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A. WHAT RISK MANAGERS NEED TO KNOW ABOUT ETHICS? – ETHICAL DILEMMAS ARE A REALITY IN THE RISK MANAGEMENT PROFESSION

by Garry J. McDonell

I. Introduction

Whether you hold the title of risk manager formally or informally, it is important to recognize that, at some point in your career, you will likely face a personal ethical conflict.

That reality requires some personal preparation. At first, it requires knowing that risk managers and other insurance professionals often face the choice between two distinct kinds of “right” answer.

There’s the traditional definition of the right answer, where upholding valued societal principles like truth or confidentiality is considered the best ethical choice, no matter what the outcome. This is known as the duty-based approach to ethical decision making.

A second option is a decision based on circumstances, also referred to as the utilitarian philosophy of ethics. Considered a more pragmatic approach, the utilitarian philosophy recognizes that actions have outcomes. This approach also recognizes that the outcomes of upholding truth or another valued principle are not necessarily the most desirable.

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Although you may not know exactly how you will personally respond to these issues, you can prepare both yourself and your organization by developing a framework for tough decision making. In doing so, you will gain an edge for yourself and your organization in a world where strong ethics and corporate governance are increasingly tied to performance.

2. Working through ethical dilemmas

So what happens when doing what's supposed to be right feels wrong? Because of the nature of the industry, risk management and insurance professionals may very well find themselves in this situation.

Consider this example. A man and his wife are debating over whether or not to terminate his life insurance policy. He feels the policy is expensive and the monthly premium could be put to better use. His wife on the other hand feels the family would need the money if something were to happen and urges him not to cancel the policy.

The man goes to his insurance agent's office late on a Friday afternoon and requests that his life insurance policy be terminated. He indicates that his wife is not aware of his decision to cancel the policy, nor is she in favour of him doing so. He says he'll explain it to her later. The agent obviously counsels against such a move but the client insists, even becoming quite agitated. Finally, the agent accepts the cancellation, and since he's on his way out the door for the weekend, he puts the cancellation request in his drawer to be dealt with on Monday morning.

Later that night the client is involved in a serious collision and dies instantly. His wife, unaware that he has cancelled his life insurance policy, files a claim first thing on Monday morning. The insurance agent had not yet processed the cancellation.

Now he's faced with a tough choice. His sympathy for the widow makes him hesitant to process the cancellation. But if he doesn't do so he's ignoring his fiduciary responsibility to the insurance company and is actually in breach of a legal and binding contract with the insurer.

3. An ethical workout session

If you really want to position yourself and your organization to make tough ethical choices, it's important to go through some ethical workout sessions, and the insurance agent's dilemma is a good start. Put yourself in his shoes for a moment and consider the following questions:

What are my true feelings?

It would be easier for the insurance agent if he could just forget the human element, work within the narrow confines of his job and move on. But the feeling he gets when he thinks about the wife and children of the claimant just won't go away.

If the agent stays true to the classical principle of always disclosing the truth, he knows that he will be upholding the law and the traditional values of his profession. He also knows that he will not be venturing down the slippery slope of making decisions based on circumstances rather than set rules. But will he feel good about the decision knowing that his client's beneficiaries may suffer?

What does my organization believe in?

After assessing your personal feelings, look outward and consider the values of the organization you work with. Will your decision ultimately uphold your organization's goals and values, even if it appears to go against traditional principles?

Consider the case of a risk manager at a large metropolitan hospital. The hospital has established values of caring, competency and trust. In fact, the corporation's mandate is to ensure every decision supports the overall philosophy of creating and retaining the trust of the community.

The risk manager is approached by the parents of a child who died while at the hospital. The parents ask to see the autopsy report. The legal department is very clear that providing such a report could be ammunition for a lawsuit. In fact, the hospital insurers may argue that the hospital not only failed to mitigate a loss but fuelled a lawsuit with the information. If the hospital were to disregard the insurer, contractually the hospital's irrevocable agent, there may not be a right to recover any damages associated with this situation.

But the hospital has been very clear in its goals and is committed to truth and honesty in its dealings with the community. If it has failed in some way to provide the care it is committed to providing then perhaps the hospital should be called to task by the community, as represented by the parents.

The risk manager is now faced with the dilemma of recommending a course of action that has "two right answers"; doing what may be legally correct but damaging to the hospital in the long term or doing what may be morally correct but harming the hospital financially in the short term.

This is not a decision that a risk manager or anyone should face alone. Clearly, there must be some discussion with superiors and colleagues before a final decision is made.

The final decision may put the risk manager in a position where he or she cannot continue to work for the organization. If the organization believes in a utilitarian approach to such a problem and the risk manager believes in classical or duty-based ethics or vice versa, continuing to work for that organization may not be plausible.

What do my colleagues believe in?

Establishing a work environment where we can be open and take the time to talk about ethics is a big part of an ethical emergency plan. It's important to acknowledge that difficult choices will arise in the risk management practice and colleagues must work together to prepare for them.

By their very nature ethical decisions are polarizing, but they don't have to lead to conflict. An environment that encourages ethical discussions builds trust, and if we have the sense that our colleagues are trustworthy and sincere we are less likely to personalize and demonise those who take a different ethical or moral stand than our own. This in turn leads to greater honesty and openness, which in themselves can prevent ethical issues from arising.

4. From the personal to the bigger picture

A recent article in *CFO Magazine* stated that 47 per cent of finance executives they surveyed felt pressure from directors to "doctor the books" and improve the appearance of results. Even with the strict rules imposed by the United States' Sarbanes-Oxley Act of 2002 and the damaging press surrounding Enron, WorldCom and Adelphia, organizations still find themselves meandering into the grey area of ethical behaviour.

The grey area is a place where actions don't feel entirely wrong but they don't feel entirely right either. Very few individuals move from total honesty to total dishonesty in one fell swoop. But once one creeps into the grey area it's much easier to end up at the black end of the scale.

Sometimes it's hard to isolate where the line was actually crossed. It's up to organizations to clearly define the white and the black and to ensure that everything is done to encourage staff to remain on the right side of the line.

Keeping out of the black areas should be a top priority in today's corporate environment. Ignoring business ethics is clearly not a viable option, nor is it realistic to think that emotion can be separated from any serious ethical discussions.

Beginning with the personal exploration of ethics is an empowering and practical way to prepare for issues that might arise in the corporate world. Why? Because it helps develop instincts, instincts that can become powerful tools in a complex and changing environment.

5. Breathing life into corporate governance

Corporate governance is not simply a list of ideals posted on a company's website. The ideals must live and breathe within the organization. To simply write out a set of rules is not enough. Ethics and corporate governance structures as living organisms must grow with the organization and its world. Like any other source of risk they are subject to a volatile and complex environment.

And like risk, we can never take the human element out of ethics. Chances are you will at one time in your career face a decision that pits traditional rules against your personal feelings. Following an ethical exercise regimen will allow you to develop an early warning detection and response system that will give value to your work and your organization.