



Case Study 2

You should have a copy of the CII Code of Ethics and Conduct to refer to when attempting this case study.

The aim of this case study is to acquaint you with the Key Values of the Code and to give you some idea of good and bad practice in relation to those Values.

At the end of this exercise you should have a greater understanding of what might go wrong when a practitioner does not work with these Key Values in mind. You should be able to express an opinion about how other actions and behaviour might affect the Key Values.

Bear in mind that this is not an assessment of competence but a tool to analyse your understanding of the CII Code of Ethics and Conduct. Should there be any gaps in your knowledge which you are not able to address yourself, please contact the CII. It is important to remember that, although a breach of the Code may not result in any action by the CII against you, that breach could count as evidence in a legal action against you or your firm.

The following list of eight Key Values is taken from paragraphs B, D, E and F of the Code:

- complying with all relevant laws;
- complying with the laws of the CII;
- meeting the requirements of all applicable regulatory authorities;
- meeting the requirements of appropriate Codes of Practice and Codes of Conduct;
- upholding professional standards in all dealings and relationships;
- respecting the confidentiality of information;
- applying objectivity in making professional judgments and in giving opinions and statements; and
- not allowing prejudice, bias or the influence of others to override objectivity.

The case study

Look at the eight Key Values above. As you read the following case study you will see letters which correspond to at least one of each of the Key Values. See if you can match them to the correct one. For example, in paragraph three of the case study there is the letter **J**. To which of the above Key Values do you think this corresponds? At the end of the case study are some suggested answers.

Some letters may refer to more than one Key Value.



The Scenario

Phil Ripov is a sales manager with Vegnot Brokers Limited. He is a CII member.

At the board meeting last week it had been agreed by the four directors (Dave, Helen, Sean and Phil) that Phil would take responsibility for designing and rolling out a new insurance scheme directed at owners of sewing machines.

One of the first things he did was to ring his mate Raj who works in the accounts department at Grunger Limited, a major sewing machine manufacturer and distributor. They met for a pint in the pub where Phil gave Raj two tickets for the United v City match at the weekend in return for a computer disc with the Grunger Limited database listing people buying sewing machines in the last five years (A).

This was a real help to Phil and to Vegnot Brokers because no one at the firm had any experience of insuring sewing machines or knew who to approach. Indeed, Raj had said that if they could put together a contract that sold well and gave Grunger Limited a healthy commission share, then his bosses at Grunger might be happy to promote the scheme directly to their clients (B).

Phil was conscious of the fact that he needed to make sure that the scheme made healthy profits, so he prepared the scheme financial forecasts on the basis that Vegnot took an extra £5 + 5% (for the IPT) from every policy. If Grunger Limited wanted to get involved then Phil could always add more for them. He was aware that he should not hide the additional amount from the insurers, Impact Insurance Limited, and mentioned it to them but they were quite adamant that they were happy to receive the net premium already agreed and any additional amounts were up to Vegnot Limited (C).

Having obtained the client list from Grunger Limited (which would form the basis for the first mail shot), Phil had the job of designing a policy with Impact Insurance Limited and deciding who specifically would be the target audience.

One matter that was clear from the database was that quite a number of customers of Grunger Limited were from old people's homes or were people with special needs. This worried the other directors of Vegnot as they felt that this could entail a higher level of care than was reasonable if they were going to achieve the high profit margins they were seeking. Phil was not happy because he felt this would leave quite large numbers of vulnerable people without an opportunity to effect specific insurance for an important personal asset. The directors insisted, however, and Phil was concerned that he might be voted off the board if he made an issue of the point (D).

Phil asked the insurer to add an exclusion for any damage to sewing machines that are not in a private house. He felt this would overcome the problem of having to respond to customers who might be more difficult to deal with.

Vegnot Limited had just employed a young man, Oliver, who had been working with another broking firm in a town twenty miles away. Phil suggested employing him after meeting him at the BIBA conference. His CV showed him to be a Chartered Insurance Broker and he had passed three diploma papers so was well on his way to an Associateship. This appealed to the board of Vegnot because none of them were qualified to this level and it was felt that it would be good to have someone with chartered status working for them. They received a very good reference from Dr Hinder, a friend of Oliver, and, as many of the premiums for the insurance of sewing machines would be paid in cash, Phil thought that the Financial Services Authority would also be impressed if he put someone with chartered status in charge of the account. If the scheme went well they could expect to be handling many thousands of pounds each week (E).

One other thing that Phil had to consider was the publicity for the scheme and he and Oliver had a very successful lunch with a journalist from the sewing trade press. It was agreed that if Phil could supply an article of 500 words on the basics of 'all risks' insurance and take a small advertisement in the next issue, the journalist would write an editorial about the Vegnot Limited scheme in the issue after that.



Phil liked this idea but knew that writing about insurance was not his area of expertise. Luckily Helen had been commissioned to write a similar piece for the insurance press so it wasn't a lot of work to change a few words and pretend that he had written the piece. Helen did not mind so there was no breach of copyright (5).

Things continued to get better when a friend of Oliver's turned out to be a sales representative from a cotton company, so they made a tidy sum selling the Grunger Limited Database to this company also. (F)

One thing that Phil had never liked about his dealings with Impact Insurance Limited was their insistence that he should not use the agreed wording, nor indeed show it to any other insurer or broker. Phil felt that this breached his duty to make a fair analysis of the market and sent it to three other insurers (G).

In the end, although they could produce slightly better wordings and terms, none of the other insurers were happy about Vegnot being free to add what they wanted to the premium, so moving from Impact Insurance was not an issue (H). Phil even managed to negotiate a marketing allowance in return for agreeing to deal with their offshore company (J).

Unfortunately for Phil, one of the insurers to which he had sent the details of the scheme, ABC Insurance Company Limited, had taken rather a shine to the idea and had approached another insurer, XYZ Syndicate Limited, to act as insurer for a scheme for people owning sewing machines. XYZ were to 'front' the arrangement and ABC would become the 99% reinsurer, paying XYZ £10,000 per year as a management fee (K).

The brother of the lead underwriter of ABC was a well known sales representative of a cotton company who owned a database of customers of a leading sewing machine company. With greater resources, the ABC scheme was issued weeks before Phil and Vegnot were ready to launch theirs. This insurance company cornered the market before Phil and Oliver could get started!



So how did you get on? Let us look at some suggested answers:

- **Complying with all relevant laws**

(A) This is likely to be a breach of the Data Protection Act. Did the friend have the company's permission to sell the information and if so, did Grunger Limited have the legal right to sell it in the first place?

(F) Even worse, Phil sells the database to a third party without the agreement of those on the database!

(C) Also, Phil is aiming to 'gross-up' the premium for the benefit of Vegnot Limited. It is not the insurer he has a duty to tell but the customer. What does he intend on doing with the 5% IPT on the additional amount? A number of firms caught 'grossing-up' have kept the 5% IPT charge and have claimed this to be an accounting error when it has been pointed out to them. This is veering towards criminal activity.

- **Complying with the laws of the CII**

(E) This is not as easy to spot. Oliver is claiming to be permitted to use a chartered title but does not have the appropriate qualifications. All employers should check qualifications. Misuse of titles and qualifications is a major issue for the CII and many other examination bodies. Also, note that Phil has relied on a personal reference. Is this such a good thing?

- **Meeting the requirements of all applicable regulatory authorities**

(B) There is a compliance issue here which CII members are missing. If Grunger Limited is going to promote the scheme then that firm may need to be authorised, become an Appointed Representative of Vegnot Limited, or work within a very limited scope of promotion as an Introducer Representative.

- **Meeting the requirements of appropriate Codes of Practice and Codes of Conduct**

(H) This is simply lacking in integrity and a breach of probably any Code of Conduct that exists.

- **Upholding professional standards in all dealings and relationships**

(K) Whether there are legal issues or not, taking someone else's idea and hiding behind a fronting arrangement to sell it is not conducting business to a high professional standard. The same applies to pretending that a piece of creative work is your own when it is actually the work of someone else. Telling the world that you have written something when in fact it is the work of another is no different professionally than plagiarising someone else's work for an examination.

- **Respecting the confidentiality of information**

(G) A tough call but Impact had insisted on confidentiality and Phil should not have sent details to other insurers. If this demand creates non-compliance, Phil will have to manage the conflict.

- **Applying objectivity in making professional judgments and in giving opinions and statements**

(H) Phil is so keen to have a deal that makes his firm the greatest profit (at any cost) that bias (lack of objectivity) has led him to do business with a non-UK insurer, perhaps putting the clients at undue risk.

- **Not allowing prejudice and bias or the influence of others to override objectivity**

(D) This is a difficult position for any practitioner. Perhaps no one can blame Phil for putting his job security first, but the point of inserting this example into the case study is to raise awareness that such bias does exist and that in the modern world, a member of the CII is expected to question such issues even if the question only arises in one's own mind. The CII does not expect a member to become a martyr over such issues but the insurance and financial services industries were founded on the concept of providing a solid foundation of security for society as a whole.

(J) The marketing allowance is clearly blurring Phil's objectivity. It seems clear that the other insurers can offer better terms and rates but Phil is now being driven by income from Impact.