

IMSA and Regulators Promote High Ethical Standards

RECENT CORPORATE SCANDALS have brought unprecedented attention to business ethics and a re-examination of what ethical practices really mean. These new concerns have had a profound impact on all business—honesty and integrity have taken on a whole new importance. And for businesses such as life insurance, where consumer trust and confidence are paramount, demonstrating a strong, ongoing commitment to ethics is particularly critical.

The Insurance Marketplace Standards Association (IMSA) was organized in 1996 in response to a crisis of damaged consumer trust and confidence in the insurance industry. An independent, nonprofit organization, IMSA has more than 200 voluntary members that lead the insurance industry in promoting high ethical standards in the sale of individual life insurance, long-term care insurance, and annuity products.

IMSA continually strives to meet the needs of consumers, companies, and the marketplace as a whole by helping its member companies scrutinize their own sales and marketing practices to assure a fair environment for consumers. IMSA requires its companies to develop an infrastructure of policies and procedures designed to provide reasonable assurance of compliance. Our efforts include not just detecting but resolving questionable sales practices.

Certainly, regulators are the watchdogs for consumer protection. But safeguarding fairness and integrity requires constant diligence. Neither regulators nor companies alone can ensure that the marketplace is operating in a fair and appropriate manner at all times.

In the past two years, IMSA has gained a greater acceptance by regulators. In fact, a growing number of state insurance departments use IMSA membership as a tool when directing market conduct exams. Using IMSA assessment information already available can mean less fieldwork for the examiner. This is vital for regulators already challenged by tight budgets to do more with reduced staff.

Susan Stead from the Ohio Department of Insurance is “convinced that IMSA certification is a positive step for

companies and that there is a role for it in state market conduct programs.” She adds that she “did not fully appreciate the rigors and depth of the IMSA assessment process” and “was especially pleased to see the ongoing monitoring that IMSA requires.”

To modernize market conduct functions in light of the changing federal landscape brought about by passage of Gramm-Leach-Bliley, the National Association of Insurance Commissioners (NAIC) has been taking a close look at the role self-assessment organizations like IMSA can play in a changing market-

place. Are the IMSA Code and Principles compatible with state market conduct examinations? Are the criteria we use stringent enough and relevant? Are our independent assessors really independent?

The answers to all of these questions demonstrate IMSA’s ongoing commitment to its original mission. We’ve made and continue to make much progress.

For example, in a review conducted last November, Robert Butler, former financial services consultant with PricewaterhouseCoopers LLP, found that our principles and codes did address all

or most considerations in many of the NAIC’s business areas. An IMSA independent assessment addresses all considerations in complaint handling and marketing and sales. In addition, our standards addressed from 50 percent to 70 percent of the considerations for company op-



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erations/management and producer licensing.

While IMSA wasn't designed to address all of the NAIC market conduct examination criteria—specifically policyholder service, underwriting and rating, and claims—we do look at buyers' guides, advertising materials, forms and endorsements, and the licensing considerations covered in the underwriting and rating area.

We've been pleased to see that our efforts to upgrade and improve our standards are being recognized. In an article in *Insurance Compliance Week*, Ernst Csiszar, director of South Carolina's Department of Insurance, said "Market conduct exam reports don't have the grain or the detail we see in IMSA assessments. Using their standards would clearly raise the bar."

In the January/February 2001 issue of *Contingencies*, Steven Larsen, Maryland

insurance commissioner and the former chair of NAIC's market conduct working group, said that "some IMSA criteria may even be more valuable or relevant than some state criteria, which should result in a rewrite of state standards."

To continue to fulfill its mission, IMSA is constantly re-examining its policies and procedures, particularly the standards for independent assessments. In our assessment standards review, IMSA has developed common, baseline standards of performance for all independent assessors both to improve independence standards and to institute appropriate testing standards.

After an exhaustive review, we have implemented a number of modifications.

- ▶ All independent assessors are now required to submit to a company's board of directors a summary of activities performed with respect to the company's independent assessment.

- ▶ IMSA currently is revising its independence standard to identify and prohibit certain types of non-audit activities and other professional services that may generate potential conflicts of interest with independent assessment activities.

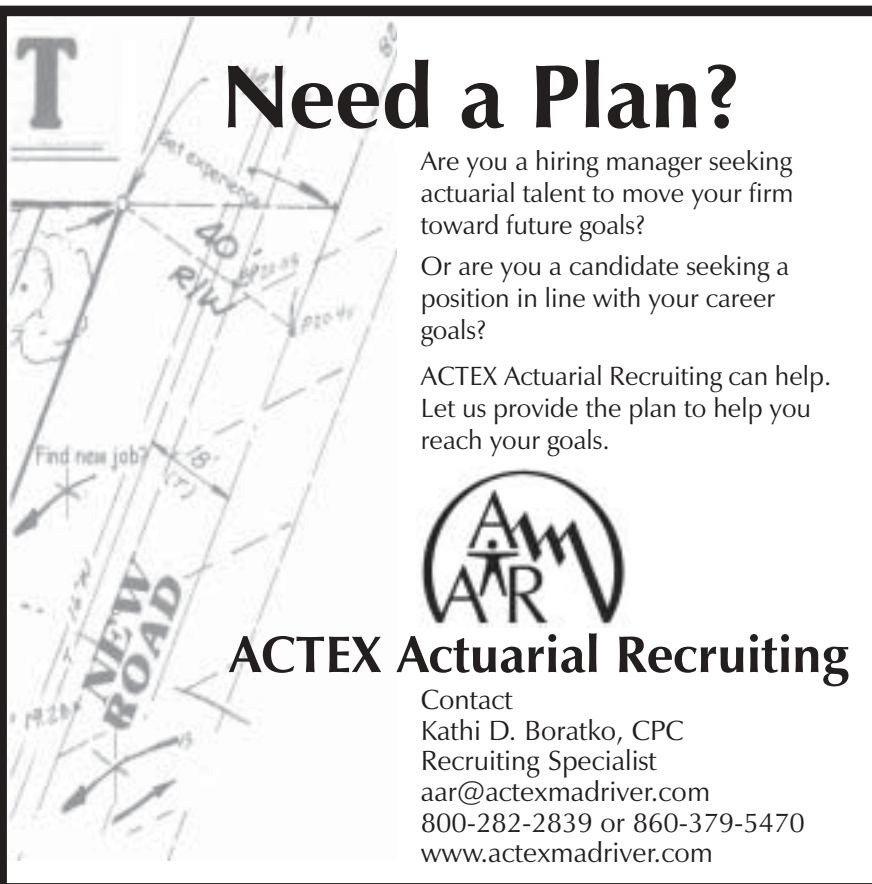
- ▶ IMSA will develop clear guidelines for testing techniques and selecting sampling sizes that take into account a company's size, organizational structure, distribution systems, and risk exposure. This will allow assessors to use their best judgment while still adhering to a minimum guideline.

- ▶ IMSA member companies that want regulatory recognition of their IMSA qualifications will be encouraged to retain, at a minimum, documentation of the self-assessment activities that demonstrate compliance with IMSA standards.

- ▶ We will require independent assessors to complete an "Agreed-upon Procedures Report" that will outline testing methods and types of evidence reviewed to determine IMSA standards compliance.

As we move through 2003, IMSA will continue to work with its member companies to develop and implement policies and procedures to promote sound market practices. We'll continue to work with state and federal authorities to show them the value of our unique commitment to high ethical standards. And, in keeping with our efforts to make sure our association is valuable and relevant, we'll monitor and evaluate the changes to our independent assessment program.

Though the market has changed and IMSA with it, our original intent stays the same—to promote high standards of ethical conduct in the way insurance companies conduct business with consumers. The IMSA seal is a mark of excellence in the insurance industry. It serves as a guidepost for consumers. As we continue our work, everyone will be winners—insurance companies, regulators, producers, and, most important, consumers who can trust that they've been provided the best product choices to fit their particular insurance needs. ●




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