Perspectives on Ethical Leadership
2016

SIXTEENTH ANNUAL
James A. and Linda R. Mitchell
Forum on Ethical Leadership
in Financial Services

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

Forum on Ethical Leadership

The Sixteenth Annual James A. and Linda R. Mitchell/The American College Forum on Ethical Leadership in Financial Services took place on January 16, 2016 in Palm Beach, Florida. The event featured a discussion of several key issues confronting the financial services industry, along with an examination of practical ethical dilemmas encountered by executives during their careers and questions raised by business ethicists from major colleges and universities around the country.

PARTICIPANTS

ACADEMICS

Andrew Gustafson, Associate Professor, Business Ethics and Society, Creighton University

Jared Harris, Associate Professor of Business Administration, Darden School of Business, University of Virginia

Robert Johnson, President and CEO, The American College of Financial Services

Rosemarie Monge, Assistant Professor, Ethics and Business Law, Opus College of Business, University of St. Thomas

Julie Ragatz, Director, Cary M. Maguire Center for Ethics in Financial Services and the Charles Lamont Post Chair of Ethics and the Professions, The American College of Financial Services

EXECUTIVES

Jim Carbone, National Vice President, Principal Advisor Network, Principal Financial Group

Thomas Harris, Executive Vice President, Distribution, Penn Mutual Life Insurance Company

Richard Levitz, President Wealth Management, GCG Financial

James Mitchell, Chairman of the Advisory Board, Cary M. Maguire Center for Ethics in Financial Services, The American College of Financial Services, Chairman and CEO (Retired), IDS Life Insurance Company

David Raszeja, Chief Ethics and Risk Officer, Penn Mutual Life Insurance Company

Walter White, President and CEO, Allianz Life Insurance Company of North America

Executive Summary

EXECUTIVE SUMMARY

On January 16, 2016 a group of six executives and five academic ethicists gathered in West Palm Beach, Florida to participate in the Sixteenth Annual James A. and Linda R. Mitchell/ The American College Forum on Ethical Leadership in Financial Services.

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

- To provide executives with an opportunity to reflect on ethical issues they confront on a regular basis with questions posed to them by academics engaged in business ethics education.
- To afford academics the opportunity to engage in discussion about these issues with top-level executives so they can bring that experience back to their classrooms.

Bob Johnson makes a point as Rosemarie Monge and Rick Levitz listen.

SHOULD SOME FINANCIAL PRODUCTS NOT BE ALLOWED IN THE MARKET?

After the participants introduced themselves and shared their goals for the day's discussion, the conversation turned to the case study. The case study centered on the question as to whether or not there are certain products that companies should not market to consumers. While the case focused on the specifics of fixed-indexed annuity products, the participants agreed that there were any number of products in the financial services industry that could have been featured in the discussion.

Participants discussed the possible standard that could be used to determine whether a product should be sold. One participant suggested that a reasonable standard is whether the product could lead to serious harm that would not be obvious for a longer period and therefore would be difficult to mitigate. Other participants suggested that when products, such as mortgage-backed securities, reached a level of complexity such that they were not understood by financial professionals, they should not be sold to consumers. Other participants noted that both standards would have prevented innovative products that met a genuine market need, like long-term care insurance, from reaching the market. One participant brought up an example of a medical product used for its intended and beneficial purpose, but that also could be used for an unintended and ethically problematic purpose. How should companies handle situations in which their products are being sold or used incorrectly? Participants agreed that companies had an obligation to determine that their products were being used appropriately; it is problematic if a product is primarily used for its unintended and ethically questionable purpose. It is questions like this, the participants agreed–in which the company's responsibility is not immediately obvious–that should serve as the basis for classroom discussions on ethics as well as the focus of academic research.

Participants also discussed the evolving role of the financial advisor, particularly in light of the forthcoming Department of Labor ruling on the universal fiduciary standard. While all of the participants agreed that advisors should only act in the interest of their clients, they were concerned that the proposed regulation did not adequately specify what it meant by the requirement to act in the 'best interest' of the client. Participants noted that, in the absence of a clear test to determine whether actions met the standard, enforcement would default to whether the recommended product was the cheapest. In some cases, the participants agreed, the best product was the least expensive product. However, a lower price usually meant that the client was not receiving other benefits from the product, benefits that might turn out to be valuable to the consumer.

Participants also discussed the emergence of robo-advisors, automated services that manage investment portfolios, which is another way in which the role of the financial advisor is evolving. One participant worried that robo-advisors would be incapable of providing the sort of nuanced and particular advice that a consumer would receive from a professional financial advisor. Other participants acknowledged that this was a concern, but noted that robo-advisors did expand access to some form of financial advice to a larger group of consumers, many of whom lacked the resources for professional planning.

EXECUTIVES' ETHICAL DILEMMAS

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

The first situation concerned a company policy that refused to compensate financial advisors for 'internal replacements', in which the advisor replaces a client's current financial product with a product from the same company. The origin of the policy was in the company's desire to prevent a practice known as 'churning'. Advisors 'churn' their clients when they recommend replacing financial products with new products primarily to earn commissions from the sale of these new products. In most instances of 'churning', the consumer receives little or no benefit from these transactions. However, there are some good reasons why an advisor would recommend a client to replace a financial product, especially since newer financial products often offer more value to the client. The company policy of not compensating any internal replacement functions can punish an advisor for doing the right thing in some cases. This struck some advisors at the company in question as an unfair policy.

The second situation concerned the obligations of the company to assist the consumers of their financial products in using the products in the most efficient way. Companies do not assume completely rational behavior on the part of consumers when they are pricing their products. For example, companies assume that a certain percentage of consumers will not activate a rider on their policy at the most opportune time or that a certain percentage of consumers will cease their premium payments. While companies could make more of an effort to 'nudge' consumers to act in ways that are more rational, this would raise the price of financial products for all consumers.

Walter White contributes to the discussion.

A third situation occurred as company leaders were working to determine their dividend payment to policyholders. While some policyholders would be eager to receive a larger payment, other policyholders would prefer to strengthen the company (and its rating) by increasing its capital cushion. The ethical challenge comes from the fact that company leaders are asked to determine which action is in the best interest of the policyholders when they do not form a homogenous class and without having the opportunity to ask their preferences.

A fourth situation resulted at a time when an organization was 'demutualizing', which is the process by which a mutual company changes its legal form to a publicly traded company. Most of the products sold by this company were 'participating', meaning that the policyholders were entitled to share in company profits, which usually take the form of dividend payments. However, a small portion of contracts sold were 'non-participating' policies and these policyholders were not eligible to share in company profits. It was clearly stated that these policies were 'non-participating' on the contract, but it was unclear whether the advisors, who were unaccustomed to selling 'non-participating' policies, had clearly explained this to their clients. The question for company leaders was whether to treat the non-participating policies as participating, even though to do so would dilute the funds distributed to the participating policyholders.

The fifth dilemma occurs when advisors sell life insurance products as an accumulation product to help consumers achieve their long-term savings goals. Life insurance products are designed in such a way that a higher death benefit leads to an opportunity for higher 'target compensation'. In short, advisors are incentivized to sell policies with higher death benefits and this is usually a good thing since most Americans are drastically underinsured. However, when a life insurance product is sold as an accumulation vehicle, a higher death benefit is not an advantage to the consumer and may be a drawback since it adds additional expenses to the policy. It is possible, though, that down the road the client, as well as their beneficiaries, will appreciate and benefit from the increased death benefit. Given this fact pattern, is it permissible for the advisor to recommend a policy with a larger death benefit than is necessary to achieve accumulation goals?

ACADEMICS' QUESTIONS

In this portion of the Forum, each of the academics posed an issue or raised a question for the group to discuss.

The first questioner was concerned that the financial services industry would not be considered a profession when one of the common business models was for companies to 'poach' top-performing advisors from other firms instead of investing in developing their own talented group of professionals.

A second questioner asked the executives what policies and practices they have found to be most effective in developing an ethical culture.

A third questioner sought the executives' thoughts on a case study. In this case, a senior leader is deciding which of two talented executives to promote to a more senior position. During this time, he overhears one of the candidates disclose to a subordinate that he has acted in a deceitful way to obtain prescription medication that enhances his performance. The question is how the executive should respond to this information.

A fourth questioner wanted to know from the executive participants what they would like their future employees to learn in a business ethics class.

CONCLUSION

The executives and academics all agreed that the candid sharing of opinions was very helpful. They were all grateful for the opportunity to spend the day reflecting on ethical issues and learning from one another.

Introduction and Goals for the Day

Jim Mitchell observed that he had the privilege of spending his entire career with two organizations that he believed were highly ethical. "I was literally never asked to do anything that I thought would be inappropriate." When he retired, he decided that he would embark on a 'second career' in which he would, "try to promote ethical leadership in business, and specifically within the financial services industry."
Mitchell hoped that a day of "organized reflection" would give the executives a chance to take a step back and think about ethics in a meaningful way. He hoped that the day would provide the academics with the opportunity to learn from executives how they try to behave ethically in their roles as leaders. He added that he believed that the academics would take away, "some good stories to share in your classroom and an overall sense that most business people are trying to do the right thing most of the time."

Jim Carbone also believed that he worked for organizations that were very committed to ethics. At his current organization, he believed that ethics

Tom Harris makes a comment to the group.

was "in the DNA of the organization. It's in the DNA of a lot of the leaders of the organization." However, he was aware that despite this culture, "there are areas which get muddied from time to time." This is why it was important to him to "continue to get a better and deeper understanding of the ethical issues." Carbone hoped, "to walk out of the event today with an even stronger ethical compass in terms of leading the organization and building the culture."

Walter White shared that, earlier in his career, he believed that organizations he worked for could have done more in terms of encouraging a greater transparency and treating employees better. He remembered thinking at the time, "if I ever get a chance to run an organization, I am not going to do it in this way." As he acquired more experience, however, he began to realize that decisions were not always as simple and clear-cut as he had believed. "I began to realize that there was more complexity, and that it was appropriate to answer to different people at different levels."

White shared that at his current organization, "we've spent a lot of time thinking about ethical issues and potential disconnects." Especially important to discuss, according to White, was how the set of corporate values could come into conflict. For example, "when do the value of caring and the value of excellence lead you to different decisions?"

In terms of what he hoped to achieve from the event, White noted that his company had been on an interesting journey in the last several years related to questionable sales practices in the past. "And as more of that is in the rear view mirror, I just want to make sure that we don't forget what brought us to that point. So refreshing my thinking on ethics is always important."

"Ethics is bringing together everything in your life. It's about how your personal life intersects with your business life and how you can't separate the two things."

–Jared Harris

Dave Raszeja agreed with the other participants that, in his experience, most people in business are trying to do the right thing. "And when there are stumbles, they tend to be unintended." He shared that one challenge is that it is not always clear at the outset that a situation has ethical implications. "Sometimes you don't feel like you are confronting an ethical dilemma at the beginning of a conversation or a decision-making process. And by the time you realize that your ethics are in play, you've almost gone too far, and it becomes really difficult to reroute the conversation."

He hoped that in the day's conversation, he could learn more about how to, "diagnose a little earlier when a conversation might lead us to an ethical conundrum and how we can get a better understanding of the ethical landscape in which we are operating."

Jared Harris shared a story from his childhood that shaped the way he thought about how ethics and business go hand in hand. "My dad worked for the same company for 35 years, which is a rarity in this day and age. When he retired, he wrote a personal check out to his former company for a couple of hundred dollars. His purpose was to reimburse the company for all of the little things that had come home in his pocket, you know, like pens or sticky notes or things like that." At the time, he remembered thinking that his dad's action was probably 'overkill', but later he came to have a different view. "Over the years, I've kind of reflected on that as sort of a defining moment for me, as sort of recognizing that ethics is bringing together everything in your life. It's about how your personal life intersects with your business life and how you can't separate the two things."

Harris added that he had a career in business before he came to academia and now that he is in the classroom, he tried to focus on realistic situations rather than 'stylized' hypothetical dilemmas. "I spend a lot of time with executives and what I like about that is that we can talk about real issues". He was looking forward to learning from the participants today.

Tom Harris defined ethics as "intentionally trying to do the right thing", but he noted that decisions can be interpreted in different ways by different audiences. However, being ethical means that you are trying to make the "best decision you can make with the facts that are on the table." Harris thought that ethics also had to do with how an organization responds when it is obvious that their actions have harmed someone. "It's trying to do the right thing, but when you get it wrong, ethics is also about how you address that."

Harris noted that he was looking forward to the day since, "he rarely had a chance to sit and reflect on how other people operate. I'm very interested in learning how people handle these conflicts."

Andy Gustafson shared that not only does he hold an academic position, but he also is a property owner with over 30 properties. "The way that I treat my clients, who are the people that live in my places, the way that I treat my employees and people that I contract with to do work in my properties is something that I think about all of the time." One of the things that he always talked to his students about is how business can improve the culture. "I'm always trying to see how whatever business I am dealing with, whether it's banking or insurance or car repair, how is it transforming the culture and society for the better?"

Jared Harris and Andy Gustafson listen to Tom Harris' remarks.

"It's trying to do the right thing, but when you get it wrong, ethics is also about how you address that."
–Tom Harris

Gustafson was interested in Carbone's comment about ethics being in the "DNA" of an organization. "How do you get to the point where people don't even think twice about doing the right thing because their hearts and minds are in the right place?" He was interested in learning more about organizations that were able to do this because this is exactly the sort of mindset that he wanted to develop in his students.

Bob Johnson noted that ethics had played a primary part in each stage of his career. He began his career as a professor of finance at Creighton University where the last classes he taught were in the field of financial ethics. From Creighton, he went to the CFA Institute where he "had a wonderful opportunity to promulgate the CFA Code and its Standards around the world." His third act is to be President and CEO at The American College of Financial Services. At each stage of his career, he viewed himself as a 'pracademic'. "I wasn't fully in the practitioner world and I wasn't fully in the academic work. I operated where the worlds crossed and I think that is a wonderful place to be."

At The American College one of his goals was to transform the culture and reinforce the importance of The College's values and mission statement. One of the things that he hoped to get from the conversation today was a sense of the ethical issues that practitioners are facing. "Ethics is one of the pillars of The College and we need to be sure we integrate the issues that practitioners really care about into our programs and curriculum."

Rosemarie Monge noted that she was really looking forward to listening and learning today. "I'm excited to be here to listen and learn from great minds who view business as something noble." Monge believed that it was important to continue to talk to students about the social mission of business. "When you ask students why they chose business as a major it is often because they view it as a 'safe choice', but if we could talk more about the nobility of business and get that into the broader cultural conversation, it could be quite transformational." She was hopeful that she could take some of these lessons away and pass them along to her students.

Rick Levitz observed that one of the ethical challenges that we face is, "are we financial advisors or are we salespeople, or both? We deal with the ethics of this question, literally, on a daily basis." Levitz described what he referred to as the concept of 'convenient ethics'. "For example, lots of financial advisors talk about being ethical, but when it actually comes to their own particular situation, with significant dollars at stake, it seems that sometimes there can just be a slightly different perspective." He added that he was very interested in learning about what the academics thought about the financial services industry. "From an outside perspective, what do you think of our industry generally and then, as we get into discussion, what is your opinion on some of the specific situations?"

Julie Ragatz observed that the annual Forum on Ethical Leadership was one of the highlights of the Center for Ethics' activities because it brought together both academics and practitioners. She was excited to spend the day thinking about ethics in the financial services industry. "The nobility of our profession is unsurpassed by any other profession because we help people to achieve financial security, which is a primary good. You can't pursue any other goal or dream if you are not financially secure. The people who work in our industry give people a sort of foundational stability to pursue all of the other things that they want." During the discussion today, she hoped to learn from everyone in the room. "What matters the most to me, like Bob said, is that I can be in a position to develop content that is meaningful and relevant. In order to do that it is really important for me to engage with both academics and practitioners and this Forum presents a wonderful opportunity for me to do just that."

Case Study

"If we could talk about the nobility of business and get that into the broader cultural conversation, it could be quite transformational."

–Rosemarie Monge

"SHOULD SOME FINANCIAL PRODUCTS NOT BE ALLOWED IN THE MARKET?"

"Hi, Jane," Miles greeted the woman who stood next to him on the sidelines of their children's soccer game. "How are you and your family?"

"We're all doing well, especially now that soccer season has picked up again. Kelsey has been practicing all summer for the opening game and I see that Liam has really improved his goal tending skills," Jane smiled. "You must have been working with him."

"Yes, well, getting over the fear of the ball was an important first step," Miles laughed. "I am glad that I saw you today. I wanted to get your take on this event that I was invited to. It's called the 'Forum on Ethical Leadership in Financial Services' and it is designed to be a gathering of academics and executives discussing ethical issues. Have you heard anything about it?"

"I have actually," Jane responded. "A couple of my colleagues in the B-school have attended in the past. It has been going on for a while now. They always say really great things about it," she chuckled, "I keep waiting for my invitation."

"I'm glad to hear that from the academic side of things. I spoke with one of my peers at another firm and she said it was definitely worth the time," Miles mused. "It is a busy time of year for me, right after the holidays, but I think I am going to do it."

Jim Mitchell and Walter White listen to Jim Carbone's remarks.

"What's the topic this year? I know that the discussion is always structured around a case study."

"Fixed-indexed annuities (FIAs)," Miles confirmed, "which, frankly, is one of the reasons that I wanted to say 'yes' to the invitation. I am certain that would be a lively discussion, at the least."

"What's old is new again," she mused. "I think that one of the case studies from a couple of years back was on equity-indexed annuities." Jane frowned, "But I'm not sure I see this as the subject of an ethical dilemma. I mean, how can you have a discussion about this? They're pretty awful products, aren't they? And only sold because they pay a ridiculously disproportionate commission."

"I'm not sure I would agree," Miles responded mildly. "It's hard to say that any product is terrible in an absolute sense. Most products have value for a certain group of people. It is just a matter of making sure that the right people get into the right product."

"But isn't that the problem?" Jane noted, "Don't the sort of commissions that are paid on this product make it really tempting for salespeople to put the wrong people in the product for the wrong reasons?"

"That can be an issue," Miles granted, "but it is important to separate the product itself from the compensation structure around it. Is that your only objection?"

"It's a pretty big objection," Jane insisted. "You have people who are looking for guaranteed income being essentially scared into buying products that offer them less in the way of a return, or in the way of protection, than they could get in some other vehicles. If the product is mostly sold inappropriately and if other vehicles meet the same needs, then why should it exist?"

"Well," Miles countered, "I'm not sure I am going to grant you that they are mostly sold inappropriately or that they don't offer a unique solution. But I think that you raise a really interesting point. A lot of people blamed the recent financial crisis on the fact that companies started producing so-called 'exotic' mortgages, which were not the 'plain vanilla' 30 year fixed products. But the problem wasn't the new mortgages, which probably helped some people afford houses that wouldn't have been able to do so otherwise. The problem is that they were sold to a lot of other people who could not afford to buy a house at all."

"That's why I am not sure that you can so easily dismiss my compensation objection," Jane responded. "The wrong people got into those wacky mortgages because they were ***sold*** wacky mortgages by salespeople who had more to gain from selling them than from selling traditional mortgage products. The issuing companies gained too. They made a lot more money on the new products, which were loaded with fees and conditions. And the same seems to be true with these fixed-indexed annuities."

"So, you're saying that financial companies should only offer products that are a good enough fit for most people? That this would be a better outcome than offering a portfolio of products that acknowledge that different people have different needs?" Miles seemed incredulous. "Who would even decide what products should be offered? You wouldn't really want the government dictating to people how to plan for their financial security, would you? If the government were a financial advisor, it would have its designations revoked for falling so far into debt!"

"I know," Jane laughed, "It seems impossible that a business school professor wants to limit the market, but I think I do. You seem to think that consumers can understand the intricacies of products like this and make a reasonable choice in their best interest. But, just like the complicated mortgage products, you have to admit that it is hard to compare FIA products from different companies. You need to rely on an advisor to guide your choice, and we've already discussed the real challenge of biased advice."

"I don't know," Miles opposed, "It's like any other financial product; you've got to look at the issuing company. There are clear differences between different financial companies and their products, and consumers can easily find that information."

"I think that you're giving consumers too much credit for resourcefulness," Jane mused, "although I wish that weren't the case. Besides, I think that the financial crisis seriously undermined the public's trust in any rating agency. Moreover, you have to admit that these products are only good for a certain section of the market – people who don't need their money right away, people who have already contributed to tax-deferred retirement plans, people who are in a certain tax bracket."

"And your argument would be that these people shouldn't get the opportunity to buy the product that is right for them because the wrong people may buy it too?" Miles smiled. "If I tell your colleagues they may revoke your B-school credentials."

Rosemarie Monge makes a point to the group.

"They probably would," Jane agreed laughing, "so it should be our secret. But seriously, again, these products are not bought, they are sold, and this is an important distinction. They are sold by people who are highly compensated to sell this product relative to other products. FIAs are complicated products to understand and to compare and moreover, most have the small print – that no one ever reads – that informs the consumer that the issuing company can change the way that return is calculated either annually or at the end of the contract. So, it is hard to understand what you're buying now, and it is impossible to know how it is going to change. I think that the market would be better off without products like this."

"But where would you draw the line, Jane?" Miles asked. "How paternalistic should the government get here?"

"I don't know," Jane said honestly. "But I think that you have the beginnings of some great questions for your event."

"I think that I am going to be the best-informed executive there!" Miles smiled at his friend. "I'll give you all of the credit for my thoughtfulness."

QUESTIONS

(1) Miles believes that it would constitute an unacceptable degree of paternalism for the government to limit the sort of financial products offered to the market. Do you agree? Why or why not? If you don't agree, what sorts of limits should be put in place?

(2) Jane indicates that she does not believe that consumers read and understand the 'fine print' in many financial contracts. Our regulatory system is based on the assumption that disclosure leads to informed consumer decision making. Do you think that this is a reasonable assumption? Why or why not? If you believe that this means consumer protection is limited, what would you add to it or replace it with?

(3) The case itself deals with the issue of who is responsible when an individual is placed in the 'wrong' financial product. Miles and Jane offer several suggestions of where responsibility should be allocated: the issuing company, the salesperson and the consumer? Is this the right list? How would you allocate responsibility?

(4) Jane raises the issues that FIAs, like other insurance products, are 'sold' and not 'bought', by which she means that they are offered as solutions to the problems or needs presented by the client. The client does not, typically, seek them by name. Does this alter your perception of the ethicality of offering such products? Why or why not?

(5) Could concerns about offering FIAs to the general market of financial consumers be mitigated if all financial services practitioners were held to a fiduciary standard (that is, were required to act in the best interests of their clients) instead of a suitability standard (that is, required to sell suitable products)?

(6) Fixed-indexed annuities are complicated products. Should they be required to be sold as securities? Why or why not?

(7) It is clear that in several areas of human decision making (especially in matters related to health care and the law), people rely on the advice of professionals and do not fully understand the products, services, or procedures that they purchase or to which they consent. Is this reliance ethically problematic? If so, under what conditions? Is it possible to articulate a standard of consumer knowledge that makes it permissible for an ethically-minded practitioner to sell them a product or service or to perform a procedure?

(8) Fixed-indexed annuity sales, while growing faster than other types of annuities, still represent only about 20% of all annuities sold in the United States. Is this whole discussion "much ado about not much?"

FIXED-INDEXED ANNUITIES: GENERAL BACKGROUND AND CURRENT DEBATES INTRODUCTION

At its most basic, an annuity "is a contract between you and an insurance company... under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date.[1]"Annuities are designed to provide a steady, predictable stream of income to "annuitants" who are generally nearing or are in retirement. Annuities are divided into three broad types: fixed, fixed-indexed, and variable (including variable-index).

- In a *fixed annuity*, the insurer promises to pay the annuitant a certain minimum percentage of interest on his/her principal investment for the duration of the investment period. The insurer then guarantees regular payments to the annuitant after the investment period has ended.[2]

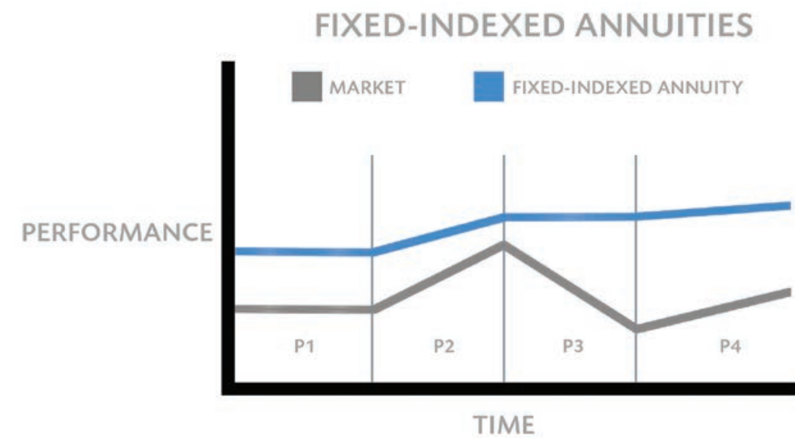
- *Variable annuities* can rise and fall in value. In variable annuities, the annuitant can select from a range of different investment options, although mutual funds are the most common (variable annuities can be pegged to an index as well). Variable annuities thus provide the potential for greatest gains, but also do not protect the annuitant against market exposure.[3]

[1]Securities and Exchange Commission, "Annuities" [http://www.sec.gov/answers/annuity.htm] Accessed 3 September 2015

[2]Illinois Department of Insurance, "Buyer's Guide to Equity-Indexed Annuities" [http://www.insurance.illinois.gov/life_annuities/equityindex.asp], Accessed 3 September 2015

[3]Ibid.

- A *fixed-indexed annuity*[4] is very similar to a traditional fixed annuity, except the interest paid to the annuitant on his/her principal is determined by two sources: a stock market index (typically the S and P 500) and the insurance company's interest "cap." FIAs limit gains, but essentially eliminate losses (or guarantee a minimum payout). FIAs do not decline in absolute value due to declines in the market.[5]



FIAs are becoming increasingly popular in the United States. In 2013, sales of FIAs totaled $38.7 billion, which was a 14% increase from the previous year. In 2014, that same number jumped another 24% to $48 billion. Insurance companies and agents are engaged in a rapid expansion of the FIA market, which has significant implications for American investors.

SALES OF FIXED-INDEXED ANNUITIES

Fixed-indexed annuities are growing in popularity, and numerous trade publications have noted the sudden surge in FIA sales rates. Indeed, according to LIMRA, FIA sales increased by 23% between 2013 and 2014 – the single largest annuity-type sales increase. Variable annuity sales, however, ***decreased*** by 4% in the same time span.

[4]A note on terminology: "fixed-indexed annuities" is not a universally used term, although it is becoming more common. In the past, these types of annuities were often called "equity-indexed annuities." After a spate of lawsuits and state government investigations, insurance companies often dropped the word "equity" and began referring to the products as fixed-indexed annuities.

[5]Ibid.

Annuity Industry Estimates
(Dollars in billions)

	Q4 2014	Q4 2013	Pct Chg Q4/Q4	YTD 2014	YTD 2013	Pct Chg 2014/2013
Variable						
Separate accounts	27.5	29.4	-6%	112.3	115.8	-3%
Fixed accounts	6.7	7.0	-4%	27.8	29.6	-6%
Total Variable	**34.2**	**36.4**	**-6%**	**140.1**	**145.4**	**-4%**
Fixed						
Fixed-rate deferred	7.3	8.5	-14%	29.7	29.3	1%
Book value	4.9	6.4	-23%	21.1	21.8	-3%
Market value adjusted	2.4	2.1	14%	8.6	7.5	15%
Indexed	12.2	11.9	3%	48.2	39.3	23%
Fixed deferred	19.5	20.4	-4%	77.9	68.6	14%
Deferred income	0.68	0.71	-4%	2.7	2.2	22%
Fixed immediate	2.3	2.6	-12%	9.7	8.3	17%
Structured settlements	1.5	1.4	1%	5.4	5.3	3%
Total Fixed	**23.9**	**25.1**	**-5%**	**95.7**	**84.4**	**13%**
Total	**$58.1**	**$61.5**	**-6%**	**$235.8**	**$229.8**	**3%**

Industry estimates reported for the fourth quarter 2014 based upon data from 60 companies, representing 96 percent of total sales.

Source: LIMRA Secure Retirement Institute, U.S. Individual Annuity Sales Survey (2014, 4th quarter)

As the above table shows, variable annuities continue to overshadow fixed annuities in terms of total sales, however fixed annuities outpaced variable annuities by 17 percentage points between 2013 and 2014, indicating that fixed annuities may be on course to overtake variable annuities in terms of total sales in coming years.

BENEFITS OF THE FIXED-INDEXED ANNUITY

FIAs have some fairly obvious benefits for many investors who seek to secure regular income in their retirement years. FIAs are often sold on the merits of these benefits:

Principal Protection

Assuming that an annuitant does not with-draw any of his/her money during the holding period, his/her principal is guaranteed protection against losses. The principal protection of an FIA seems intrinsically appealing to investors who are planning for retirement, since they are often more interested in protecting principal investment than growing a principal investment.

Bonuses and Rider Benefits

In addition to often including one-time bonuses that are added to the principal, FIAs can come with the option to add additional "riders" to the annuity. Riders can guarantee certain levels of income and/or principal growth, and can provide a death benefit (a payout to the annuitant's heirs) if the annuitant dies.[7]

Lengthy Payout Periods

Like all annuities, FIAs are designed to provide a steady stream of income for many years, and sometimes indefinitely. Unlike other investment options where an investor may have to worry about outliving his/her funds or losing his/her holdings during market downturns, annuitants with FIAs can count on a predictable income that they can never outlive and that is derived from a fund that is *at least* as big as their initial principal investment. This "peace of mind" is probably the biggest motivation for consumers to purchase annuities.

RECENT CHANGES TO THE FIXED-INDEXED ANNUITY

FIA product design has evolved for the better, beginning about four to five years ago, industry watchers say. While contracts offer a lifetime income stream to investors as before, now investors have much more control and flexibility, according to Judson Forner, director of investment marketing at ValMark Securities Inc., an independent broker-dealer.

Before, turning assets into a lifetime stream of income was an "irrevocable decision," in which the income stream couldn't be turned off, according to Mr. Forner. Now, the income stream can be turned off and investors can take the account value if they need to, assuming the contract's surrender period is over, says Mr. Forner. Surrender periods now are also shorter than they were historically on fixed-indexed annuities, advisers say.[8]

CRITICISM OF THE FIXED-INDEXED ANNUITY

FIAs have their critics, and they are criticized for a number of reasons.

Commissions

Agents typically earn a high percentage commission on FIAs even though the return for their clients is typically not very high, relative to other investment opportunities. Recent estimates of commissions earned by advisers from sales of annuities tend to average around 6%,[9] although they do run higher depending on the particular company or the annuity being sold.

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[7] *Ibid.*

[8] *Iacurci, Greg, "Fixed-Indexed Annuities Soar in Popularity" Investment News 29 November 2015*

[9] *Mercado, Darla, "Time may have come to eliminate sales incentives in the annuities business" Investment News 7 May 2015*

Low Rates of Return

Due to FIAs' caps, diminished return rate (usually relatively to the S and P 500), and principal protection elements, they do not offer particularly impressive returns when compared to other alternative products that are offered to people planning for their retirement.[10] Recent FIA average returns have hovered around 4% to 5%, while the S and P 500 experienced three-times that level of growth.[11] Clients may be attracted to the promise of guaranteed sustainability and likely growth, but critics claim they are often not informed of the modest gains they will see and often "overestimate the upside.[12]" These gains may be rendered more modest by the very types of protections that are meant to guarantee stability: the riders.

Rider Fees

If an annuitant wishes to go beyond the guarantee that his principal will be preserved over 10, 15, or 20 years or until his death, he will often purchase a rider to the annuity. Riders, however, come with fees – often near 1%.[13] The death benefit rider is an example of a product that is potentially very beneficial for an annuitant's heirs, but does involve an initial upfront cost that will reduce his/her immediate income stream.[14] Critics say that these fees are often not explained well to clients.

Non-Liquid Nature

While highly non-liquid financial products are by no means an unfamiliar concept, critics of FIAs (and annuities in general) often note that people who are nearing retirement may not be well served by putting a lot of money into a product that essentially prevents them from accessing their own money for some time.

[10]Scism, Leslie, "A New Warning on 'Indexed' Annuities" The Wall Street Journal 7 June 2015

[11]Scism, Leslie, "Fixed-Indexed Annuities Merit Caution" The Wall Street Journal 16 August 2013

[12]Ibid.

[13]Bernard, Tara Siegel, "Variable Annuity Plus Guaranteed Income Merits Careful Scrutiny" The New York Times 19 June 2015

[14]Clements, Jonathan, "Investments That Help Retirees Maximize Income" The Wall Street Journal 14 May 2015

Early Termination Fee

An annuitant will incur a significant early termination fee – potentially as high as 10% – if she withdraws any money from her FIA prematurely.[15] Depending on the FIA's performance, this may result in a loss of principal.

Suitability of FIAs Based on Investor Characteristics

	More Suitable	Less Suitable
Cash Reserves	Investor has significant liquid holdings that can cover multiple costly emergencies for at least a decade	Investor has most of his/her money invested in non-liquid assets, such as annuities and other retirement products
Mortality	Investor is unlikely to die before the end of his/her annuity term	Investor has a high likelihood of dying before the end of his/her annuity term
Growth	Investor can live off of principal and is not reliant on earning significant amounts of interest	Investor is dependent on the growth of his/her FIA for financial security in retirement
Literacy	Investor truly understands rider fees, caps, growth rates, historical performance, and penalties	Investor believes that he/she cannot lose principal and will experience risk-free growth

[15]FINRA, "Equity-Indexed Annuities – A Complex Choice" 13 September 2010

Discussion of The Case

Jim Mitchell began the conversation by sharing that he was having lunch with the head of distribution for a good-sized company. "He told me that 'people were after him all of the time to make sure that his field representatives were selling the right products in the right way. But maybe', he suggested, 'there are some products that just shouldn't be sold to anyone.' This was a new thought to me, and when I talked to Julie we decided that this was an interesting question for a case. We had a number of products to choose from and we picked fixed-indexed annuities since there has been controversy about them on and off through the years. However, this case isn't really about fixed-indexed annuities. It is about whether there are some products that should not be offered. If this is true, when is this the case and who should make that decision?"

Walter White believed that if you were going to make a determination about whether a certain product should be offered, "I think that you would look for two characteristics. The first is cases in which the potential harm is significant and the second is when the outcome may not be known for a long period of time. I think that you need to evaluate it on a case by case basis, but I would be in the camp of saying that there are some products that the risk is so high and the likelihood the harm wouldn't materialize until it was too late is too great."

The participants pay attention to Jared Harris' comments.

Bob Johnson shared that one of his former students tried to recruit him to work with him valuing and trading mortgage-backed securities. "I looked at what they were doing and I told him, 'You know, I think that I am a pretty good analyst, but I can't figure out how to value these things' and he laughed and said that, 'there is a little bit of an art there.' What I came away with was that investment bankers' creativity often exceeds the ability of market participants to understand their products. I think that with some products a line is crossed. I do not think it is crossed with fixed-indexed annuities, because I think that a reasonably bright person can understand them. But if professionals trained in their field cannot understand a product, I am not sure that people should be buying it."

White agreed with Johnson, but he did not think it was sufficient to ban a product because consumers did not understand it. "That's true, I think, of almost all financial products. When you buy a general security, how often do people really understand the factors that could affect its ultimate valuation? I think what is important is that you understand the nature of the risks and under what circumstances could those things happen. If that can't be understood, then I think that you do have a problem."

Tom Harris brought up the example of long-term care insurance. "I think most people would say that this was a good product for the right consumer. However, companies had no data as to what the outcome was going to be 20, 30, 40 years from now. What they did predict turned out to be wrong. Companies had to either raise the prices or pull out of the market. If predicting the future becomes the yardstick for whether or not you are going to offer a product, then I worry that

creative products that meet a real market need, like long-term care insurance, are never going to come to market. I think that you can take a calculated risk, but you have to disclose that it is a calculated risk."

Rick Levitz agreed that it was difficult for clients, even highly educated clients, to understand the complexities of financial products. "One of my clients is a very successful orthopedic surgeon who just went out on a disability claim. He has some health issues which make it impossible for him to operate, although he can still practice on a consultative basis. However, his inability to operate has limited his income." Levitz continued that disability is not as simple of a concept as it first appears. "Most people think disability insurance is 'oh, I'm disabled, I get paid.' The policy itself contains 40 pages of how to determine if you are disabled. My client is calling me to ask 'what does this mean and what does that mean?' My point is that even sophisticated people are not going to understand the complexities or intricacies of what we do in our practice. When you consider that most financial advisors spend just several hours in person every six months with their client, it is almost impossible for them to cover every detail of every product that an advisor knows from thorough fact-finding makes really good sense for a client to implement. At some point, clients have to trust that, as financial advisors, we're making appropriate recommendations."

Mitchell empathized with Levitz's dilemma. "If you were to have actually sat down with your client and taken him through all 40 pages of the policy, he would have been bored to death by the time he got to page 40. He'd either have been so confused or so bored he wouldn't have bought the contract. An important point is that, whatever the limitations of the policy, what he has is better than no coverage at all. It's a dilemma. You want clients to understand as best as you can. But if you go into every detail, you confuse them so much they don't buy anything, and that may well be a bad decision for them."

Levitz believed that Mitchell made an important point. "You can't cover every single detail in every single product that might be implemented. You have to make some judgment calls on what is important and what is not important for each client. Each financial advisor may make a slightly different decision. Sometimes clients can have short memories about what was said as frankly, in their mind, these decisions are usually not the most important thing on their plates. This is a really difficult and important issue."

ETHICS SHOULD FOCUS ON THE GRAY AREAS

Jared Harris thought it was important to focus on the gray areas, rather than thinking about the extreme cases. He offered an example about General Electric in India. "They sell these portable ultrasound machines and they can be used for all sorts of helpful purposes, like diagnosing gallstones, especially out in the villages and rural areas. The dilemma arises for General Electric because people use the machines for prenatal gender determination, especially in rural areas where there is a preference for males over females. This becomes a controversial issue for GE. What is the company's responsibility for how their products are used? It's a very interesting case and what makes it interesting is that the devices can be used for lots of good things and they can also be used for some things that seem to be ethically problematic. What is a firm's responsibility for unintended use?"

Julie Ragatz listens to Jim Mitchell's comment.

Julie Ragatz thought that part of the issue was how often a product was used outside of its intended purpose. "That was the situation with stranger-owned life insurance. You had a product that could have had a good purpose, but which was actually being used the majority of the time for this ill purpose and the company was still profiting from it. I think that this may be an interesting way to look at it. There seems to be a problem with a product that is mostly sold incorrectly and therefore harms more people than it helps. What makes the GE case so difficult is that it would be hard to get that empirical data. How many times is it being used to detect gallstones versus how many times it is used in a prenatal situation."

Walter White agreed. "What's at the heart of this issue is the obligation to find out. In the case of stranger-owned life insurance, we decided we needed to know how these products are being used. Did they really add value in practice? There is a lot of reluctance to intercede directly with the customer because their relationship is with their advisor. So whether you can get it may be challenging, but I think just to make the effort is important."

Jared Harris thought that the issue filters down to everyday aspects of running the business. "Consider the analogy of GE again. What do you do about those ultrasound machines? Are you going to cut the sales targets next year? Or double them? How aggressively are you going to sell these things knowing that they may be being used inappropriately?" One of the things that he tries to communicate to his students is that responsibility is not (and should not be) an all-or-nothing thing. "The government has some responsibility and the patients and the doctors, so there are a lot of responsible parties in that case. That's not to say that GE does not have any, right? I think ethics is about seeing yourself as having at least some responsibility for things that happen."

THE PROPOSED DOL INVESTMENT ADVICE RULE

Jim Carbone explained the proposed universal fiduciary standard for those participants who were not familiar with it. "There is a proposal by the Department of Labor concerning ERISA covered assets which would significantly change how advisors do business. Generally, broker dealers and registered sales persons could make a suitable recommendation as to a securities transaction, without being deemed ERISA fiduciaries. The salesperson has to know the client, understand the situation of the client and make a recommendation that reasonably meets the needs of the client at the time of sale. The Department of Labor has proposed to change the definition of investment advice and lower the threshold for activities that make persons an ERISA fiduciary. The implications are very significant especially for the financial industry." Carbone continued that the proposal is

Tom Harris listens intently to Andy Gustafson.

motivated by the DOL's concern that conflicts of interest are influencing advisors' recommendations.

Tom Harris added that the intent of the regulation is to protect the consumer from bad actors, but the rule is written in an unclear way. "It says that you have to act in the best interest of the client, but it does not define how we are to determine 'best interest'. Is the best product determined by the length of the surrender charge

period? Or is it determined by the benefits in the living benefits contract? Or is the best product the one with the lowest charges?"

Andy Gustafson wondered whether the best was defined as the 'cheapest'. "I am not sure that is the case. I own 31 properties and so I spend a lot of time at the hardware store. When I need a question answered about how to do a repair, I don't go to the big box store; I go to the local store where I know that they can give me answers."

Rick Levitz believed that defining the best product as the cheapest product could lead to some unseen costs. "There may be a product with lower fees, but with those lower fees there are likely some benefits that the client is not going to receive. The benefits that you might be missing are not necessarily obvious."

THE EVOLVING ROLE OF THE FINANCIAL ADVISOR

Jim Carbone believed that certain trends we are seeing with technology, regulation and consumer buying preferences may be influencing the industry to consider direct-to-consumer models without the mediation of an advisor. "This may be contributing to an increased preference for simplified products which can be more easily marketed directly. Ultimately there will still be a need for the advisor. While a certain segment of the market may choose to take advantage of these options I believe these changes will bring greater clarity to what the advisor's role is, and make her more of an advisor and less of a salesperson."

Walter White did not think that the direct-to-consumer model meets the needs of the market.

Jim Carbone listens as Walter White makes a comment.

"What people need is advice, and the whole focus is on the product selection process, which to me is a very small part of what a financial advisor does. For example, they are helping with budgeting and they are explaining how Social Security and the changes in the tax code impact decisions. They are helping people take action."

Jim Mitchell worried that current regulatory trends may lead to the middle market having less access to the services of an advisor. "That would not be the intended consequence, but it is probably going to be an unintended consequence. The middle market may only be served by robo-advisors."

Bob Johnson was concerned that robo-advisors were inadequate to meet consumers' needs. "You're trying to take something, financial planning, which is incredibly complex and distill it down to an algorithm. But does this take into account the legacy you want to leave and how you plan to take care of your children and other dependents? Aren't robo-advisors really just robo-asset allocators?"

Andy Gustafson believed that the role of the financial advisor is to ask questions and raise concerns that clients might not have considered. He thought it was important to think about the sort of clients we want to create. "Some of them are not going to be able to understand very much at all, but you want them to be as informed as possible. When I have a doctor trying to explain as best as he can what my problem is and why he is taking a course of action, I become more autonomous in that process. He's still the expert, but he is also giving me

"The high value advisor will employ advanced technology along with a high touch relationship and ongoing service to meet needs of their clients. Cost is just one factor in the equation."

–Jim Carbone

knowledge to help me be more responsible for my decisions. As I continue to understand, maybe I can make a better decision in the future." The problem with robo-advisors is that they are ambivalent in terms of increasing client autonomy. "On one level, a robo advisor makes me more autonomous since I can do it all myself. On the other hand, I don't have the coaching that comes from a professional advisor who is there to help me along the way."

Dave Raszeja wondered if 'robo-advisors' provided a solution to the problem of the fact that there is a large portion of the population that does not have access to a financial advisor. "Isn't it better for society that there is some method of planning available for the middle market?" He was also concerned that consumers needed to be savvier and financially literate in an era in which companies were moving away from defined benefit pension plans. "But I don't see anyone moving the needle on the financial literacy spectrum. We've transferred that financial risk from companies to employees, without doing the work of equipping them to make those decisions. Advisors are a part of the solution, but can everyone afford to have an advisory experience? I don't know what the answer is going to be."

White thought that this was a good example of how the financial services industry was failing to fulfill its mission for a large number of Americans. "We can't complain too much if the government steps in and provides some solution. We're not meeting the needs of too many people. People aren't saving in any way. Why would we stand in the way of somebody trying to offer a solution? When you look at some of these solutions, of course, they are not very good. But these people aren't otherwise saving. I think we need to come to this middle ground knowing that we're not serving this market."

Julie Ragatz noted that the tax benefits for life insurance products were originally justified because of the social good created by the sale of life insurance. "The intent of the tax benefits was to help middle-income people provide for their dependents after their death. This was a good thing since it prevented these dependents from seeking out the resources of the state. It seems that we have moved away from that."

Carbone questioned whether there was an inclination, intentional or unintentional, to encourage consumers to look to "robo" from purely a cost standpoint. There are some who believe that the best thing for the consumer is the cheapest thing, and I don't always agree with that. Good advisors provide a comprehensive view of the client's financial situation and help manage client behavior to achieve financial goals along with the product and strategic solutions they recommend. The high value advisor will employ advanced technology along with a high touch relationship and ongoing service to meet the needs of their clients. Cost is just one factor in the equation. "

Bob Johnson listens to Leah Selekman.

Jared Harris mentioned there was interesting data that showed the effectiveness of asking experts to use a 'checklist' to make decisions. "There is research that showed that physicians are more effective diagnosticians if they are forced to use a checklist when examining patients in the emergency room. As you can imagine, some of the doctors pushed back on this saying, 'I went to medical school and I was a resident for five years. I have all of this experience and you want me to rely

"I think that you do yourself a disservice by referring to your field as an industry and not a profession, because if you don't refer to yourself as a professional then no one else will."
–Bob Johnson

on a checklist to make decisions?' But it turns out that it dramatically improved outcomes."

Bob Johnson wondered whether the analogy held with financial services professionals. "In an emergency room situation, there is a one-time interaction between the physician and the patient. I think that a robo-advisor might do a wonderful job in setting up an initial portfolio. If you are a 25-year-old, the robo-advisor is going to tell you to put 90 percent of your money in stocks and 10 percent in bonds. But what happens when that person experiences their first down market and sells off, since they did not have an advisor to tell them that they shouldn't? All of the studies show that people who work with advisors have better investment performance than people that don't."

IS THE FINANCIAL SERVICES INDUSTRY A PROFESSION?

Rosemarie Monge thought that it would be helpful to take the analogy with the professions further. "Should we focus on trying to professionalize the financial services industry, in the way that we have professionalized the fields of law and medicine?"

Bob Johnson noted that in his experience, practitioners did not refer to themselves as professionals. "I was at a large industry event and they were honoring people into their Hall of Fame. Every time they spoke, they talked about their service to the 'industry' or that he was a leader in the 'industry'. When they asked for comments, I said, 'I think that you do yourself a disservice by referring to your field as an industry and not a profession, because if you don't refer to yourself as a professional then no one else will. How are consumers going to see people as professionals when we don't see each other as professionals?'"

Jim Mitchell observed that The American College was founded in order to professionalize the industry. "For those of you who aren't familiar with The American College, we have been working since 1927 to professionalize this business. Being a professional includes updating your knowledge constantly and applying it ethically."

Bob Johnson believed that there are three legs to a professional stool, "The three legs are knowledge, experience and ethics. If you don't have any one of those three, the stool falls down. In any profession, this is what makes you a professional."

Monge wondered how the financial services industry could avoid the fiduciary standard if it wanted to be a profession. "I think that there also has to be some connection to the common good, as in other professions. In medicine, health is the good that the profession promotes in service to the common good.
In the law, it's justice. In the financial services industry, it's something akin to financial stability. The deal when you become a profession is that you get to build up a monopoly on the provision of those services, but in return you have to guarantee certain things, namely, that you're going to act in the best interest of the person who is depending on you and in a way that promotes the profession's contribution to the common good."

Jim Mitchell listens to Julie Ragatz.

The Executives' Ethical Dilemmas

DILEMMA #1

This was actually a question that I was asked by an advisor, and I did not have a good answer. The question was around internal replacements. The background on this is that in many instances, either through a regulatory body or through self-regulation, many firms limit the amount of compensation that an advisor can get on replacement sales. The advisor essentially said, 'I'm going out and meeting with the client. I'm analyzing their situation. I'm making what I feel is a suitable recommendation and I'm liable if the recommendation turns out to have a problem with it. I have to service that business on an ongoing basis and pay staff to do that, but you're not going to pay me. I understand the reasons why, although I may not agree. My problem is whether it is ethical for the company to keep that compensation itself.' The problem is that the compensation element is embedded so deeply in many of the products that it's difficult to extract that and pass that benefit back to the client. In essence, the question is whether it is ethical for the company to benefit from the fact that we are not fully compensating the advisor.

The group listens as Dave Raszeja shares his thoughts.

Tom Harris observed that the advisor could receive full compensation if they take the business to another carrier.

Jim Mitchell argued that, "In a more perfect world, advisors would be serving underserved or unserved consumers and adding to the total amount of insurance in force as opposed to making a living by churning existing business."

Jared Harris wondered about the rationale for the policy. "Why would the company not want to incentivize that fiduciary who is trying to serve the interests of his clients?"

Tom Harris responded that the policies like this were usually in response to regulatory concerns about churning. "When you churn a client, you recommend a product that benefits the advisor but that does not necessarily benefit the client. For example, I could recommend a product, maybe a product that is slightly better for the client, maybe one in which the 'bells and whistles' are slightly different than they were before. However, the client has to pay new fees on the premium that goes into that contract. In many cases, the facts and circumstances gave the clear appearance that the advisor is just moving this for their own benefit. The companies were not looking at this as carefully as they should. So there were regulatory actions and fines and things like that."

Mitchell pointed out that the company had a financial stake in some of these sales. "The company could argue that the older policy was much more profitable to the company than this new one. By replacing the product, they are doing the right thing for the client, but they are giving up an ongoing stream of profits. They are helping the client, but they don't want the producer to get wealthy at the expense of their doing the right thing."

Walter White agreed with Mitchell and noted that companies did not design products for wholesale replacement. "It is a real dilemma because if the company was truly doing the best thing for the client, they would be telling everybody, 'hey, you ought to internally replace these' which, clearly, the carriers are not doing."

Julie Ragatz wondered whether this practice would hold up in the new regulatory climate. "Doesn't this practice essentially penalize you for going back and trying to serve your clients? Would this have any implications in the fiduciary debate?"

Rick Levitz noted that compensation on most life insurance products have shifted to pay out heaped compensation at the time of sale, rather than compensation over a longer period. "Twenty years ago, all of the life insurance companies that we dealt with had renewal compensation. In addition to the first year commission, companies paid 'service fees' designed to incent you to service the client. As products have developed more recently, for various reasons–some arguably good, some perhaps not so good–those service fees have almost disappeared. Insurance companies simply responded to the demands of the marketplace."

Jim Carbone believed that this was not the best decision. "I question whether we have inadvertently shot ourselves in the foot by doing that. I think some of what is coming out from a regulation standpoint is going to push us back in the other direction. I think we're beginning to see a push back, if not to renewals and service fees, maybe to a more levelized compensation."

DILEMMA #2

A lot of products have features where policy owner behavior is very relevant to either the value or the cost. We don't assume completely rational behavior. If we did, products would cost more for the average consumer since we would have to price that into the product.

We as a company also don't go out of our way to advise people when it would be in their best interest to do these things. Financial advisors often will. A good financial advisor should be monitoring these product features, and will ask the company questions to get the information to help the client make the best decision. However, we're not mailing customers, for example, that this would be the best time to turn that rider on.

Dave Raszeja believed that companies have a real obligation to their owners, the shareholders. "It may be easy for us to downplay that at an ethics conference, but it is a real concern. When you are trading off profits to materially benefit your clients, it is clear that you are not necessarily serving all of your stakeholders. The question is how do you determine how much weight you give to the interests of each stakeholder?"

Julie Ragatz agreed. "I think it is pretty clear that decision makers have a genuine legal and moral obligation to look out for the interest of the shareholders. But they do have other obligations, as well."

Jim Mitchell believed that every business decision had ethical components because it involves a balancing of stakeholder interests. "I believed that it was my job to have each of those stakeholder groups be better off over time because they did business with my company. In the short-term, any one decision may well disadvantage one of those stakeholders in the interest of a couple of other ones. If you always make the decision to advance the interest of one group of stakeholders, then you shouldn't talk about valuing the interests of the others. But it's not always clear whose interest should take priority and this is why you have an ethical dilemma."

Julie Ragatz contributes to the discussion.

"Part of our concern is that advisors feel good that they are able to look at the consumer and say that this company is allowing me to deliver on the promises that we made."
–Dave Raszeja

DILEMMA #3

As a mutual company, every year we make the determination as to how much dividend we pay out. We always want to make good on our promises and so we look at what was illustrated at the time of sale. We also think that having more capital and having higher ratings is in the best interest of our current and future policyholders. However, we have taken that money in from our policyholders with the promise of paying it out. While this would seem to be a math problem, we spend a lot of time around stakeholder equity. I can only imagine that with a stock company it is even that much more complicated because there are more stakeholders.

It is interesting because you're asked to act in the best interest of policyholders, but policyholders don't have a single viewpoint. The challenge is that you're supposed to act in the best interest of someone and you don't actually get to ask them every year what it is that they want. Some of them might greatly prefer that you keep the capital and lower dividends to make sure that your ratings were extremely high because they are more interested in the preservation of capital, where others really are focused on a return standpoint.

Jim Mitchell said that he faced a similar problem at his former organization when they repriced their fixed annuity products. "We repriced them every six months and every time we had this debate. Finally, one of our smart actuaries said, 'let me come up with a matrix', which was a function of whether interest rates in the marketplace were going up, down or sideways, and whether existing business rates were above, below or same as our new business rates. Then we had a model that determined how much we would move in which direction. The model reflected the fact that this decision was a trade-off among competing stakeholders. The tradeoff was between the shareholders and the customers and the field

Rosemarie Monge listens attentively to Rick Levitz's remark.

force, who were looking out for the clients' interests as well. We talked a lot with advisors about why we were doing what we did. But it was always one of the hardest decisions we had to make."

Dave Raszeja agreed that the advisors were an important stakeholder. "Part of our concern is that advisors feel good that they are able to look at the consumer and say that this company is allowing me to deliver on the promises that we made."

Rick Levitz also thought it was important to set the stage with the client. "The first conversation we should have with the client, if you are using an illustration, is to let them know that the numbers on the page will never come true. The numbers on the page will either be outperformed or underperformed, but those numbers are absolutely guaranteed not to come true. It is only an illustration of what might happen if all the assumptions on the page happened each and every year in an almost static environment."

DILEMMA #4

The company was demutualizing, so most of its policies were participating. However, there was one version of a variable life contract that was sold that initially started out as participating. A new version of the contract came out and it was not participating. It said in bold letters on the first page of the contract, 'this is not a participating policy'. All in all, about 3 percent of the policies sold were non-participating.

The company in the situation had a surplus that they were going to give out to those policyholders that were with them before the demutualization happened. Those who had

"I'm a Utilitarian so I'm always looking for the action that will bring about the greatest good for the greatest number."
–Andy Gustafson

participating policies certainly would expect to get their share. The question was whether those individuals who had the non-participating policies should be included, because according to their contracts, they should not. Of course, the other policyholders, who were participating, could argue that their benefits would be diluted if the non-participating contract holders received dividends.

However, we wondered how many of those advisors really had the discussion about the difference between participating and non-participating when they sold the products. The company had been a mutual company for over one hundred years, so the advisors were not used to having conversations about participation or non-participation. It just wasn't in their muscle memory. We thought that there was a high likelihood that the conversation about the difference between a participating and a non-participating product never actually took place.

Andy Gustafson wondered how much the payout would be diluted if the non-participating policyholders were included. "I think that the economic considerations are a part of ethical decision making."

Walter White believed that it was important to stick with what was stated in the contract. "I think that things get very gray if you start to cherry pick. It would not be fair to everybody else."

Jared Harris agreed with White, "unless there was some sort of systematic deception when the product was sold or it was not represented properly."

Rick Levitz wondered what role economic consequences should have in an ethical decision. "Should the costs and benefits of different alternatives steer the decision making at all? Should that be something that you take into account? For example, would this case have had a different outcome if 30 percent or 50 percent of the policies were non-participating?"

Andy Gustafson believed that the possible benefits and harms of an action were important in assessing whether it was the right thing to do. "I'm a Utilitarian so I'm always looking for the action that will bring about the greatest good for the greatest number. Some people believe that you should act according to a moral principle no matter what the consequences may be in terms of harms caused. I am going to be concerned about what would bring about the best balance overall for the different stakeholders."

Rosemarie Monge added that it was important to remember that in the Utilitarian framework, "You don't just get to do what is best for you; you have to think about the greatest good for the greatest number. However, it sounds like you took a different approach. You were thinking about implicit promises and that goes beyond a cost-benefit analysis. You were really looking at a promise-based analysis which is different."

Jared Harris believed that most people were motivated by different factors at different times. "Sometimes we're motivated by principles and loyalty and sometimes by self-preservation and sometimes by a concern about what is good for everyone. To Rosemarie's point, if there is someone who tends to think of things in terms of consequences, that is not a bad thing. But I think what educators want to do is to push their students to make their decision-making framework more robust, to push them to think about principles, and the reverse is true as well. There are all of these different lenses and none of them is foolproof, but they are all useful."

Leah Selekman, Jackie Witkin Raszeja and Dave Raszeja at the closing reception.

Walter White wondered about the role that litigation risk should play in decision-making. "We often face decisions where we know what the right answer is, but we are forced to balance this against the likelihood that we might get sued. Sometimes it gets complicated. There may be a push by some parties to settle the case, but this can muddy the waters. I have my own biases because I don't want the attorneys to get rich. But this may not be the right economic answer."

Jim Mitchell said that one of his hardest decisions in business was whether to settle a class action lawsuit. "We faced this decision regarding a lawsuit that was brought regarding the 'vanishing premium' products, when interest rates declined and the premiums didn't vanish as expected. The class action attorneys were working their way through a list of the largest companies when they got to us. I knew we had one of the best sets of facts in the industry. I thought, 'Everyone else may be settling, but we're not going to have to.' But the class action attorneys found a couple of people who said that the terms of policy had not been properly disclosed to them and I eventually realized that we would have to settle. That was a really hard decision to make."

DILEMMA #5

For people who are not familiar with the life insurance industry, there are life insurance policies designed for protection purposes and life insurance policies that are designed for accumulation purposes, as vehicles for people to save for retirement or other long-term savings goals. The way that the accumulation products are designed, the higher the death benefit, the greater the opportunity for higher 'target compensation'.

In designing a sale for a pure accumulation product, the idea is to maximize the tax advantages of the life insurance product. The death benefit is not what is important and in fact, you're trying to bring the death benefit down to minimize the expenses paid by the client and maximize the benefit they can get from the product. As an example, imagine that you have a client who has $25,000 they are willing to put into an accumulation product. There are two options, one is a policy that has a death benefit of $1.5 million and the second is a policy that has a death benefit of $2 million. If you sell the client the first policy, the advisor's compensation is going to go down and the more you bring down the compensation, the better the client is going to be.

Heidi Johnson and Bob Johnson at the closing reception.

The ethical dilemma for advisors is that they will look at the illustrations of both policies and they can conclude that the actual accumulation to the client is relatively similar under both of the policies, while the difference in compensation between the two policies is actually very significant. They begin to think that they work hard to find clients and that these clients are choosing to work with them because of the value that they add, over and above the sale of particular products. The bottom line is that in the world of accumulation products, there's a lot of flexibility in what someone can earn and the ethical dilemma is whether we should take the lower amount of compensation every time.

Tom Harris thought that if the client has been clear about their intentions for the policy, that is, that it is purely for accumulation purposes, then the burden was on the advisor to recommend the best policy for the client. "They may not be in a significantly different place, but they will not be in as good of a place as they could be. To me, that's pretty easy."

Jim Mitchell thought that this case was a great example of the sort of dilemmas that advisors face, especially for people just coming up in the industry. "If they can't make a living, then they can't serve anyone. So there is a utilitarian argument

"It is important that we let our students know that sometimes a 'win-win' solution can't be found and it can cost real dollars to act ethically."

–Julie Ragatz

that the advisor should at least get enough compensation to survive in the business and do a lot of good for a lot of people."

Julie Ragatz believed that this was an important example that highlighted the fact that sometimes doing the right thing can have a financial cost. "It is important that we let our students know that sometimes a 'win-win' solution can't be found and it can cost real dollars to act ethically."

Tom Harris believed that this dilemma pointed to a larger problem with how the financial services industry recruited new advisors. "Kids are coming out of college, and parents may have paid close to $200,000 for that education. Let's say that they have two career opportunities. One of them pays a steady salary and the other offers an unlimited earning potential, but will only provide $24,000 in salary for the first year and that guaranteed amount goes down every year after that. It is clear what the parents are going to recommend. Maybe if we spent that money differently, with a higher salary, I wonder if we would see a better result."

Dave Raszeja added that it was not just about finding the right people, "It's also about how well you are training and supporting them."

Jared Harris wondered whether there was another possible compensation structure. "Is commission based sales the only way to compensate people in this industry? If you pick up any sort of 'Financial Advice for Dummies' book, one of the first things that you will read is that you should avoid working with people who have an incentive to sell you Product A versus Product B. I don't know how many people pay attention to this sort of advice, but that is the sort of advice that is out there."

Rick Levitz agreed that this advice was out there, but added, "It makes me crazy since it implies that no one who is compensated on the basis of a commission would recommend a product that went against his or her own financial interests. This is simply not true."

Tom Harris believed that there was going to be a regulatory push towards more levelized compensation. "If there was a change in the compensation model, it would have to be driven by the regulators. I don't think that any company is going to jump out there say, 'I'm all in on a new approach'. The problem is that for any company that tries to do something new, you're going to have advisors who are like 'well, there are 15 other companies who are willing to compensate me the way that I want to be compensated'. So all the companies would need to be on board and since they can't be colluding, any change is going to be driven by regulators."

Rick Levitz believed that one of the considerations of the current system was that there were a lot of struggling financial advisors in the industry. "If you look at the personal financial situation of many financial advisors , you might be surprised at what you would find. There is a vast disparity in the range of personal financial situations of advisors selling these products. The challenge is that if the next sale is going to be the difference between making the next mortgage or car payment, then there is a whole different set of pressures that can influence a given situation." My bias of course is that financial advisors do the right thing every time, but external pressures should not be ignored. In addition, the choice between levelized compensation and heaped, often comes down to the financial advisor's personal financial situation.

Jim Mitchell pointed out that part of the reason for the compensation model is that it is difficult for companies to determine who is going to be successful. "I'm not saying it is the only model. If you go to a more levelized compensation then you're increasing the company's investment in those early year producers. That is not necessarily a bad thing, but many of them are not going to be successful since they simply won't sell enough. That is a dilemma for the companies."

Academics' Questions

BOB JOHNSON'S QUESTION

Some companies' business models are not to invest in recruiting and developing talent, but in hiring experienced people away from other companies. How does an industry become a profession when there is a disincentive to develop and invest in people since they are 'poached' by another firm when they become successful? Maybe that's capitalism and I shouldn't be worried about it. However, when you're trying to go from being an industry to a profession, it seems to me that there is something wrong when there are business models that are focused on that.

Tom Harris agreed that several companies have adopted this business model, "But I would argue that if you're providing enough value to the advisor, then they are not going to want to go to another organization. This is still very much a relationship-driven business and the longer you are with an organization the stronger those relationships become. You get to know underwriters, case designers and other people in the home office who can help you navigate a difficult case."

Rick Levitz shared that the people who work with him are called on all the time by people from the independent broker-dealer world. "They get calls from people who say, 'Hey, Rick's firm was great for you when you were starting out, but you don't need his support any more. Now you just need

Barb Harris greets Jim and Linda Mitchell at the closing reception.

the payout and you're not getting the highest payout at Rick's firm. You're splitting everything because he's got all of these overhead expenses for training and development.' Obviously these outsiders do not understand the full value proposition of our firm or other firms similar to ours. Nevertheless, I prepare myself to potentially lose two people each year; I don't know who they might be, but I prepare myself for that possibility each year. We have worked hard and been fortunate to keep attrition better than what we prepare for, but we simply never take anything for granted."

Jared Harris noted that many of the conversations that the group had during the day were about compensation. "About two-thirds of what we have discussed has to do with conflicts of interest around compensation." He wondered if we needed to be more imaginative about solutions. "Traditionally, the retail industry was based on commissions, but then Nordstrom's came along and did it differently by paying their salespeople a salary. That creates a different kind of experience for the shopper and some people really value that. I think that it shows that it is possible to survive and do something different. We might assume that in this business we have to do it this way, namely, offering a commission because we think it is the only thing that motivates people, but have we ever considered that we may be wrong about that?"

Rick Levitz wasn't sure that the analogy worked. "What most people don't really understand is that this can be a very difficult career. You need a lot of fortitude to be successful and you need incentive. It's not just about unlimited earning potential, although that is important. People in this business think of themselves

as independent business owners. It's the point that 'I'm my own boss and that no one is going to determine my income. I am going to have one hundred percent control of what my income is'."

Bob Johnson believed that compensation functions as a proxy for impact or for successful performance. "The thing that I always get when I talk to students at The American College is how competitive they are, and how much they want to win. I think that compensation is the way that they keep score."

Tom Harris thought that the emphasis on unlimited earning potential was losing its influence. "I do think that unlimited earning potential was how this industry was built. However, it does not resonate as well with millennials. They want to know how they can be a part of something bigger than themselves. They want to have an impact. Those things are more important to the millennials than they are to the people who have been in business for 20 years."

Rick Levitz noted that other forms of compensation models had challenges as well. "If you look at the fee schedules provided by the broker-dealers, advisors can charge between x and y. In some cases, you can dial your compensation in on an insurance sale, but you can also dial it in on an investment management account. You could have two separate million dollar clients, and you could charge the first client 1.1% and the second .85% because the first requires a lot more time (planning needs, etc.), or more handholding, or maybe I am helping their relatives too, or whatever the situation may be. So it's rarely as black and white as everyone thinks it might be."

Walter White agreed that this was true, but noted that the compensation range was much less extreme in the fee model than in the insurance world. "You're always operating within a range that you can justify based on the value that you're adding to the consumer. But disclosure may change things more than people think because it does open up the eyes of the consumer to different choices. You can clearly see the compensation with one option versus the other and there I think it's going to have an effect."

Rosemarie Monge pointed out that research shows that disclosure does not always achieve its desired goals. "It turns out that it doesn't really do the work that we need it to do in order to resolve some of the moral concerns. Research shows that if Jared discloses a conflict of interest to me, I'm in fact less likely to be suspicious of him and less likely to be concerned about the conflict of interest than if he had not told me."

ANDY GUSTAFSON'S QUESTION

What have you found in your business organization to be most effective in developing an ethical culture?

Walter White thought it was important for the culture to be consistent. "You can't always predict when you hire someone how it is going to turn out. You have to deal with the disconnects. How are you going to deal with people who violate your values? I think that you need to remove people whose behavior is not consistent with your values. Other people pay attention to how you handle those situations. Finally, from time to time you are going to have major events when you are going to have to make a choice and sometimes you will make the wrong one. How do

Jim Mitchell, Linda Mitchell, Heidi Johnson and Bob Johnson at the closing reception.

"In terms of building a culture, I think that people are paying attention to whether you do what you say."

–Rick Levitz

"Performance is a combination of the 'what' and the 'how'. If you ignore the 'how' because you're getting the results that you want, that is a problem."

–Walter White

you deal with the outcome? Do you use that as a way to strengthen the culture or do you just try to sweep it under the rug and hope that no one notices?"

Dave Raszeja shared that he tried to build ethics into the organization in an organic way. "As Chief Ethics Officer, I never stand in front of the company and say, 'Okay, pencils, down. It's ethics time. We're going to watch a series of videos. We never do that. It is embedded in the things we do successfully without having to rely on me or someone from HR to carry the message."

Rick Levitz wondered if there was a distinction between culture and ethics. "In terms of building a culture, I think that people are paying attention to whether you do what you say. I know that there were at least two occasions that were incredibly painful to me personally (as well as costly financially) but we did the right thing. I believe that those actions earned the respect of the Advisors in our firm. It was the right thing ethically, and I believe it was table stakes culturally.

Walter White believed that it was important to emphasize both the 'what' and the 'how'. "Performance is a combination of the 'what' and the 'how'. If you ignore the 'how' because you're getting the results that you want, that is a problem."

Tom Harris added that his company talked about the 'what' and the 'how' as well, and added that it was important to make that as concrete as possible. "We emphasize the interconnectedness and impact of actions." He also believed that it was important to focus on the relationship between the home office and the field. "We want to have the same culture, even though we are in different

Andy Gustafson, Celeste Harvey, Jared Harris and Jodi Harris at the closing reception.

places. We have guiding principles on how we want to behave as an organization. We did these workshops with the home office and then took the workshop on the road. It was a very participative exercise and one that made you think about things more deeply and have the opportunity of bouncing ideas off of your peers and coworkers."

Bob Johnson wondered whether you could have a good culture that was not ethical. "How can a good culture not be an ethical culture?"

Jim Mitchell thought the converse was possible. "Just visualize an ethical organization that isn't very high performing. I think a good culture is one that is high-performing as well as ethical."

Walter White was concerned with how much questionable ethical decisions in an individual's personal life should matter in making business decisions. "The classic example might be infidelity or going to a strip club, so it is clearly a personal matter and not a business issue. However, sometimes, the two can overlap. So one example that I have gotten in the past is that one of the producers will ask me to hold the compensation on a large sale because they are going through a divorce and do not want the money to show up in an accounting of the assets. It can be very uncomfortable."

Rick Levitz was not sure that it was his role to dictate what people did in their personal life, but he added, "If you start to reflect poorly on the firm or on any aspect of the firm, including yourself as an advisor, then I think it is time for us to get involved."

"I think a good culture is one that is high-performing as well as ethical."
–**Jim Mitchell**

JARED HARRIS' QUESTION

I wanted to share a case study that I have discussed with my students. Imagine that you have to promote someone to an executive vice president position in your organization. You have two good candidates. One of them is outstanding and probably, according to the metrics, is a higher performer than the other candidate, but the other guy is a high performer as well.

You are in the bathroom and you overhear one of the candidates, the one who is the higher performer, talking to one of his direct reports. The direct report is asking your candidate how he manages to produce at such a high level. The candidate responds, "Oh, it's really simple. It turns out that it is really easy to fake the symptoms of ADHD to your doctor and get a prescription for Adderall which, used off label, is a great performance enhancer."

What impact does this have on the way you think about the promotion decision? Whom do you promote? There are a host of complex issues associated with this. Do you make the decision just based on what you overheard? What are the implications? As a leader, how do you decide what's important to consider and what's not. How do you make that judgment and what are your reasons for making that judgment?

Rosemarie Monge thought it raised an interesting question of the distinction between public and private selves in the workplace. "It goes to something that was said earlier, that millennials want to bring their whole selves into the workplace, and they want understanding and accommodation with respect to other areas in their lives. If that is true, can you claim some sort of privacy right on information like this? Can you have your cake and eat it, too? If so, then what are the distinctions that need to be made? I think workers do have privacy rights, although this case is more difficult. In sum, where should we draw the line on privacy when workers also want to bring their whole selves to work?"

Rick Levitz wondered if it was the deception that was problematic. "Imagine if what you overheard did not mention anything about deceiving the doctor, but rather it was something along the lines of 'since I began taking Adderall, I have been so much clearer in my thinking.'"

Jared Harris thought that this case gets at the heart of the question that White asked earlier about personal ethics infractions. "Why would we care about something that might seem to be outside of the realm of normal business responsibilities? We might care a lot about it if what it indicates is some measure of trust or trustworthiness."

Bob Johnson shared a story that occurred when he was a professor and one of his best students asked him to participate in a golf tournament. "We are playing and he dropped a ball and then he suddenly found it again. I don't think that he knew that I saw what he did. We ended up winning the tournament. I knew that we could not accept the victory, so in the end I said that I had actually had 5 on that hole instead of a 4. I should have called him out on it at the time and I didn't." Johnson believed that this was a character issue and it had important implications. "There was a business owner I knew who always asked me for recommendations, and he had consistently hired my best students with a lot of success. I knew I was not going to recommend this student to him. I wouldn't have hired him."

Rosemarie Monge agreed. "I wouldn't feel comfortable hiring him either, because if you're willing to cheat on something that is relatively small, what are you going to do when the stakes are high?

ROSEMARIE MONGE'S QUESTION

What would you like to know that your future employees are learning when they take a business ethics class?

Jim Mitchell said that he would like to know that they were learning how to recognize and deal with an ethical dilemma. "I would like them to be able to identify situations in which their values are at stake and then be able to think that through, come to a decision and then take action."

Walter White thought that there is usually a 'knee-jerk, easy answer'. "However, what we really want are people who think through things more. To actually be able to see multiple sides of a problem and identify the logic on both sides of an argument before they reach their own decision."

Dave Raszeja wanted individuals who think actively about their role in building an ethical organization. "I want people to take ownership and ask how they can try to build the company that they want to work for. The earlier in their career that they can embrace that dynamic, the better off they are going to be."

Jim Carbone thought it was important for conversations about ethics to arrive at solutions. "I think that people involved in these conversations walk away with a great appreciation and understanding of the different points of view, but there is a hesitancy sometimes in the discussion to really pin something down and determine exactly how principles determine what we should do in a situation."

Jared Harris believed that part of the problem is that people are not very comfortable talking about values. "They often feel like they don't have a language to do so. It can be easier not to be confrontational, especially about things like values that can be deeply personal."

CONCLUSION

Jim Mitchell asked the group to share their thoughts on what they learned today.

Jim Carbone believed that it was important to take time to reflect on ethical questions. "I'll leave here with a more deliberate approach to how we create a strong ethical culture."

Walter White liked sharing views with a different group of people. "I spend a lot of time talking to people in the industry, but I don't usually speak to academics. To me, that was the most valuable part of the mix."

Dave Raszeja agreed with White. "My favorite thing, I think, was just the diversity of the group. I think that it was a really good crowd."

Jared Harris appreciated the opportunity to interact with executives. "I love the examples and the insight as well as the reminder that there is a great group of executives out there that are running businesses with a mind towards what is the right thing to do."

Tom Harris appreciated the opportunity to learn and share with others who face similar challenges. "To be able to talk about issues openly in a safe environment with other people who are really invested in doing the right thing is a great experience."

Andy Gusfaston agreed with Jared Harris about the value of interacting with business leaders for someone who works in the field of business ethics. "Listening to you all today supported and strengthened my view that businesses are trying to do the right thing."

Bob Johnson believed that the day's discussion really reflected the 'pracademic' dimension of The American College. "I believe that this event really represents the sort of institution that we want The American College to be, a place that brings together the practical implications and the academic research."

Rosemarie Monge was impressed by the thoughtfulness of all of the participants. "What was so striking to me was that everyone was thoughtful about living out their values in a field that may not have the best reputation. It was wonderful to listen to knowledgeable and successful business people who are also deeply committed to getting it right in this complex field. I'm grateful for the opportunity to get to know this thoughtful group."

Rick Levitz was glad to spend the day with this group of people. "This was a group of spectacular people and I truly respect you all. I will be taking away a lot of things from each one of you."

Julie Ragatz was glad to spend the day with two groups that normally don't mix. "For academics, unless you are at a university that really emphasizes practical interaction with the business community, you might actually never have an in-depth conversation with a business leader. I have always found that rather odd. I think that this day is a wonderful opportunity to build bridges between these two groups."

Jim Mitchell was grateful that everyone took the time to participate. "Our mission at the Center for Ethics is to raise the level of ethical behavior in the financial services industry. We actually think the level of behavior is already pretty high, but we know we can always do better. Hopefully, we've made a contribution to advancing that mission here today."

The 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 is the only ethics center focused on the financial services industry. The Center bridges the gap between sound theory and effective practice in a way that most ethics centers do not. Under the leadership of Director Julie Ragatz, the Center's mission is to raise the level of ethical behavior in the financial services industry. We promote ethical behavior by offering educational programs that go beyond the "rules" of market conduct, help executives and producers be more sensitive to ethical issues, and influence decision making.

The Mitchell Forum is a groundbreaking, one-of-a-kind event that underscores the Center's emphasis on collaboration and conversation among academics and executives. Jim Mitchell was recognized in 2008 for his dedication to business ethics and was 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 during the past year.

The Forum is the cornerstone of the Center's activities highlighting how to bring industry leaders, accomplished producers, and prominent business ethicists together to reinforce the need to connect values and good business practices.

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