

Drawing from the values instilled in her as a daughter of a Certified Financial Professional (CFP®), Danielle Warren related to Kracher's viewpoint on ethics. Warren described her research as focused on studying employees in real organizations, such as floor traders, bank employees, and insurance fraud investigators. In her recent research, Warren examines when employees turn to their code of conduct to resolve an ethical dilemma. Warren sees the code of conduct as a "social contract" for organizations that could be leveraged by firms when guiding employees who face ethical concerns.

Marc Cohen transitioned from serving as a management consultant and working in banking to teaching at an academic institution for the last 15 years. From his unique blend of industry expertise and academic insight, Cohen shared that he is looking forward to being re-connected with business by participating in the Forum. Ethics and trust are Cohen's favorite topics. Cohen added that there is a "weirdness" in social science in that the field does not think of "trust" as a moral concept. Cohen has published a paper exploring this unusual frame of reference.

Russell Bundschuh shares his thoughts as Misty Kuamoo, Beverly Kracher, and Marc Cohen consider his perspective.

Building on Cohen's thoughts, Harry Van Buren shared that he taught at the American University of Beirut and observed that trust is different there than in the United States. He thinks a lot about the interconnectedness between finance and ethics. For example, at his business school, he presented a paper that dealt with the question, "Why is it in a firm's interest to respect human rights?" Van Buren shared that his motivation for participating in the Forum is due to his thirst for conversation on AI and exploring pathways that lead back to the foundational principles of the financial services industry. He explained that he is especially interested in what a good financial system looks like in contribution to society. Van Buren added that he is seeking innovative ideas for fostering meaningful connections within his academic community.

Inspired by her own personal background as a "recovering lawyer," Azish Filabi resonated with the group's discussion noting, "Ethics is about culture, values, and people." Filabi added that she is fascinated by how internal processes and organizations can have an impact on people's lives. Addressing Bundschuh's earlier question about the universality of ethics, Filabi responded that the work of the Center for Ethics primarily focuses on trust, which can serve as a universal concept, though recognizing that trust and ethics are different. She invited the philosophers in the group to share feedback.

George Nichols raised a related question of "Why (or why not) do we have a working definition of ethics?" Cohen offered that the beginning of an answer rests with rejecting "relativism" – the view that no truth is absolute, rather it's relational and contextual. Van Buren added that "precision" is another dimension to consider, clarifying that ethics is about defining and conceptualizing right and wrong behaviors. He also differentiated ethical obligation – what we owe to other people – from what counts as ethical. Van Buren highlighted Bundschuh's question as critically important because he challenges the existence of a right answer because "People are not atoms. Context and relationships are at the heart of ethics." Extending this position, Van Buren questioned, "How do we think of the role of humans in the context of AI?"

Bundschuh extended the conversation to a specific quandary, "If you're a person seeing someone stealing on the street, do you judge that as unethical? But what if you find out that that person is stealing to feed his two-year-old daughter?" Kracher commented

[Ethics is] "doing what's right, what's good, thinking long-term, and thinking beyond oneself."

Beverly Kracher

that there are universal ethical principles – "Don't harm" and "Do good" but caveated that these will break down depending on context. She summed up ethics as "doing what's right, what's good, thinking long-term, and thinking beyond oneself."

Jim Mitchell and George Nichols take delight in the discussion of ideas.

The group discussion turned to how to codify ethics. The group agreed that codes of conduct comprise compliance, and that compliance is about rules. Furthermore, they agreed that ethics is a higher standard. Mitchell pressed the group with a provocative query, "Why should we have a financial services industry at all?" Van Buren responded with an amusing expression from one of his former professors who said, "The financial services industry is a mediator between two groups of people – those who have more money than good ideas and those who have more good ideas than money."

Van Buren pointed out that the Global Financial Crisis of 2008 involved the funding of bad ideas, like home mortgages to people with poor credit ratings, which displaced funding good ideas. He explained that the way to know the financial system is working is when it makes us all

better off. Van Buren added that the more complicated finance gets, the more likely it is to be wrong. As a case in point, he called the group's attention to the near failure of insurance giant American International Group (AIG) during the financial crisis. Van Buren stated that AIG's troubles were partly due to seemingly sophisticated products that didn't benefit society or create value.

Lastly, the group grappled with whether business solves a "need" or "want" and the realization that that's a different question than asking whether a company is acting ethically. Filabi summed up the distinction by noting that it's the difference between "what we do" and "how we do it." To illustrate her point, Filabi questioned whether funding private prisons can be undertaken ethically. Gerend and Nichols closed out the group's discussion by acknowledging that it's a value judgment and get backs to why defining ethics is complicated.

Case Discussion: AI Ethics in Financial Services

Azish Filabi initiated the case discussion on trustworthy AI in financial services by establishing that AI has become a challenge relating to corporate strategy, not just technology. Leaders are now able to understand the technology sufficiently so they can make appropriate and ethical leadership and strategy decisions. Acknowledging the dynamic nature of developments in this rapidly evolving domain, Filabi endeavored to categorize the latest advancements in generative AI and traditional AI technologies. She invited the group to delve into the case discussion's key questions and share how they are using AI today.

Azish Filabi impresses a point that Jim Mitchell, George Nichols, Danielle Warren and Harry Van Buren consider.

Safety vs. Speed and AI Ethics Committees

The group contemplated the current landscape of AI utilization within financial services. Misty Kuamoo shared her perspective that while true generative AI is now readily available, as a technologist, she's not yet seeing human level logic and reasoning generated by the technology. She does believe, however, augmentation on the same level as a human is well within reach.

Kuamoo shared a widely used model for structuring review of use cases in insurance. In the model, two teams review the uses cases – one team is tasked with assessing the positives of AI, and the other team is looking at the risks and doing it all with the human validated experience. One use case Kuamoo highlighted is insurance agents using AI to understand products. For instance, a client may contact the agent to report a fire in

their home. An AI prompt-based experience can read the transcription of the call, factoring in personal data and needs of the client, to generate a personalized outcome for the client.

Harry Van Buren asked how companies differentiate between when AI makes customer experiences better and when it is primarily used to reduce personnel costs. He further wondered when it is best to use AI and when it is inappropriate to use AI. Kuamoo recommended an indicative test of aligning your AI strategy to a company's mission and values. If the AI use case does not resonate with organizational mission and values, then it does not get integrated.

Reflecting on the accelerating pace of change and complexity of AI's advancement and use cases, Tim Gerend remarked that traditional governance structures can be leveraged but need to be enhanced to address today's challenges. From a strategic perspective, Gerend articulated two distinct categories of AI use cases. The first use case is the imperative of staying competitive in the market in terms of cost and efficiency, and the second is directed strategic value creation, such as enabling personalized experiences for customers and advisors.

Balancing safety with speed, Gerend shared a few specific use cases of AI that Northwestern Mutual is testing, all of which have oversight by an internal AI Council that functions much like the model Kuamoo described earlier. One use case Gerend shared is knowledge management for customer service representatives. Generative AI is being integrated to improve customer service representative efficiency and accuracy in accessing internal data needed to respond to customer inquiries more quickly and more confidently.

Another potential use case that Gerend described involves incorporating generative AI into an intranet for financial advisors. The intranet houses a vast array of information on compensation, products, training, and meetings to help them do their jobs better. With the generative AI overlay to that content, financial advisors can more quickly find an answer to a client question. Gerend acknowledged it's not a perfect system, but it's more efficient.

A third potential generative AI use case Gerend described is enabling coders to leverage a generative AI enabled coding assistant to be more efficient. In this use case, generative AI is being used to help write code that enables the technology coders to be better and faster in executing their jobs.

Drawing from his professional experience, Gerend offered a blueprint for responsible use of AI, which is using it for test-and-learn scenarios. He underscored that this requires an interconnected, enterprise approach with early involvement of key stakeholders across different areas of the company to mitigate risks effectively. And, also by establishing an AI Council that is focused decision making on which trustworthy AI is deployed. He added that this prioritization structure is complemented by a risk oversight structure alongside the AI Council, which ensures that strategy and risk are aligned.

Playing Devil's advocate, Marc Cohen asked the group how AI can be used in an irresponsible way and how that affects the client. Kuamoo offered the risky example of an agent who is only reading what AI is providing without thinking about who the client is and the client's needs. The group considered AI models getting smarter and better. At the same

time, there was acknowledgment that they haven't always improved with time.

Technology Vendor Risks, Bias, and Diversity, Equity, and Inclusion (DEI) Challenges

Turning the group's attention to risks associated with technology service providers as partners for industry innovation, Azish Filabi questioned if there are decisions embedded in AI that are unknown to the financial industry without an audit. This could be because the algorithm is proprietary, or because the machine learning system is not "explainable," a term used to describe the inscrutable nature of high performing AI systems. She extended the query to ask the group whether vendors who push for speed put users at a disadvantage.

Russell Bundschuh remarked that it's not the responsibility of technology providers, it's the businesses that use the technology who are responsible for its use. In agreement with Bundschuh, Tim Gerend commented that it's the responsibility of companies to elevate their contracts with vendors to articulate how they will use AI. Gerend underscored that it's part of the due diligence process.

In assessing responsibility with respect to underwriting financial products, the group acknowledged that there is inherent bias in underwriting due to its discriminatory nature. However, they also recognized that not all historical wrongs can be remedied, only those that affect a company's policyholders.

Misty Kuamoo piques the attention of Beverly Kracher and Russell Bundschuh.

Misty Kuamoo established a baseline of mutual understanding in the group by stating that there is a predictability of output due to modeling data for a long time. She emphasized that what's challenging with generative AI is that it's looking at patterns of probability, which often results in AI hallucinating a prediction that isn't real. She explained that when it runs out of data, it's the end of the conversation. As an AI optimist, Kuamoo recognizes that there are going to be real problems if the technology's use is all about making money.

Reflecting further on the challenge of safety versus speed, Bundschuh declared that speed is inevitable. Filabi questioned why that is when there is knowledge that it's not working as intended. Given this problem, Bundschuh suggested that companies should consider how to navigate growth while maintaining control to safeguard against unfavorable outcomes. Kuamoo remarked that it involves creating a culture where every challenge is an opportunity for growth – where individuals feel empowered to voice their concerns and collaborate on potential solutions.

Kuamoo voiced that she is deeply concerned about the impact of AI on marginalized groups. She thinks it’s crucial to consider the ethical implications, especially for communities without access to technology. To prevent any harm to society, Kuamoo believes that the data concerning marginalized groups requires fair and equitable treatment.

> ***“What you can’t get from AI is what values matter.”***
>
> **Harry Van Buren**

Harry Van Buren summed up Kuamoo’s concern by stating, “What you can’t get from AI is what values matter.” He pointed to the example of medical disparity, noting that AI could uncover this problem. However, Van Buren emphasized that what AI cannot do is indicate what to do about the problem of medical disparity and further how to prioritize the issues of access and speed, which require human decision-making. Van Buren argued that, ultimately, values cannot be programmed into any AI system. George Nichols added the nuance of who is sitting at the table to define harm, for instance, AI committees at big technology companies.

Collectively, the group agreed on the importance of creating cultures that allow individuals to raise their hands to flag problems. Bundschuh concisely queried, “Is ethics not a part of the culture of

speed?" Filabi responded that it's difficult to untangle because we have outsourced technology design to a group of people who prioritize speed – the technology vendors. Leveraging her experience with startup companies, Kracher underscored the imperative of slowing people down to have the conversation to raise their hand when they have a concern. In her experience this is a void in the cultural mindset of technology companies.

The group contemplates remarks from Tim Gerend.

Filabi asked the group for their thoughts on governance and commented, "You can tell a human the values-based guardrails, but based on current technology, you can't tell AI the guardrails." Van Buren remarked that the basis for effective governance requires transparency and understanding. Building on this point, Gerend shared that he thinks about transparency through the lens of trust and alignment with what is in the interest of policyowners. Gerend noted, "Transparency helps build trusting relationships with customers." Kuamoo echoed the sentiment by adding, "We're selling the intangible. We're selling trust."

The group coalesced around the idea of having a strong focus on transparency and a culture of constructive dissent as values when integrating AI into organizational culture. There was also acknowledgment of the challenges that fast growth can bring to maintaining a cohesive culture.

Resonating with this conclusion, Bundschuh conveyed his firm belief that the freedom for anyone to dissent is fundamental to culture. Gerend concurred by adding, “Local culture must match what’s in the mission statement, ensuring that the espoused values of an organization are not just words on a page but embedded in everyday actions.”

> ***“Local culture must match what’s in the mission statement, ensuring that the espoused values of an organization are not just words on a page but embedded in everyday actions.”***
>
> **Timothy Gerend**

Van Buren considered whether AI could be added to the culture and how to govern it. Offering a path forward, Bundschuh pointed to the delicate balance between driving internal experimentation with AI tools to enhance productivity and not compromising or relinquishing human decision-making processes.

Education Needs

Azish Filabi queried the group on how they think about education on AI and skill set gaps. Tim Gerend commented that it’s critical for business leaders using AI to think critically in navigating the AI landscape. Harry Van Buren reflected that that requires deeper conceptual knowledge. In his experience, he's seeing students use AI as a crutch, which has made him wonder, "What is the human component that is really valuable?"

Gerend acknowledged that business leaders may too readily defer to technologists. He believes it is important that companies leverage generative AI in ways that are business led - - aligned to strategy and values. This requires a business-driven mindset over technological reliance, ensuring that innovation is driven by strategic thinking, not technical capabilities.

Beverly Kracher concluded the discussion with her observation of an increasing trend where students are relying on tools like ChatGPT for assistance. At her university, the absence of a clear policy on ChatGPT's usage has created ambiguity and wide variation in faculty decisions on its integration into the syllabus. At Danielle Warren's academic institution and Van Buren's, respectively, there are different structures to address how it might be used, depending on the type of class. Cohen shared that his university has a clear stance against AI utilization.

Beverly Kracher, in the foreground, observes the discussion alongside Russell Bundschuh and Marc Cohen.

Executive Dilemmas

Jim Mitchell facilitated a discussion of ethically challenging situations encountered by executives in their roles as leaders. Mitchell shared that the definition of an "ethical dilemma" is a situation where there are valid justifications to do one thing and other valid justifications to do something that is quite different.

Advancing Fair and Unbiased Underwriting Practices

In the business of underwriting financial products, there are historical biases embedded in algorithms, particularly concerning medical and mortality data. Integrating social determinants of health raises critical questions about why certain individuals may be healthier than others.

It also underscores the importance of fair and unbiased underwriting practices.

Insurers strive to excel in underwriting efficiency and accuracy. Yet, insurers must also wrestle with the ethical implications of algorithmic decision-making. This requires a critical examination of how the utilization of tools in the underwriting process may perpetuate underlying inequalities in society. How do we create models that are not unfairly biased and do not contribute to systemic disparities?

Discussion

The group discussed this ethical dilemma in the context of the effective utilization of datasets to determine dividend distribution among different classes of insurance policyholders. Some insurance policies are designed to return excess premiums in the form of dividends to policyholders. It was noted that the way companies underwrite is important to delivering value to policyholders. Moreover, the landscape is evolving, and regulators are increasingly dictating how AI is incorporated into underwriting operations. Given an emerging regulatory policy debate alongside ethical considerations, the industry is in the process of figuring out how to address inherent limitations of data and models. There was acknowledgement among the group that companies must enforce policies and embrace a progressive approach that adapts to regulatory requirements while upholding ethical standards within the industry.

George Nichols commented that most companies are challenged to provide products to groups that are underserved because it affects profitability, dividends, and their comparative position in the marketplace. He acknowledged that there are a few companies that are doing more than the minimum even though they are struggling with it. Another business leader validated this point of view stating, “Figuring out what’s fair and right is different from paying out the minimum standard of an insurance contract.”

Marc Cohen questioned whether technology helps insurance underwriters make better decisions to serve underserved communities. Gerend highlighted that underserved markets are where insurers don't have advisors in those communities. Cohen considered as a follow-up whether applications from clients in underserved communities are rejected more often.

Russell Bundschuh underscored that the dilemma in underwriting and pricing is balancing fairness to the individual versus the group. At the individual level, pricing is driven by science and fact. However, at the community level regulators may require normalization to address societal concerns.

One of our business leaders added another dimension – governance. They remarked that good governance and human judgment is needed to avoid introducing unfair bias, particularly where an insurer's models include non-traditional consumer inputs such as credit-based scores and social media activity. A shift to more dependence on AI models that do not embed those human judgements to make business decisions could raise ethical issues.

One executive shared an anecdotal story illustrating the difference between compliance and ethics. The executive had witnessed firsthand the unique challenges faced during the pandemic, particularly in regions like Latin America, where the impact was profound. Brazil, for example, had specific clauses in insurance contracts that allowed for exemptions from pandemic-related claims. This presented complex ethical considerations because while people were dying because of COVID-19, insurance companies were not paying claims in Brazil. They had a choice to not pay even though they were paying in other countries in Latin America.

George Nichols makes a point as Jim Mitchell, Danielle Warren, and Harry Van Buren tune in.

Reflecting on this experience, the executive found it interesting how market dynamics shape decision-making processes within insurance companies. The patients in those countries did adapt; after about four months, COVID did not appear on a death certificate as the cause of death because stakeholders worked around the system so that insureds would get paid.

Leveraging his experience as a former regulator, George Nichols illuminated the anecdote by sharing that insurers can be sued for not following the contract because it is seen as setting precedent if you pay the claim and it's not in the contract. The law makes it clear that insurers

must follow the contract. Nichols concluded the anecdote by asking a rhetorical question, “What if the good deed of paying the claim put the company in distress?”

Beverly Kracher raised whether the ethical dilemma in the Brazil scenario is prior to the contract. She wondered whether the consumer had input into the contract. One executive remarked that the consumer’s only choice may be to not do business with the insurer, or to try to shop around for a company that doesn’t have a pandemic clause. Nichols shared an anomaly by pointing out that in the aftermath of 9/11 insurers paid death certificates even though there is a war exclusion in most insurance contracts. In this case, the government waived the war exclusion.

Turning the group’s attention, Harry Van Buren questioned if all “difference” among groups is biased. He wondered how insurers justify differences in groups and whether all differences are problematic. A discussion ensued on the importance of transparency, the justification of differences, and the nuanced line between ethically acceptable disparities and problematic ones. Additional questions were considered such as how companies navigate the complex realm of engaging with regulators and policymakers to shape legislation that ensures fairness and equity.

The group also considered the rise of recent technologies like genetic testing and the profound questions that emerge such as how to ethically determine the price of information that varies for everyone, especially when regulators may limit certain practices. There was acknowledgement that the technology landscape presents opportunities and challenges in data privacy and ownership.

With consumers using self-testing technologies, concerns emerge around data ownership and potential misuse. One example that the group discussed was the recent breach in the 23andMe platform. The group agreed that it's a stark reminder of the importance of safeguarding sensitive information. The group's concern focused on implications for individuals and the broader social impact. Misty Kuamoo was particularly concerned about sectors like fintech where data holds immense value.

Ethical Branding: Companies that Market Themselves as Ethical, but Really Aren't

An executive whose organization was on the brink of closure just a few years ago, has led their organization through a remarkable journey of progress and transformation. The organization's focus on serving women and underrepresented individuals has been unwavering, guiding their decisions and partnerships.

Recently, the executive's organization has been approached by companies who wish to affiliate with it, but whose ethical standards do not align with the organization's values. Adding to this conundrum is that this insight is only known to the executive. Publicly, these companies are perceived as legitimate, yet the executive has inside knowledge that their practices fall short of their espoused values. The executive believes these companies are seeking to associate with the executive's organization merely to leverage a good name.

Discussion

Jim Mitchell reiterated the ethical dilemma as one in which there is inside knowledge of affiliations being sought between organizations seeking to enhance the perception of their ethical standards by aligning with a reputable partner renowned for their robust ethics program.

The group considered whether the executive's organization should take money in any capacity from the questionable businesses. The conversation addressed whether there are activities where the questionable companies can be part of the conversation, without aligning the two brands publicly. This suggestion was countered by the fact that it's a small organization with a reputable ethics program, therefore the disclosure would eventually become apparent. The group acknowledged that the dilemma is further complicated by the executive saying "no" to the affiliation based on insight that is unknown to some executives at the company.

One executive suggested that the mission of the reputable organization could help navigate the dilemma. He suggested that if the mission of the organization is to help the industry, then the answer would be to decline the partnerships. He continued, if the mission is to better educate the broader industry, then maybe the answer is "Yes." Other participants suggested that perhaps the reputable organization could simply point to limited bandwidth as a reason to not affiliate.

Beverly Kracher offered that it appears that the executive is clear on the ethics of this dilemma, but it's a question of how to implement the decision. She added that the executive in this dilemma must have the conviction to say "No." The group considered various scenarios that might play out if the questionable companies are aggressive about seeking affiliations with the reputable organization, leading to a breach of the relationship. For instance, being transparent with those companies about their unethical activities can damage any opportunities for creating a trusted space for, and relationship with, the questionable companies to experience growth in promoting integrity and ethical behavior within their organizations.

Russell Bundschuh captures the group's attention.

Data is the New Currency at the Intersection of Fintech and Insurance

One executive shared their deep interest in the intersection of fintech and life insurance, often contemplating the evolving landscape where data is the new currency. Even with regulatory scrutiny, datasets are combined and traded, resulting in profound implications for individuals and companies. Daily, companies are experiencing data breaches, highlighting the critical need for a nuanced understanding of data ownership. This is especially of concern in the context of fintech companies leveraging individuals' personal information for various purposes such as sales.

The executive captured the group's attention by describing two scenarios. In the first scenario, the group was asked to consider a man who has a good EKG and four days later suffers a massive heart attack yet has a fantastic prognosis. From a life insurance perspective, even if this man's medical history is not disclosed, he is now considered uninsurable.

In the second scenario, the group was asked to consider a woman who carries two positive Alzheimer's genes yet has no family history of Alzheimer's. Is this woman insurable? These scenarios call attention to the increasingly significant ethical and practical implications of data utilization in insurance underwriting. Moreover, the evolving dynamics within these datasets raise thought-provoking questions about privacy, risk assessment, and the future of insurance industry practices.

The group is attentive as Tim Gerend shares his thoughts.

Discussion

Russell Bundschuh started the conversation commenting that this is the fundamental issue with life insurance because there are going to be increased data-informed opportunities for people to have insight into their futures. Misty Kuamoo validated Bundschuh by adding that there are already numerous smart technologies such as the Oura ring that tracks sleep and physical activity, the iPhone which reveals myriad details about a person's activities, and MyChart, an electronic health record that allows patients to access and manage their health information.

Kuamoo asserted that underwriting based on these technologies is one of the greatest ethical dilemmas of our time because it becomes clear that our datasets are not ours, raising the question of who should possess our data. Azish Filabi agreed, noting that we don't yet have comprehensive regulation in place to protect use of the data collected by smart technologies.

Danielle Warren revealed an incongruity, "It's interesting that we embrace the potential of AI in enhancing health outcomes through data-driven models, but we remain discerning about the ownership of our personal data."

Bundschuh noted that data can now allow insurance pricing to be tailored to a specific individual's risk; that's fundamentally different from how industry started out, which was about pooling risk. Marc Cohen reflected on the social solidarity inherent in sharing pooled risks. Cohen asked, "Does thinking about individual risk undermine the sense of solidarity in pooled risk, and does it put underserved populations more at risk?"

The group also considered regulatory landscapes and the complexities of compliance in a global marketplace. Kuamoo pointed out that while Europe has universal regulations, the challenge lies in ensuring that adherence translates into ethical business practices, further exemplifying that mere compliance does not guarantee ethical conduct.

"It's interesting that we embrace the potential of AI in enhancing health outcomes through data-driven models, but we remain discerning about the ownership of our personal data."

Danielle Warren

"Does thinking about individual risk undermine the sense of solidarity in pooled risk, and does it put underserved populations more at risk?"

Marc Cohen

Building on Kuamoo's perspective of a world where regulations serve as a baseline rather than a moral compass, Harry Van Buren wondered how companies can truly embody ethical behavior and drive meaningful change. He reflected that the problem with making risk tailored to the individual is that social solidarity is lost. Concluding the group's discussion, Van Buren theorized, "The beauty of life insurance is solidarity but if it becomes so individualized, is loss of social solidarity greater than the benefits to the individual?"

Navigating Ethics Across Diverse Cultures

The CEO of an international firm is faced with an ethical dilemma. It comes to the CEO's attention that three years prior, the country president of the firm's Midde East office, who had been supervising a rapidly growing arm of the company, had secured a contract without following a formal bid process. Upon discovering the oversight, now three years later, the CEO had to consider whether to fire the country president.

The CEO, who has experience navigating complex international contexts, shared that when confronted, the country president took full accountability for the deviation from standard procedures. From the viewpoint of the country president, in their country, relationships hold significant value. For this reason, the country president had made a conscious decision based on trust and familiarity with the stakeholders involved and felt that a formal bid process was not necessary to find the best partner for the company.

The country president wholeheartedly believed that prioritizing the right relationships would ensure integrity and quality in the outcome, rather than solely focusing on the lowest bid. While the country president acknowledged the importance of transparent processes in business dealings, they stood by their commitment to fostering trustworthy partnerships.

> *"You can't lead an organization when there is a question of your judgment."*
>
> **George Nichols**

In their mind, the country president believed there was no wrongdoing in securing a bid leveraging their experience with relationship-driven decision-making. With all of this in mind, the CEO determined that firing the country president was the best course of action for the company.

Discussion

The group pondered several scenarios in response to this ethical dilemma. For instance, Marc Cohen wondered if the outcome might have been different if the country president had called the CEO to discuss prior to making the decision that they did. Another executive questioned if the CEO might have considered taking a lesser action than firing. Harry Van Buren considered what, if any, internal employee communication there was after the country president was terminated, explaining why the company had the policies that it did in place.

A couple of the executives remarked that companies tend to introduce more training and bolder risk mitigation in response to ethical dilemmas like this one. Among the academics there was also some consensus that the informal culture's influence shaped the CEO's action. Azish Filabi commented that in some instances hiring managers use a personal network of people they trust versus relying on a process. To promote DEI, a more transparent process is required.

Filabi explained that there is a mindset shift from using networks to transparent systems.

George Nichols concluded the discussion stating about the country president, “You can’t lead an organization when there is a question of your judgment.”

Danielle Warren, Harry Van Buren, Misty Kuamoo, and Beverly Kracher reflect deeply on George Nichols’s remarks.

Academics' Questions

Exploring the Intersection of Philosophy and Leadership in Business

Marc Cohen asked the group what they would suggest he emphasize with his students with respect to business education. The two subjects that the group converged on were (1) teaching students critical thinking skills and (2) value alignment when choosing a job.

The group has observed a common trend of superficial decision-making in today's fast-paced world. They agreed that it's crucial for students to understand the implications of their choices, to delve into the secondary and tertiary effects that may arise. They thought it important to teach students to embrace the complexity inherent in every decision-making process. Additionally, there was agreement that effective writing is at the core of clear thinking. Jim Mitchell suggested that teaching students writing skills enhances their cognitive clarity. Tim Gerend added that critical thinking includes bringing a learning mindset and intellectual humility.

Marc Cohen makes a point as Tim Gerend and Azish Filabi listen attentively.

Gerend shared that when he speaks to business ethics classes, he emphasizes the importance of authenticity in the workplace. Gerend had imparted to students that they do not have to compromise their values for success and that finding fulfillment in one's career is attainable by staying authentic. He suggested that Cohen teach his students to strive for alignment between their personal beliefs and professional endeavors, empowering them to pursue fulfilling careers without settling for less.

George Nichols added that it's more challenging for women and underserved communities to be authentic at work. In his experience collaborating with fellows as part of the College's Black Executive Leadership Program, participants are asked: "Do you feel you can show up as your authentic self?" Nichols shared that only 30% answered in the affirmative.

Based on this and other related experiences, he suggests shifting from talking about DEI to talking about change management. Nichols added, “Yes, I want your authentic self, but some of what you do at home, we don’t want that at work. Some people can’t make that distinction.”

Cohen concluded that a focus on providing students with case studies of positive role models in business would be helpful. The group agreed this was a great idea.

Guiding an Ethics Advocacy Organization in Navigating Complex Ethical Challenges

Beverly Kracher shared an ethically challenging situation experienced by a business ethics advocacy organization focused on promoting city-level business ethics. By way of background, Kracher noted that the organization had initially built a trustee group, consisting of 350 trustees. Unfortunately, companies that were on the list started to have unethical issues emerge, and these issues were reported up to the leaders of the organization. The leaders of the ethics advocacy organization grappled with navigating the ethical dilemma, including what to do with the initiative, what to do with the companies behaving unethically, and how to maintain a positive reputation in the business landscape. Kracher invited comments from the Forum participants on the ethical course of action this advocacy organization might have taken.

Russell Bundschuh suggested that in this situation, leaders must primarily focus on the facts, not opinions and not emotions. He added that often managing these situations is not fact-based and is an artifact of conflicting personalities.

Jim Mitchell added, "There is no such thing as a perfect company because a company is composed of fallible human beings." He explained that what matters is what the company does when there is a mistake. Did they make whole the party that was harmed? Did they improve their processes, so they don't make the same mistake again?

Harry Van Buren agreed with Mitchell, and pointed to Edward Freeman's stakeholder theory, which argues that a firm should create value for all stakeholders, not only shareholders. Making the case for the advocacy organization to consider focusing on the aspirations of those companies that stumbled and genuinely want to do better, Van Buren quoted Oscar Wilde, an Irish poet and playwright, who said, "Every saint has a past, and every sinner has a future."

Another executive commented on the adeptness required to make tough decisions while considering all perspectives. He explained that there is a delicate balance between enforcement and ethical decision-making, and that the situation to avoid is one where the advocacy organization assumes responsibility for determining who is and who isn't ethical. Misty Kuamoo agreed on taking a course of action based on facts, yet she also acknowledged that there can be gray areas in the facts.

Challenging the group further, Kracher posed a rhetorical question, "Could the ethics advocacy organization stop businesses from selling alcohol and promoting alcoholism?" She shared that the answer to this ethical dilemma required the ethics advocacy organization to reflect on its mission. Taking this action brought to bear that the organization is focused on education, not enforcement. In alignment with their mission, the organization created a city-level whistleblowing program for the community. It took a leadership role in the community by educating businesses on how to improve ethical behavior. Moreover, while the organization involves lawyers in the whistleblowing process, their role is to collect the facts and report them to the companies alleged in wrongdoing, they do not adjudicate.

George Nichols added that when it comes to unethical behaviors, context and culture are paramount. He shared an insight from his experience as a former regulator, “It only takes one mistake someone covered up that escalated. Rarely were they bad people.”

> *“The financial services industry is a poster child for information asymmetry.”*
>
> **Jim Mitchell**

Asymmetric Information and Vulnerable Consumers

Harry Van Buren highlighted a key feature of ethical dilemmas in financial services, which is that sellers know more than buyers. He added that there is a lot of fear and financial illiteracy. He rhetorically queried the group, "How many of you are confident in your ability to plan for retirement?" Van Buren remarked that even among "sophisticated, bright folks" there is fear. He then questioned the number of policyholders who really read and understand the agreements they sign. Van Buren emphasized that in studies of predatory lending, people were taken advantage of. Speaking to the executives in the group, he queried, "How do you educate employees not to take advantage of consumers, but rather to build genuine value for them?"

Danielle Warren, Harry Van Buren, and Misty Kuamoo are delightfully engaged by Beverly Kracher's thoughts.

Jim Mitchell remarked, "The financial services industry is a poster child for information asymmetry." A discussion ensued about the dynamics between consumers, agents, and insurance products. The group acknowledged the critical role of persistence in driving quality business outcomes for all stakeholders. There was consensus that it's critical to tailor systems that not only satisfy the interests of the company and agents but also prioritize the long-term benefits of the consumer. Scrutinizing the financial incentives and other reward features that drive these transactions is a key component of an ethical system. They acknowledged that agents play a pivotal role in revenue generation, but it is equally essential for companies to design and monitor compensation structures that align with ethical practices. Emphasizing a focus on long-term value, the group elevated the importance of education in fostering an ethical culture that balances the interests of all stakeholders.

There was some dialogue about what is meant by "vulnerable consumers" and what is meant by "vulnerabilities." Additionally, there was contemplation about the intersection between predatory practices and fiduciary law. While pawn shops and payday loan lenders were pointed out as the typical culprits, as opposed to large banks, an interesting question emerged on the ethicality of selling insurance policies with inordinately high profit margins. Van Buren underscored, "It's all too easy to take advantage of consumers rather than creating value for consumers."

Highlighting the unfair application of the law to different segments of the market, Azish Filabi added, "While predatory practices can occur for both lower- and upper-income individuals, fiduciary practices tend to converge for the upper end of the market." To mitigate the impact of information disparities on consumers and balance

"While predatory practices can occur for both lower- and upper-income individuals, fiduciary practices tend to converge for the upper end of the market."

Azish Filabi

profitability with ethical business practices, the group advocated for strong regulations and disclosure obligations.

The Underlying Cognitive Processes of an Ethical Mindset

Danielle Warren studies constructive deviance and destructive deviance. Warren asked the group to think about an ethical dilemma that they're really struggling with and to break down the complex process of their ethical decision-making. Warren added that she is most interested in understanding the specific steps that managers take when resolving an ethical dilemma.

A couple of participants remarked that their first step is to "structure it" – to carve out the problem, identify its pros and cons, and break it down into its relevant components. Another two participants indicated they would talk to their informal network, leaning on someone such as a partner, peer, or colleague. One participant remarked they would contemplate who they are at their core. Another two participants said they would "name it" to determine if it is a dilemma or a "commitment issue," when the right answer is clear but the organizational commitment to it is a challenge.

Tim Gerend wondered about the one thing that's most important to ethical decision-making. Warren responded that typically, organizations have codes of conduct. She has found that people in the organization can be detached from the code of conduct. In Warren's research, she has found that refocusing on the content of the code of conduct can help guide ethical decision-making.

There was some agreement among the group that codes of conduct are guiding principles, not the specific roadmap for ethical decision-making.

There was also some agreement that the right starting point is a company's values. Harry Van Buren pointed out that business ethics professors are not particularly good at helping their students choose an organization that aligns with their values. He suggested that educators ask their students questions such as, "Where does work fit into the context of your overall life? What are things you want your organization to do?"

One executive strongly agreed with Van Buren, sharing that his leadership team has talked with employees who believe that their company serves rich people to get richer. The executive counsels the employees to consider how wealth helps create jobs in their communities. The executive also encourages employees who have different values to find work that is more meaningful to them, challenging them to think deeply about why they choose to work for the company and to do something about their discontent.

Marc Cohen raised a scenario for the group's feedback. One of his students has become entangled in a grievance at his company involving an employee who wore a MAGA hat to a company picnic. MAGA is an American political slogan popularized by Donald Trump during his 2016 presidential campaign. It's used to refer to Trump's political base or to an individual or group of individuals from within that base.

Cohen shared an additional layer to the context of his dilemma – his student works for a small consultancy group where he is the only person of color. The Forum participants acknowledged the pressure – internal and external – on companies to take a stance on politically charged issues. There was also acknowledgment that whatever stance is taken, it will not please everyone.

There was consensus that the workplace should ideally remain free from the influence of political statements. The group leaned toward advocating for a professional environment where employees can focus on their roles without distractions.

Jim Mitchell commented that while keeping the focus on productivity and leaving personal beliefs outside of the workplace is a minority position today, he believes it's the right one. Harry Van Buren echoed Mitchell's sentiment adding that he is a fan of single-issue focused organizations, those that focus on things directly relevant to the business, while treating all stakeholders with dignity. He remarked, "Respecting the dignity of every person doesn't mean you agree with everything and every person."

Tim Gerend sparks the interest of Azish Filabi, Jim Mitchell, and George Nichols.

Azish Filabi suggested neutrality as a potential response when confronted with polarizing views that don’t adhere to the organization’s core values. She pointed to the example of the University of Chicago who has leaned on its neutrality principles amid the Israeli-Palestinian conflict and not making public statements. George Nichols offered an alternative example, pointing to Brown University as a model. Nichols shared that following the October 7 attack on Israel, Brown University convened experts to share facts from both sides of the conflict. It was so well received that they repeated the convening.

Gerend suggested that interactive listening sessions for people to talk about issues can be effective. Gerend concluded, “Engaging in respectful dialogue that elevates diverse points of view can be productive, if done the right way.”

Van Buren has observed that the climate has shifted. He pointed out that for the younger demographic their employer’s silence is a statement. Filabi validated Van Buren. She commented, “Signaling to students to align their values with their organizations, puts pressure on organizations to speak about values.” Leveraging this commentary, Warren shared that she has written about corporations being accused of being “woke” and “woke-washing” and she has wrestled with both ends of the spectrum in terms of criticisms against firms. Warren emphasized the importance of recalibrating how harshly we judge corporations.

In sum, the group leaned toward companies prioritizing productivity and maintaining a politically neutral workplace that strives to uphold dignity for all.

Marc Cohen captures the attention of Tim Gerend and Azish Filabi.

Dedication

James A. and Linda R. Mitchell, Forum Founders

With a deep sense of reverence, this edition of Perspectives on Ethical Leadership is dedicated to the memory of Linda R. Mitchell, who passed away in August 2023.

A stalwart advocate of the American College Cary M. Maguire Center for Ethics in Financial Services, Linda, alongside her devoted husband, James A. Mitchell, played a pivotal role in the establishment of the Forum in collaboration with The American College of Financial Services in 2001. The Forum is a cornerstone of the Center for Ethics and its activities, bringing together industry leaders, accomplished producers, and prominent business ethicists to reinforce the need to connect values and good business practices.

Linda was also a wonderful friend and supporter of The American College of Financial Services. Notably, Linda was an inaugural member of the Second Century Society, a longtime member of the Heubner Society, the Loyalty Society, and the Legacy Society. Additionally, the Mitchells' generous contributions to the College's Maguire Building are recognized in the lobby with the entire fourth floor named after them.

Linda had a radiant presence. She illuminated every room she entered. Linda's absence is keenly felt by those who had the privilege of crossing paths with her. With her unwavering commitment and strong vision, Linda made a lasting impact on the Center. Her legacy will be remembered for years to come.

Your *Ethically* In Financial Services

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IN FINANCIAL SERVICES

As the only ethics center within an academic institution focusing exclusively on the financial services industry, the American College Cary M. Maguire Center for Ethics in Financial Services promotes ethical behavior by offering research and programs that go beyond the rules of market conduct to help individuals and companies be more sensitive to ethical issues and think more critically about solutions for the benefit of society.

The Center's Forum on Ethical Leadership in Financial Services, founded by James A. and Linda R. Mitchell in 2001, brings together practitioners from financial services companies and business ethicists from academia to engage in meaningful conversation about ethics in the industry. This annual event features discussions of 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.

James A. Mitchell was recognized in 2008 for his dedication to business ethics by being included in the "100 Most Influential People in Business Ethics" by Ethisphere, a global publication dedicated to examining the important correlation between ethics and profit. The list recognizes individuals for their inspiring contributions to business ethics.

Appendix

Educators and learners have the Center's permission to use this case study for educational purposes, with proper attribution; we suggest the citation below.

Filabi, A. (2024). Taking the Long View: Trustworthy AI in Financial Services. In The Twenty-Third Annual James A. and Linda R. Mitchell/The American College Forum on Ethical Leadership in Financial Services. The American College Cary M. Maguire Center for Ethics in Financial Services. **https://www.theamericancollege.edu/centers-of-excellence/center-for-ethics-in-financial-services**

Case Study: AI Ethics in Financial Services

By, Azish Filabi, JD, MA

Executive Director, Cary M. Maguire Center for Ethics in Financial Services

Associate Professor and Charles Lamont Post Chair of Business Ethics

Technology strategy has increasingly become a driver of business strategy. While the early days of technology centered around the data and infrastructure needs that support a company's products and services, AI now promises to transform the entire business.

Since the public release of ChatGPT in November 2022, generative AI has become a chief area of focus for industry innovation. Many CEOs say that navigating generative AI is the top priority for 2024.[i] How AI impacts the financial industry may depend on companies' abilities to steer away from the short-term promises of AI products, towards developing perspectives on how technology can enhance the fundamentals of a business and how it delivers long-term value for stakeholders.

In financial services, Professor Mihar Desai proposes that the future of AI will depend on a mix of conviction and imagination of industry leaders because "the hardest questions facing managers and leaders are not entirely determined by hard data."[ii] To demonstrate this point, he references the development of widely popular passive (index) investing funds. He suggests that while data-driven trading has enabled the shift towards index investing, it has simultaneously made markets less efficient. He attributes this to limitations in data analytics that don't integrate all the "soft data" that is tied to managing a successful company.[iii] Thus, while the capital markets are accessible to more investors through reduced fees and risk, innovation may eventually impair the efficient allocation of money, a key purpose of the markets.

Viewed through the lens of the long-term purpose of business to benefit society, good governance is at the heart of successful AI-enabled innovation. Incorporating appropriate ethics considerations at the outset may help manage the long-term success of AI for business. Yet, despite early governance and safety challenges, the “arms race” is at full force and industry continues to invest heavily in AI (the combined investment from Microsoft, Google, and Amazon into the two leading generative AI companies, Anthropic and OpenAI, is nearly $20 billion).[iv] The following list describes several areas of risk that already make AI integration challenging.

Performance: AI Makes Mistakes, Regularly

Generative AI tends to make stuff up, which some call “hallucinations.” These mistakes and inaccurate results can lead to fundamental errors in output, with a potential impact on critical services. Researchers estimate inaccuracies in the range of 3% to 27%. These error rates were demonstrated by requesting a relatively simple task of a chatbot, which is to summarize news articles it was provided, and then reviewing its results.[v]

The impact of poor performing AI is already evident in practice. In one recent incident, two lawyers in New York were sanctioned by a court for their use of fake citations generated by ChatGPT.[vi] They cited two cases in their legal brief that apparently never existed in real life. While the court held them accountable for their lack of diligence and care as a clear breach of professional responsibility, the legal system is currently debating whether and how any use of generative AI can be appropriately integrated into judicial processes.

In addition to the problem of hallucinations, researchers at Stanford University have found that “model drift” is a significant problem – that is, the models are not necessarily improving their performance over time, as developers had hoped.[vii] They tested performance improvements between GPT 3.5 and GPT 4 with various prompts, like math problems, and found that GPT 4 performed worse than the prior version, leading to news headlines such as “The World’s Most Powerful AI just got ‘lazier’ and ‘dumber.’”[viii]

Safety Vs. Speed: Competitive Pressures in the Race to Lead AI

One effect of the recent governance fallout from Open AI is that the public is learning more about the tug between speed over safety among technology leaders. At the time of this writing, the full story relating to the OpenAI board of trustee’s recommendation on November 17, 2023, to remove Sam Altman as CEO is still unfolding. Altman was reinstated approximately 12 days later, and there will be an independent investigation conducted by an outside law firm.[ix]

The term probability of doom (“(p)doom”) began as a niche conversation among researchers, eventually becoming a popular portrayal of someone’s assessment of the likelihood that AI will threaten human survival.[x] In the OpenAI leadership tussle, some employees reportedly discussed the p(doom) assessment of potential leaders, whose pessimistic views would slow down their work. Sam Altman is low on the p(doom) scale.

OpenAI was launched as a non-profit that later created a for-profit subsidiary to bring in investors to help fund its mission, which is to ensure that artificial general intelligence benefits all of humanity. Sam Altman and board member Helen Toner reportedly disagreed about her role as co-author of a white paper comparing OpenAI to rival Anthropic on their approach to social responsibility.[xi] The paper suggests that the public release of Chat GPT 3.5 encouraged competitors to fast track their models for release,[xii] while Anthropic exercised restraint in their actions, consistent with their corporate structure as a benefit corporation.

Managing safety versus speed will have downstream impacts on other industries as well. While a few financial regulators and governments have put in place regulation, most have expressed caution about AI use and only provided guidelines thus far.[xiii] The European Union is one step closer to comprehensive AI regulations with the EU AI Act which, if approved by the 27 member countries, will go into effect in 2026.[xiv] In the U.S., the Biden Administration's Executive Order on AI addresses national and economic security concerns, but does not directly regulate consumer use of the technology.

Notably, now that generative AI is publicly available and employees are using it (even if not yet on-the-job), putting the genie back into the bottle is impractical. Balancing safety versus speed will be up to organizational leadership.

Data Privacy, Bias, and DEI Challenges

The privacy, bias and diversity challenges of AI have been on the policy agenda for many years, particularly since big data analytics and algorithms became more prominent tools in business and government. The key components of these challenges are 1) fair data collection and use practices; 2) the explainability limitations of AI; and 3) the amplification of biases through AI.

In financial services, the American College Cary M. Maguire Center for Ethics in Financial Services has conducted research on life insurance as a case study to address the key issues relating to these challenges, and potential pathways towards risk mitigation:

- **AI-enabled Underwriting Brings New Challenges for Life Insurance** (NAIC Journal of Insurance Regulation, Azish Filabi & Sophia Duffy)
- **AI, Ethics, and Life Insurance: Balancing Innovation with Access** (Cary M. Maguire Center for Ethics, Azish Filabi & Sophia Duffy).
- **AI Regulation: From principles to laws, consumer protection can galvanize AI regulation** (Reuters, Azish Filabi)

Case Questions

1. **Speed v. Safety:** How are financial companies using AI today? How should financial companies balance speed and safety? What opportunities do you see to mitigate these pressures?

2. **AI Ethics Committees:** What are your thoughts on an AI Ethics Committee at either the level of the Board of Directors, or internally within and among a company's corporate functions to help manage AI ethics risk?

3. **AI Benefits:** AI brings new opportunities for improvements in decision-making. Some researchers suggest that because financial advisors, as all humans, are prone to cognitive and emotional biases, AI can help mitigate bias. Research suggests that, for example, confirmation bias (the tendency to look for information that confirms what you already believe and ignore information that is not compatible) among financial advisors can be mitigated by using deep learning systems that include inputs that an advisor might otherwise ignore. What AI use cases do you think could help address governance and ethics issues in business?

4. **Technology Vendor Risks**: The governance issues at Open AI raises questions about the ability to rely on technology service providers as long-term partners for industry innovation. If you agree that this is a risk, how can this be mitigated for the financial industry?

5. **Education Needs:** There's a big learning curve with AI. Many users are not even aware that they are engaging with AI, often because the technology is seamlessly embedded in email or search features. What education and training challenges have you faced among your workforce? What about among stakeholders (e.g., regulators)? How can ethics education help address the education needs relating to this topic?

6. **Managing Blackbox Algorithms:** The lack of explainability of AI-enabled algorithms (particularly the deep learning systems that use more complex neural network processes) is particularly problematic for financial services because some regulations provide consumers

with a right to an explanation in the decisions that are made by companies (e.g., for credit applications). What practices have you experienced that can help ensure that AI-driven algorithms are not only accurate but also explainable? How can you hold them accountable for their recommendations?

7. **Existential Risks to Society:** In addition to the risks to business, there is also a set of risks to society that are macro or existential risk, such as national security risk, the effects of disinformation on our democracy, or job displacement with advanced technology. What role do business leaders have in managing those risks?

Notes

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