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SERVICES IN INSURANCE SECTOR-A DOUBTFUL CASE

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Abstract

In the last two decades service sector has emerged as the fastest growing sector in the global economy, providing more than sixty percent of the global output and the main employment in many countries. Keeping pace with the global trends, the service sector in India has also grown rapidly and in that service sector insurance sector has its own role to play .Life insurance industry in India it is one of the hard core part of the service sector. It not only provide the safety against risk for the individuals, it also creates the saving and investment habits in the individuals.. But is this Insurance sector working as per the morals or not is a matter of concern? The modern practices adopted by the various intermediaries at the different levels are not providing the pleasure to the investors which are their right and instead of feeling themselves as the kings they are feeling themselves to be the prisoners. From the perspective of growth of a country it can lead to a disastrous position because investment is backbone of every economy and bad investment can lead to vicious circle of poverty The present paper try to reveal that what kind of tricks are use by the intermediaries which lead to increase the business and whether these tricks are ethical or not.

According to Lewis and Booms (1983) service quality is a measure of how well a delivered service matches the customers' expectations. In other words it is what customer actually receives from the service and the manner in which the service is provided. R K singh and J.S.khokhar (2008) have described that in the last two decades service sector has emerged as the fastest growing sector in the global economy, providing more than the sixty percent of the global output as well as the employment.

Life insurance industry in India is one of the hard core part of the service sector. It not only provides the safety against risk for the individuals, but also creates the saving and investment habits in the individuals. It is the important part of the economy also. In spite of that penetration of the life insurance in India is very low yet. It was less than 1% till 1990.But the year 1999 brought the revolution in the Indian insurance sector as major structural changes took place with the ending of the govt. monopoly in line with the economic reforms in India and recommendations of the Malhotra committee the Govt. of India passed the Insurance Regulatory and Development Authority Act. This act gave birth to IRDA and resulted in lifting all entry restrictions for the private players and allowing the foreign players to enter the market.

After the entry of private entrepreneurs these ethics are getting more complex because of the malpractices used by most of the persons who are directly or indirectly involved in the business. The modern practices adopted by the various intermediaries at the different levels are not providing the pleasure to the investors which are there right and instead of feeling themselves as the kings they are feeling themselves to be the prisoners. From the perspective of growth of a country it can lead to a disastrous position because investment is backbone of every economy and bad investment can lead to vicious circle of poverty.

The major ethical issues concerned with respect to financial products are as follows:

- Providing full information to the potential investors with authenticity and reliability which includes allocation charges, administration charges, interest rates and file charges etc.
- Disclosing the risk involved in the potential investment for the investors at different time zones with consideration of economic changes.
- Slamming, an extreme form of miss-selling, where customers find themselves with a service from a new company without their knowledge and consent. Forms of slamming can include, passing off (i.e. where representatives claim to represent a different company), customers being told they are merely signing up for information rather than entering into a new contract, or the forging of customers' signatures on contracts without the customer being Knowledge.

MILLIONS FACING THREAT OF NEW MIS-SELLING MISERY:

Millions of people have been mis-sold insurance products over the past decade, and millions more are likely to be victims even after so many efforts by IRDA and SEBI it seem further away than ever from preventing untrustworthy sales people scalping innocent clients.

Politicians and regulators have realized that the current system is not working and have proposed major reforms. But even these proposals are seen as rather desperate moves which could create just as many problems as they resolve. Specialists in the area are not expecting a new dawn. . The best way to protect yourself against mis-selling is the old-fashioned one: to rely on yourself and not to put your faith in an adviser or in a regulator. Advisers still have their role but you should be very wary about buying anything from them unless you understand it totally yourself and we need to get back to caveat emptor. Mis-selling tends to go in phases, as certain products are pushed by product providers and intermediaries. In order to earn their commission, sales people are often tempted to play on those human weaknesses of simple greed and keeping up. Despite the millions of people who have been mis-sold to, senior managers have rarely been admonished for presiding over defective systems or for turning a blind eye. Regulators have, occasionally, thought of punishing individuals but they generally decide that the damage done to the financial services infrastructure of a loss of confidence would outweigh the benefits of achieving justice. Sometimes providers are also developing products which go beyond the realms of current regulation. .The following tricks are mainly used by the various intermediaries for selling the financial products.

1 Premium can be stopped after the first 3 years:
This is an effective statement because every investor wants no trap investment, that is why the representatives say that the premiums can be stopped after 3 years and even after stopping the premiums the policy will be continued. Here there are two wrong statements, firstly these ULIP premiums can be stopped even after one year and the customer won't loose 100 percent money, secondly these ULIP's are long term policies so these should not be treated as short term Investment avenue.

2 ULIPs offers guaranteed returns: This is not true, any Unit Linked product does not come with Guarantee. Agents sometimes just say this to attract customers. There might be the case that there is some guarantee for initial years premium or over all, but then it will be so low that it's not even worth considering. A simple thumb rule is that anything beyond Bank FD returns will always carry some level of risk, otherwise why will someone buy FD at all if they can get some guaranteed returns. Nothing comes free in this world; there is always some risk involved.

3. The offering of free insurance cover and tax benefit: Nothing is free in this world. This is also another kind of trick that is used by the agents there are always mortality charges related with that and another thing is that the tax benefit under section 80 is provided by the government but not by the insurance companies.

4. Guaranteed Highest NAV: This is the trick that is mostly used by the companies these days. But it also is not fair as the companies invest the money in mostly the debts they invest only a very small proportion I the equities say only the 10 %of the total value of premium so anyways they are giving only the highest NAV for the 10 percent of the total investments and regard it as providing the highest NAV during the life time of the policy otherwise it is not even possible for the insurance companies to even think of this.

5. Getting the proposal signed: it is the duty of the agent to get the proposal signed by the investor and tell them about all kind of charges like Allocation charges, fund management charges, administration charges, mortality charges and morbity charges but they just remain silent on their part.

6. Getting signed the Benefit Illustration: It is mandatory for every agent to get signed the benefit illustration which includes company name, name of the investor, age of the investor This benefit illustration also tells the proposed return mainly at 6% and at10% but for the sake of not disclosing the facts this is not shown to the investors.

7. Medical benefits: Normally representative promises for free medical benefits but in reality they are charged for the same. These are called morbity charges. Even in case of medical insurance there are so many exclusions and the benefits are being provided only through notified hospitals which sometimes are unapproachable. If there is any insurer who wants to get the benefit is unaware of so my preliminary requirements

8. Selling Long Term Policies as short term policies: As we all know that the commission of the agents is more in case of the long term plans. So the long term policies are sold on the name of the short term policies. And when the policy is terminated then the customers suffers huge losses not only in terms of promised returns but also on principal amount.

9. **Using the relations for the benefit.** The person who visits you is not always the agent. It is the agent's brother, sister, mother, husband, etc. By a funny law created by the big insurance companies to suit themselves - agents are "tied" to one company. Strictly speaking the agent should be the person who is "authorized" or "certified" by IRDA. However, knowingly all companies turn a blind eye. And Indians have nicely overcome this "handicap" by making everybody in their house an agent.

REVIEW OF LITERATURE

On these critical issue lots of research work has been done by different researchers. Researcher has taken the insights from their respective areas. These researches also include the part of investor's protections and seeking the redressal mechanism.

Robert W. Cooper & Garry L. Frank(2003): presented the findings of two surveys conducted in April 2003 of Chartered Life Underwriters (CLUs) and Chartered Financial Consultants (ChFCs) who are members of the Society of Financial Service Professionals. The first survey of 3000 (CLUs) and (ChFCs) were aimed at identifying the key ethical issues faced by professionals working in the life insurance industry . A comparison of these findings with those of earlier studies conducted in 1990 and 1995 suggested that while the key ethical issues faced the life insurance business today were essentially the same as those encountered during industry's highly troubled ethical environment of the early 1990s, these issues were perceived as presenting somewhat less serious problems than in the past. The second survey of 3000 CLUs and ChFCs was aimed at determining the extent to which these professionals perceive the industry created Insurance Marketplace Standards Association (IMSA) as having contributed to any change in the ethical environment that has taken place. The findings suggest that IMSA has played an important role in influencing senior managers to more strongly encourage and support ethical market conduct

Gayathri and lakshmiha (2005) conducted a pilot survey on the insurance companies in India to quantitatively study the level of dimension of the service quality and its relation to the level of customer satisfaction and the results showed that LIC was scoring lower in all the five dimensions, The study also concluded that the companies have to focus on the service quality in order to differentiate themselves and create a competitive advantage in order to survive in the competitive market.

Belliginies,H.C and Tan,C.K(2006) shared their views about the image of insurance business in society along with traditional issues and new challenges in the context of globalization . The study has also concluded that the insurance companies will be able to generate the interest of its stakeholders if it works with integrity and responsibility. In addition to this enlightened leadership, codes of ethics are the challenge for the insurance companies.

Roman Indrest andMarco Ottaviani(2007) considered that a firm has to delegate to an agent, such as agent or a dealer for performing the twin tasks of approaching and advising customers. The main part of research was that the firm can only compensate the agent through commissions. This standard contracting restriction has the following key implications. First, the firm can only ensure internal compliance to a "standard of sales", in term of advice for the customer, if this standard is not too high. Second, if this is still feasible, then a higher standard is associated with higher, instead of lower, sales commissions. Third, once the limit for internal compliance is approached, tougher regulation and prosecution of "misselling" have (almost) no effect on the prevailing standard but definitely affects the potential business of the company.

Anthony D. Miyazaki (2009): Perceived Ethicality of Insurance Claim Fraud: Do Higher Deductibles Lead to Lower Ethical Standards Insurance claim fraud costs insurance companies, policymakers, and taxpayers billions of dollars every year and has been described as the second largest white collar crime. The most common insurance fraud activity and one that contributes a significant portion of dollar losses is the practice of padding claim amounts in the event of a loss. One of the largest issues insurance companies face is that policyholders often do not perceive insurance claim padding as an unethical behavior. The study examines how the amount of the deductible in an insurance claim situation can influence feelings of fairness and ethicality. The results of an experimental study show that higher deductible amounts result in stronger perceptions that insurance claim padding is fair to the insurance company, weaker perceptions that the behavior is unethical, and higher proposed claim award amounts.

Kirthi,P.A & Vijayalaxami ,R. (2009) who conducted a research on a comparative study on the perception level of services offered by LIC and ICICI revealed that all policyholders have certain level of expectation of the services that are to be delivered by the insurance company and both companies don't show any kind of difference in the delivery of the service in case of two factors namely GENDER and INCOME level of the policyholders but in case of other demographic factors such as age, marital status, number of members in the family ,education and the occupation of the policyholders have experienced different level of services.

Neelameegam,R.& veni ,k.pushpa.(2009) revealed that the size of the country ,a diverse set of people and connectivity problems in the rural areas makes insurance selling in India a very difficult task . That is why most of the banks have adopted the Bancassurance to cope up with the problem. This is actually the insurance cum banking model. The motive of the bank using this kind of model is that it can increase the product differentiation and additional fee income and for the insurance companies it can increase their market penetration and premiums. After the success of this model in France now the India banks like Citibank, HSBC, BOB and SBI are trying hard to get the success as they are having the view that it will lead to increase the sales culture in the bank. The initial signal of this kind of practice are good and according to the banks that Bancassurance will be a win -win situation for all the parties involved like bank, Insurance companies and the insurer

Alex Wang (2010) asserted for brokerage firms 'financial disclosures: From CSR perspectives .This study examined the relationship between financial disclosures and CSR. Importantly, this study focused variables on specific settings and raised questions relating to the importance of financial disclosures and CSR .The results suggested that the positive effect of financial disclosures and CSR and them mediation effects were encouraging for brokerage firms. Although investors ' attitudes toward CSR practices can mediate investors 'attitudes toward financial disclosures on their perceived trust toward brokerage firms, further mediated by their attitudes toward brokerage firms on their behavioral intentions, it is important for brokerage firms to continue enhancing their financial disclosures, especially advertising and displaying financial disclosures responsibly.

Gautam vikas(2010) conducted the study to know the relevant dimensions of the service quality and to analyze and compare the service quality perception of customers in public and private insurance companies. The study included five dimensions of the service quality like reliability, responsiveness, Assurance, empathy and tangibility. And as per the findings public insurance company seemed to be more reliable than the private limited companies. Responsiveness, assurance and was again much higher in the case of the pubic insurance company. The result of all these dimensions revealed that LIC has high significant quality perception among the insurance customers as compared to private insurance companies.

OBJECTIVES OF THE STUDY

- To examine is there any kind of miss selling prevailing with regard to selling the financial products with special reference to public and private sector life insurers.
- To examine the unethical practices used by intermediaries to sell their financial product.

RESEARCH METHODOLOGY

Research is conducted to find out the extent of mis selling of financial products with special reference to the insurance sector prevalent in the market. The dimensions included for the misselling used are incomplete information, wrong information and above all not getting the claims. This is the Major Problem faced by the investor today. Total sample of 140 respondents being taken consisting 70 respondents from the LIC and &70 from other private insurance companies. 50% of the respondents from each sector were below the age of 50 years and rests were above 50 years and convenience sampling technique was used in the study . In total 140 questionnaires were administered Questionnaires were distributed in the area of Hoshiarpur and phagwara(Punjab) .The questionnaire focused on the main dimensions of mis-selling in the sector of insurance and a particular age group. Direct personal interviews were also conducted to know the unethical practices used by different agents to get the business. the secondary data has also been used for the completion of the task which includes IRDA regulations ,magazines and journals .The analysis is done by using the simple percentages.

Analysis and Interpretation

1. Have you ever been Miss-sold regarding your investment in Insurance.

Table:1.1

Particulars	No. of Respondents	Percentage
Yes	63	45%
No	77	55%

The Figures in the table reveals that 45% of the total respondents have been mis sold. That is quite a high percentage. It can be interpreted from the responses that a large number of investors are being mis sold.

2. On what basis have you been Miss-sold of the financial product?

Table:1.2

Particulars	No. of Respondents	Percentage
Incomplete Information about the risk involved	28	45%
Wrong Information about the returns	27	43%
Not getting the claims	8	12%

The table shows that45% of the respondents were mis-sold on the basis of incomplete information about the risk, 43% were provided with the wrong information about the return, and 12% could not get the claims back when they deserved it. It is obvious that not telling the risks and wrongly informing the returns are the major causes. Though there is quite a low percentage for the respondents who are not getting the claims but that are also a very serious matter

3. Your investment was in which sector?

Table:1.3

Particulars	No. of Respondents	Percentage
Private sector	40	63%
Public sector	20	36.6%
Don't know	03	0.4%

The explanation of the table is about the sector in which mis selling is more prevalent, and it is clear that 63% of the total respondents who were miss sold had invested in the private sector and 36% in the public sector.

4 . To what age group you belong?

Table:1.4

Age Group	No of Respondents	Percentage
Up to50 years	20	32%
Above 50 years	43	68%

The purpose of the above question is to know whether this mis selling is prevalent in any particular age group. The data here reveals that 68% of the mis selling is prevalent for the persons who are in age group of 50 or above.

5. What kind of plan you purchased?

Table:1.5

Particulars	No. of Respondents	Percentage
Unit linked insurance Plans	55	87%
Traditional plans	8	13%

The table itself is an evidence that 87% of the misselling is related to the Ulips.

6. What kind of factors were there which proposed to buy those ULIP plans

Table:1.6

Particulars	No of respondents	Percentages
High Returns	45	82
Multiple benefits	25	45
Agent's advice	20	37

Note: The responses of this question were muticoded

The main cause of purchasing the ULIPS was high returns but the respondents also considered the multiple benefits along with the agent's advice.

7. What percentage was committed by the representatives to you?

Table:1.7

PARTICULARS	RESPONDENTS	PERCENTAGE
Up to 10 %	Nil	0%
Between 10 to 20 %	10	18%
Between 20 to 30%	30	55%
Above 30%	15	27%

as the persons invested more in the ulip plans because of the higher returns and from the representatives part mostly the persons were expecting the returns between 20 to 30 %.

8. Did you get more or equal returns as per your expectation?

Table:1.8

Particulars	Respondents	Percentage
Yes	28	51%
NO	27	49%

In this question only 51% people got the returns as per the expectations, and it is revealed that if any kind of the percentage is guaranteed by the agents they should be able to provide such kind of return and if there is any kind of doubt in the percentage return they should not make any kind of commitment.

FINDINGS:

1. Miss-selling is prevalent in insurance and mostly in the private sector .
2. Seniors are often a target of miss-selling . Elderly people are a favorite among representatives because they aren't well informed about the intricacies of such financial products. And because they aren't very familiar with these matters, it's easy to persuade them into making an investment, either through scare tactics or through charm.
3. Mostly people are not made aware of the proper risk involved in their investment and people are pressurized into taking insurance.
4. Mostly higher returns are committed by the representatives than these are actually are.
5. When consumers purchase unfamiliar products, they often rely on information and advice provided by representatives of the seller. This creates the possibility of "mis selling"-the ethically dubious practice of a salesperson selling a product that does not match a customer's needs. The researchers note that mis selling frequently occurs in markets for complex products including electronics, auto repairs, medical care, and retail financial services such as securities, pensions, insurance, and mortgages.
6. People are not properly disclosed all the information and are thus fooled by the representatives to invest.
7. Rather than in the traditional plans mis selling is more prevalent in the ULIPS.

LIMITATIONS OF THE STUDY

1. The focus of the study was only the persons who have been missold and the other persons who have not been in these particular criteria have been ignored to satisfy the objective of the study
2. The study was unable to correlate the type of misselling for a particular income group and during the pilot survey it was obvious that the data of the income of the respondents was unable to get .
3. The study is mainly concentrating on the 63 respondents from the public and private insurance sector and that data base may be regarded small
4. Though the relationship between misselling and particular age group is defined but the study is unable to create any kind of relationship between age group and sector of mis selling
5. The main part of the misspelling is focusing on the representative's part but the study is silent about the pressure and the administrative part which enforces the agents to adopt such unethical practices.

ULIP STRUCTURE RELATED CHANGESBY IRDA:-

(1) Lock in period increased to five years:-

IRDA has increased the lock-in period for all Unit Linked Products from three years to five years, including top-up premiums, thereby making them long term financial instruments which basically provide risk protection.

(2) Level Paying Premiums:-

Further, all regular premium /limited premium ULIPs shall have uniform/level paying premiums. Any additional payments shall be treated as single premium for the purpose of insurance cover.

(3) Even Distribution of Charges:-

Charges on ULIPs are mandated to be evenly distributed during the lock in period, to ensure that high front ending of expenses is eliminated.

(4) Minimum Premium Paying Term Of Five Years:-

All limited premium unit linked insurance products, other than single premium products shall have premium paying term of at least five years.

(5) Minimum Guaranteed Return for the Pension Products

As regards pension products, all ULIP pension/annuity products shall offer a minimum guaranteed return of 4.5% per annum or as specified by IRDA from time to time. This will protect the life time savings for the pensioners, from any adverse fluctuations at the time of maturity.

(6) Rationalization of the Surrender Charges

With a view to smoothening the cap on charges, the capping been rationalized to ensure that the difference in yield is capped from the 5th year onwards. This will not only reduce the overall charges on these products, but also smoothen the charge structure for the policyholder.

SUGGESTIONS :

- Miss-selling is prevalent mostly in the Private sector. Investors should be properly made aware of the terms and conditions involved in the product.
- They should be properly provided with complete information.
- They should be properly made aware of all the investment plans properly so that they can take aright investment decision.
- The Financial Services Association has set out six consumer outcomes within their initiative, "Treating Customers Fairly," two of which states that financial institutions must sell products that fit the consumers' needs and provide them with clear information.
- Ask if the company is registered with the SEC and other industry regulating bodies. If he says yes, verify this information with the regulators. If you think the person may be untrustworthy or feel he is imposing on your time, feel free to say no. Whenever you deal with insurance agents make sure to ask a lot of questions. If there is anything you don't ask for clarification. Also, it is best to acquire the services of an independent financial advisor. IFAs are usually not affiliated with any insurance company so they will be able to give you unbiased evaluation of products. An advisor can help you weed out the bad deals from the good ones. Investors can file their complaints to consumer protect court if their problems are not being handled and they are miss-sold.

CONCLUSION:

From above all it is concluded that miss-selling is prevalent mostly in private sector and specially in old aged persons. Don't Take any product just because it look good or is recommended by someone. Do your research and do some study, it does not take more than 1 hr to search the net and read about it, or ask some knowledgeable person whom you trust about the product. 1 or 2 hrs to study can save you pain of years. So don't be lazy, when it comes to money no one is yours , its only you who can save you from miss-selling . So wake up. Jago Investor jago ! A firm must pay due regard to the needs and aspirations of its customers, and communicate information to them in a way which is clear, fair and not misleading. However what seems to be overlooked is the regard to the principle that consumers should start taking some responsibility for their own decisions. People should do proper financial planning before making their investment decision.

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