A Study on the Influence of Insurance Enterprise Culture Construction over Agent's Moral Hazard

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Abstract：   As the main risks that insurance companies can not be avoided, the moral hazard of managers is closely associated with the survival and development of insurance companies. Based on the enterprise managers' moral risk behavior utility form, this article analyzed the factors that companies' cultural affect the moral hazard, studied the mechanism that how the corporate culture impact moral hazard and then established the relational model. From different dimensions the corporate culture is divided into a number of indicators, such as business regulations, the number of events (Exploration, lectures, etc.). Meanwhile the moral hazard of enterprise is divided into indicators like the number of violations of the manager and the number of their successful decision-making. By empirical research, we made analysis of their correlation, measured the directions and degrees that different types of enterprise cultures influence the moral risk. In the end, we made appropriate recommendations and opinions on our corporate culture.

Keywords: culture construction   managers   moral hazard

Under the large social context when the market economy is constantly developing and improving itself while people are seeking lives with better quality, the insurance industry, with its special feature of spreading and transferring risks, has become a general concern in China. However, one of its integral elements, the insurance agents, have posed an inevitable risk for the industry, namely, the agents' moral hazard. Being highly crucial to the development or even the survival of the industry, it has now become a closely observed issue among both scholars and practical insurance personnel. Therefore, the author suggests in the paper that the study of the influence of insurance enterprise culture construction over agents' moral hazard, together with creating an advanced insurance enterprise culture, should be not only an effective measure in avoiding and mitigating agent's moral hazard, but also an impending task that should be taken on as soon as possible.

1. The utility composition of agent's moral hazard

Agent's moral hazard refers to the fact that because of information asymmetry and deficiencies in supervision, insurance agents, with their information advantages, would hazardously decrease their essential factor input or adopt opportunist behaviors in an insurance transaction. The behavior is meant to achieve the agent's self utility maximization, but the principals' interests are more likely to be infringed.

The insurance industry, with its target of spreading risks, is actually more risky than many other industries. As the premium comes from all fields and levels of the society, including individual families, once the insurance agents are subject to moral hazards, the bad consequences would not be restricted to the industry itself, but are likely to spread to all aspects of the society and its economy. That's

why the results of agent's moral hazard could be immense.

Due to the separation of ownership and managerial rights, the phenomenon of information asymmetry is universal in the actual operation, which provides exactly the prerequisite for moral hazard to appear. Agent's moral hazard depends on the one hand on the utility the behavior could lead to, on the other hand the cultural and moral qualities of the agent. The utility of agent's moral hazard consists of the extra gains it creates, as well as the costs that may come with it.

The extra gains of agent's moral hazard manifests itself mainly in the following situations: (1) the agent, under circumstances when s/he knows about the principal's ulterior motive, simply ignores it to exchange for better individual performance; (2) the agent and the principal conspire to hide or give misstatement of relevant information to swindle premium or proceeds, thus the agent's extra gains; (3) the agent delays the payment of premium out of his or her personal financial considerations; (4) excessive company-paid consumption and benefits from malpractice.

The costs of agent's moral hazard manifests itself mainly as: (1) opportunity cost: agent's moral hazard has as its cost his or her own position, political prospects and a reasonable remuneration, which could all be lost as a result of the moral hazard; (2) the agent's moral and psychological costs: the agent's moral hazard might be accompanied by psychological pressure and self-punishment from his or her morals, which could be specified as: psychological stress and sense of insecurity roused by his or her personal cultivation and ethics, expectations for the future and the degree of recognition of his or her talents; (3) damage to the agent's reputation: moral hazard could increase the agent's chance of being laid-off while damaging his or her reputation.

Based on the analysis of the utility composition of agent's moral hazard, two methods are found to be able to mitigate the behavior: material and spiritual incentives. Among the two, material incentives are conducive mainly to the short-term development of an enterprise, but on the long run, its impact is pretty limited. While spiritual incentives, whose role is to cultivate sense of mission and responsibility, besides tying the staff's personal goals to those of the company, could serve in this case as a more lasting binding force. Enterprise culture, as the core of spiritual incentives, therefore, might have assignable, permanent and imperceptible influence over the agent's moral hazard.

2. The influence of insurance enterprise culture over moral hazard

Enterprise culture as a concept could be understood from both a broad and a narrow sense. Broadly speaking, it refers to the unique material and spiritual culture the enterprise has built up. Narrowly speaking, it's the embodiment of the distinctive operations strategy, values and ethical code of an enterprise. And in this paper, it is enterprise in its narrow sense that's observed. Specifically, it's the common cultural concepts that's gradually formed in the long-range production and operating activities of the enterprise. It's the commonly held collective consciousness, code of conduct and values of the staff. Finally, it's the hallmark of the enterprise, the driving force, the backbone and the soul behind its survival, growth and competition.

Aside from the major features of general corporate culture, the insurance enterprise culture has also the following two other characteristics: (1) insurance industry is one that deals with risks, thus its enterprise culture is also stamped with the traits of risk culture; (2) with underwriting and claim settlement as its major business components, the insurance

enterprise culture also bears some distinctive properties of credit culture.

Given these features, the insurance enterprise culture plays generally the following five roles. The first noticeable one is its guiding effect, which means that the concept of serving the principal could guide the staff to the right course of operation. Second, its binding force, namely, the written or conventionalized rules or common practice concerning breaking down and transferring risks for the principal have a direct bearing on the interests of the staff. Third, its cohesive effect, which is basically uniting the whole enterprise with common beliefs and values toward risks. Fourth, its assimilating effect. By influencing individual employees imperceptibly, the enterprise culture could gradually assimilate the dissenters into the large atmosphere. Fifth, its radiation effect. The insurance enterprise culture would not only impact the company significantly, but also the whole industry and even the society as a whole.

3. Choosing main indexes

In order to measure the insurance enterprise culture and agent's moral hazard at more length, the Double-S Model could well be chosen. The Double-S Model works by dividing various human relations with two dimensions, sociability and solidarity. The index of sociability is one that indicates the degree of sincerity and harmony between group members, and that of solidarity describes the extent of unanimity the group members have on its goals and tasks. According to these two dimensions, enterprise culture could be classified into four types.

	Low Sociability	**High Sociability**
Low Solidarity	Splitting Type	Network Type
High Solidarity	Interests-oriented Type	Commune Type

Departing from the two dimensions of sociability and solidarity, several comparatively more straightforward and operational indexes could be established to measure enterprise culture.

To measure the moral hazard, it's suggested that the index of number of complaints per one hundred million yuan premium be adopted. As insurance agents work as the representatives of the insurance enterprises, their cultural qualities, trustworthiness and service would be observed and understood by the principals directly. The number of complaints an insurance company receives could well reflect the problems in their insurance products and service, as well as the moral hazard of the agents.

4. Quantitative analysis

It's suggested a positivist approach should be used to analyze the correlation between the insurance enterprise culture and agent's moral hazard. In this way, the corresponding direction and extent of influence over agent's moral hazard could be measured when the particular enterprise cultures are of different types under the Double-S Model.

1) The correlation analysis of sociability and agent's moral hazard

Departing from the three indexes of sociability, (which is the staff's frequency and times of using enterprise social network and that of using general social network, the number of non-work time gatherings and the hierarchical differences within the staff), it's suggested that researchers should examine whether there is any dependency relation between the three indexes and the number of complaints. If so, the particular relation should be observed

further to probe into the direction and degree of the correlation. The partial correlation coefficient and multiple correlation coefficient are also suggested to be computed.

2) The correlation analysis of solidarity and agent's moral hazard

This analysis is done in a similar way as the above one. Departing from the four indexes of solidarity, (which is the number of bulletins, correspondence, video tapes, memorandums, and emails the enterprise releases, the efficiency and productivity of the enterprise, the extent to which the enterprise's system of penalties and rewards is carried out, and the number of formal activities such as development, training and lectures the enterprise organizes), it's suggested that their correlation with the number of complaints the enterprise receives be studied.

This current research uses the 2011 Rankings of China's Top Ten Insurance Companies (property companies and life insurance companies included) as the subject of the following specific analysis.

The evaluative criteria of this rankings refers in chief to the following major factors: premium revenue, service capability of claim settlement, the ability to develop new products, the degree of brand recognition, and the number and nature of fine tickets the enterprise receives. Among these factors, premium revenue reflects to a certain extent the staff performance and the ability to develop new products represents the enterprise's ability to renovate and to survive.

Using this rankings as the comprehensive index of the enterprise's solidarity, and the number of complaints per one hundred million yuan premium as the measurement to agent's moral hazard, the coefficient of these two indexes is computed to be 0.562726 in the correlation analysis of the top ten property insurance companies. This moderate positive correlation suggests that the worse the rankings of the insurance company, the more complaints they receive for one hundred million yuan premium, and vise versa.

Let Y_1= the number of complaints per one hundred million yuan premium (property insurance companies)

Y_2= the number of complaints (property insurance companies)

X_1 = the comprehensive rankings of the property insurance company

The quantitative model is as follows:

Y_1= 0.033889 + 0.052373X_1

Y_2= 0.0.917 + 78.74X_1^{-1}

R^2 = 0.8237   F = 32.717

It's found further that in the correlation analysis of the top ten life insurance companies, this coefficient is 0.235932, which is mild positive. It's the proof that the worse the company's rankings, the higher the chances that the number of complaints they receive would have an upward tendency, and vice versa.

Let Y_3= the number of complaints per one hundred million yuan premium (life insurance companies)

Y_4= the number of complaints (life insurance companies)

X_2= the comprehensive rankings of the life insurance company

The quantitative model is as follows:

Y_3= 0.191667 + 0.006775 X_2

Y_4= -0.8516 + 217.659 X_2^{-1}

R^2 = 0.9754   F = 32778.26

In conclusion, the agent's moral hazard is distinctively correlated to the insurance enterprise culture. Thus, creating an advanced insurance enterprise culture is not only an effective measure in avoiding and mitigateing agents' moral hazard, but also an impending task that should be taken on by the insurance companies as soon as possible.

5. Conclusion

It's found in this research that an advanced insurance enterprise culture could contribute to the mitigation of agent's moral

hazard, and the convergence of the interests of the agents and that of the principals. It could influence agent's moral hazard in following aspects: (1) the enterprise spirit. Being the centripetal and cohesive force of the enterprise, the enterprise spirit must be made good use to hold the staff together, to increase their sense of responsibility, and to strengthen their sense of identity with the enterprise. Its impact on the staff's conduct and the cultivation of morals being imperceptible. (2) The code of conduct for the staff. Moral hazard could be avoided to a certain degree with formulation of a satisfactory code of conduct for the staff, together with active promotion of it among the staff to abide by it voluntarily, which could guide the staff to unify their morals and behaviors. (3) Cultural activities. The enterprise could organize all kinds of legal activities and those of professional ethics to improve the staff's knowledge of the law and work ethics. It's also suggested that moral activities be held to strengthen the staff's morals and ethics, so that they could better understand the consequences of moral hazard, thus giving it up. (4) Supervision and law enforcement. A powerful supervision, as well as a strict law enforcement (by implementing appropriate penalties to the behavior of moral hazard), could effectively prevent the agent's moral hazard from happening.

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保险企业文化建设对经理人道德风险的影响研究

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摘　要

在市场经济的大环境下，保险企业在经营活动中面临诸多的风险。其中，经理人道德风险是企业所面临的重要风险之一。研究保险企业文化建设对经理人道德风险的影响机制，缔造优良与卓越的保险企业文化环境，是防范和规避道德风险的有效措施和紧迫任务。经理人道德风险作为保险企业不可回避的主要风险，对保险企业的生存和发展有密切的关联作用。

本文根据企业经营过程中，企业经理人道德风险行为的效用构成，包括：1、因采取这种行为而获得的额外收益，2、因从事这种行为所招致的代价。分析保险企业文化影响道德风险发生的因素。包括：额外收益的影响因素有过度在职消费和渎职收益；代价的影响因素是内部控制力度和企业共同目标。研究企业文化对道德风险的影响机制，建立两者间的关联模型。将企业文化从不同维度分为若干指标，如企业规章制度、举办活动次数（拓展、讲座等），把企业道德风险分为经理人违规次数、经理人决策成功次数等指标等。采用实证研究，分析两者之间的相关性，测算企业文化的不同类型、不同表现程度对相关道德风险的影响方向和影响程度。借助数量模型，研究保险企业文化与道德风险两者之间的相互影响程度及影响模式。找出对道德风险影响较大的企业文化指标，对我国企业的文化建设提出相应的建议与意见。包括：1.建立合理的奖惩机制（提高企业经理人道德风险行为的成本（加大惩罚力度），降低企业经理人道德风险行为的额外收益（降低产生灰色收入的可能性）），2.形成企业独有的文化共识和团队精神【加强企业员工之间的沟通，多举办拓展讲座等活动】。

关键词：　文化建设　经理人　道德风险