

Ethics Under Pressure: Insurance Accounting Case Studies and Discussion

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01 Defining Ethics

02 Trust, Judgment & Accountability

03 Insurance Accounting Pressure Points

04 Governance, Escalation & Practice

05 Case Studies

06 Questions

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Defining Ethics

Moral philosophy

- Right vs. wrong
- Good vs. bad
- Just vs. unjust
- Worthiness vs. unworthiness



How do you determine your ethics?

- Consequentialism:
  - Judges the rightness of an action by its results or consequences
- Deontology:
  - Judges actions based on rules, duties, rights, and obligations regardless of consequences.
- Virtue Ethics:
  - Focuses on moral character, personal integrity and cultivating good habits rather than isolated rules or outcomes.

Per the AICPA Code of Professional Conduct

- The purpose of the Code is to guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct.
- Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance or in the face of conflicting opinions, a member should test decisions and deeds by asking: “Am I doing what a person of integrity would do? Have I retained my integrity?” Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment.

Utah Insurance Code

- 31A-23a-401. Disclosure of conflicting interests.
- 31A-23a-402. Unfair marketing practices -- Communication -- Unfair discrimination -- Coercion or intimidation -- Restriction on choice.
- 31A-23a-402.5. Inducements.

NAIC CGAD Disclosure Model Regulation

- CGAD: Corporate Governance Annual Disclosure
- As adopted by Utah (Title 31A Chapter 16B), the CGAD is due on or before June 1 each year
- The insurer's or insurance group's code of business conduct and ethics, the discussion of which considers, for example:
  - Compliance with laws, rules, and regulations; and
  - Proactive reporting of any illegal or unethical behavior.

Insurance is a promise

- Policyholders pay today for protection tomorrow.
- Financial reporting makes that promise visible.
- Regulators and stakeholders rely on our integrity.
- Ethical judgment protects trust when estimates move.

Ethical risk enters through judgment

- Pressure to meet earnings expectations
- Pressure to maintain surplus or avoid adverse reserve development
- Pressure to support a transaction or strategy
- Pressure to present results in the best light

Judgment failures often precede fraud

- Pressure narrows the questions we are willing to ask.
- Optimism can become an unsupported assumption.
- Delay can become a pattern of nonrecognition.
- Small exceptions can accumulate into a misleading result.

Accountability belongs to everyone

- Staff accountants and reporting teams
- Controllers, actuaries and investment professionals
- Finance leaders and executive management
- Internal and external auditors
- The audit committee and board

Technical compliance is the floor

- Complete — no material facts omitted
- Objective — conclusions follow the evidence
- Transparent — assumptions and uncertainty are visible
- Not misleading — the whole story matches economic reality

Professional skepticism is an ethical discipline

- What evidence supports this conclusion?
- What information could contradict it?
- Whose incentives may affect the judgment?
- Would another qualified reviewer reach the same range?

A practical decision framework

1. Identify the issue and the pressure.
2. Gather facts, rules and policy requirements.
3. Evaluate stakeholders and possible consequences.
4. Test alternatives for support and transparency.
5. Document, consult, decide and escalate.

Five tests before you proceed

- Is it legal?
- Is it consistent with policy?
- Is it objectively supportable?
- Can we explain it to auditors, regulators and the board?
- Does it protect policyholders and stakeholder trust?

Loss reserves: judgment under pressure

Reasonable professionals may select different assumptions.

- The estimate must reflect the best available information.
- Optimism cannot substitute for evidence.
- Adverse trends require timely, transparent evaluation.

Reserve warning signs

- Assumptions move only when the result is unfavorable.
- Contrary data is labeled temporary without support.
- Range selection follows a target rather than evidence.
- Known trends are deferred to the next review cycle.
- Documentation describes the outcome, not the reasoning.

Premium recognition: timing is substance

- Cutoff should reflect the underlying economic event.
- Adjustments and accruals need consistent support.
- Target pressure must not determine recognition timing.
- Repeated small decisions can become a material pattern.

Reinsurance: substance over form

- Evaluate economics in addition to legal form.
- Establish whether genuine risk transfer exists.
- Challenge structures designed mainly for appearance.
- Disclose the transaction completely and plainly.

Investments: recognize evidence, not convenience

- Fair values and credit conclusions must be supportable.
- Deteriorating conditions require independent challenge.
- Losses should be recognized when evidence indicates.
- Waiting for certainty can become an ethical decision.

Related parties: apply the arm's-length test

- Would we transact on these terms with an unrelated party?
- Is the business purpose clear and documented?
- Are conflicts disclosed and independently reviewed?
- Do the economics and disclosures tell the same story?

Pressure leaves recognizable signals

- A conclusion is requested before the analysis.
- Documentation is postponed until after close.
- Reviewers are asked to focus only on favorable evidence.
- The rationale changes as questions are raised.
- Escalation is framed as disloyal or unnecessary.

Culture follows leadership behavior

- Employees watch what leaders reward and tolerate.
- Questions must be welcomed before issues become crises.
- Governance should create safe routes for challenge.
- Accountability applies at every level of management.

Conflicts: disclose, manage, recuse

- A conflict is not automatically misconduct.
- Hidden or unmanaged conflicts can distort judgment.
- Perceived conflicts may damage trust as much as actual ones.
- Disclosure, oversight and recusal protect the decision.

Speaking up is a control

- Warning signs usually appear before major failures.
- Raising a concern requires reasonable belief—not proof.
- Multiple reporting paths improve early identification.
- Silence allows small concerns to become larger risks.

Escalate with structure

1. State the facts and what remains uncertain.
2. Explain the accounting and stakeholder impact.
3. Offer supportable alternatives.
4. Use the next appropriate reporting channel.
5. Record the concern, response and follow-up.

Regulators value transparency and response

- Reasonable professionals may reach different judgments.
- Poor documentation makes a reasonable judgment harder to defend.
- Delayed escalation increases regulatory risk.
- Culture and responsiveness matter alongside compliance.

Four questions a regulator will ask

1. What happened?
2. When was it known?
3. Who was informed?
4. What action was taken?

Case 1: We're not denying it, we just need more documentation

Setting: Property & casualty claims

A regional insurer has experienced unusually high catastrophe losses. Leadership tells claims managers that cash preservation is critical through quarter-end. Adjusters aren't instructed to deny claims, but management introduces additional documentation requirements and supervisory reviews for claims above $50,000.

The new procedures are technically permissible and could reduce improper payments. But employees quickly realize they also slow legitimate payments considerably.

The ethical decision:

You're the claims director. Do you continue the enhanced review process?

Case 1: We're not denying it, we just need more documentation

Competing principles:

- Protecting company assets
- Fair and timely claims handling
- Fraud prevention
- Financial pressure
- Treating policyholders consistently

Case 1: We're not denying it, we just need more documentation

During this situation the CFO privately tells you: "If we can push even 15% of these payments into next quarter, we'll be fine."

- **Does this change your answer or approach at all?**

Case 2: The reserve adjustment

Setting: Financial reporting / actuarial

At year-end, an insurer's preliminary loss estimates will cause it to miss an important earnings target. Management believes estimates from the actuarial team are overly conservative.

There is legitimate uncertainty in the assumptions.

The CFO asks the actuary to select assumptions toward the favorable end of the reasonable range. Nothing proposed is obviously indefensible.

The ethical decision:

When does exercising judgment become manipulating an estimate?

Case 2: The reserve adjustment

Do the following change your answer at all?

- The company has never missed its earnings target.
- Employee bonuses depend heavily on results.
- The revised assumptions are supportable.
- Next year's expected claims experience may prove management right.

Case 2: The reserve adjustment

Question: Does an estimate become unethical because of the motivation behind choosing it, even if the number itself can be supported?

Case 3: Everybody does it this way

Setting: Reinsurance / financial reporting

An accounting team discovers that a longstanding interpretation of a reinsurance agreement may be aggressive. The treatment has been used for several years.

Changing it could materially affect reported results and raise questions about prior periods.

The controller says:
"Our competitors use essentially the same treatment, and the auditors have never objected."

The ethical decision:
How much ethical comfort should professionals take from industry practice?

Case 3: Everybody does it this way

Things to consider:

- Technical compliance vs. substance
- Professional skepticism
- Materiality
- Prior-period implications
- Auditor responsibility
- Normalization of questionable practices

Case 3: Everybody does it this way

What would you do?

Case 4: The accidental overpayment

Setting: Claims

Your company discovers that a system configuration error caused thousands of policyholders to receive slightly larger claim payments than their policies required. Individual amounts are generally small, but collectively the error is material.

The legal department concludes that the insurer probably has the contractual right to pursue reimbursement.

The ethical decision:
Should it?

Case 4: The accidental overpayment

Options could include:

1. Seek repayment from everyone
2. Seek repayment above a dollar threshold
3. Waive all repayments
4. Handle cases individually
5. Something else

Case 4: The accidental overpayment

Fixing the error without telling affected policyholders is the cheapest option.

What would you do?

Case 5: The cybersecurity incident

Setting: Executive leadership

An insurer discovers unauthorized access to a system containing customer information.

The security team is still determining what information was actually accessed. Communicating quickly could unnecessarily alarm customers; waiting could give investigators better information and reduce confusion.

Every hour creates tension between **accuracy and transparency**.

The ethical decision:
What should management communicate, to whom, and when?

Case 5: The cybersecurity incident

Assume legal counsel has given you several legally permissible options. What should you do ethically?

Three messages to remember

Ethics is not primarily about rules—it is about judgment.

- Under pressure, test whether the result reflects economic reality.
- When in doubt: document, disclose, consult and escalate.



QUESTIONS & COMMITMENTS

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