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Mis selling – A Bane on Growth of Life Insurance

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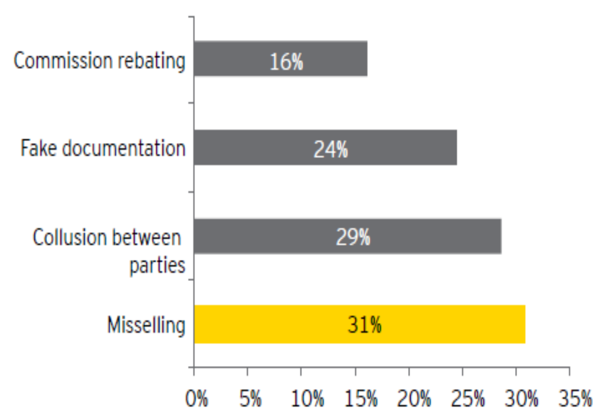
Abstract: ***Indian insurance industry is growing to the large extent.There are 52 insurance companies operating in the country, including 24 in life and 28 in non-life segments. India as a country still remains '*under-insured*'in terms of insurance penetration and density.Mis-selling of life insurance isubiquitous and it is very common in insurance sector. It is providing wrong information about productfeatures or exaggerated returns. Mis-selling complaints are the dominate kind of grievances in the life insurance industry (*****Source: IRDAI Annual Report 2014-15).** ***The objective of the study is to understand the reasons for mis selling of policies in public and private sector insurance companies. The primary data was collected by using the structured questionnaire and secondary data was collected from journals, newspapers and the internet. The study area is limited to Coimbatore District.The reason to conduct the study in Coimbatore district is that details pertaining to the mis selling in insurance isnot available clearly and the previous research is not done in Coimbatore district.The result of the study discloses that agents make quick buck in form of insurance commission, heavy sales pressure, providing fake NAV units for the past data, Managing fake medical testsand proposal form filled by agents and other sales men are the reasons for the mis selling at LIC where as heavy sales pressure,providing fake NAV units for the past data,managing fake medical tests, agents make quick buck in the form of insurance commissions and role Ambiguityare the main reasons for mis selling at private insurance companies.***

Keywords: Life Insurance, Mis-selling.

Introduction:

India's insurance penetration is far below the world average of 6.3percent, largely due to limited financial awareness and literacy among the masses. India stands at 3.1percent in terms of life insurance penetration versus a global average of 3.5percent, it lags far behind in non-life insurance where the penetration is a mere 0.8percent compared to the world average of 2.8percent.In the context of India, where the regulator has recently stated that about a third of the total customer complaints received relate to mis-selling of policies. Mis-selling of coverage and benefits has cost the insurance industry in terms of negative growth of life insurance and loss of trust and credibility among insuring population. Insurance, the sunrise industry of the last decade, in a bid to win the valuation game, used sales push to achieve top line growth and often drove the sales process in the realm of ethical fading.Mis-selling in common parlance refers to unfair or mis selling practices adopted at the time of soliciting and selling insurance and generally includes selling policies which have not been sought by the customer or which are different from what he wanted or what he was promised or where the product offered for sale is not suitable to the needs of the customer. Mis selling is mostly in life insurance sector where there is saving and/or investment along with risk cover. From the below image it is prevalent that mis selling is followed, collusion between parties, fake documentation and commission rebating.

Mis selling in Insurance a common parlance:



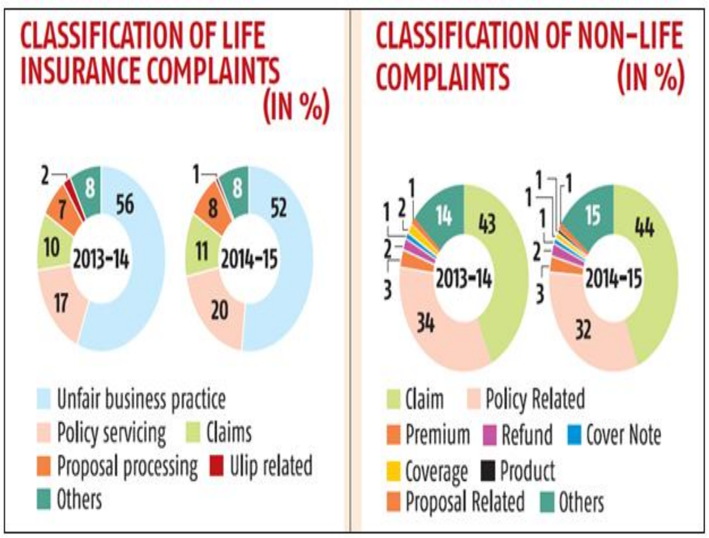
(Source: Fraud in Insurance Ernst& Young)

Some of the common examples ofmis-selling are

- Selling an insurance policy whenthe customer wanted to investmoney in deposits or mutualfunds selling a policy with regularpremium as single premiumpolicyselling a policy of 15 to 20 yearspremium paying term to seniorcitizens
- Selling a policy with regularpremium where annualpremium is disproportionate toknown sources of income
- Selling policies making fictitiousoffers like huge bonus on poorlyperforming policies or givinginterest free loan, opening ATM,putting up a telecom tower etc.
- Selling policies after makingspurious calls in the guise ofincome tax officials or IRDAofficials etc,

Statement of the Problem:

In India, Life insurance is primarily sold as a tax-saving instrument rather than as a risk coverage product. There is a considerable amount of misinformation about insurance in the mind of the average Indian investor and hence there is need to change people's perception and outlook on insurance.IRDA report indicates that the mis-selling is highly prevalent in India. At present, there is high number of complaints against mis-selling practices. Mis-selling, which dominates the grievances in the life insurancesector, has seen a reduction in the financial year 2014-15 compared to2013-14, says the Insurance Regulatory and Development Authorityof India (IRDA) Annual Report 2014-15.The report explains that the complaint resolution rate has increased drastically. The complaint resolution rate in life insurance increased from 86.41percent in 2009-10 to 99.69percent in 2013-14 and in the non-life segment from 79.63percent in 2009-10 to 98.71percent in 2013-14. (Source:www.crisils-latest-report-on-indian-insurance-industry-oct-2015).Recent regulations in insurance industry points to heavy penalization for mis-selling and mis-representation.According to the Insurance Laws (Amendment)Bill, 2015 provides for a penalty ofup to Rs 25 crore for mis-selling ormisrepresentation of policies byagents or insurance companies tocustomers. Because of the mis-selling the policyholder suffers claim related delays, increased premiums, increase in free look cancellations, lost trust and insurers suffer increased costs, decline in competitive advantage, erosion of profit margin, reputation loss, loss of business, and face regulatory issues. Hence, the present study has been carried out to identify the reason for mis selling of life insurance policies between public and private sector and to suggest suitable measures to controlmis selling.



(Source: Irdai Annual Report 2014-15)

Data showed unfair business practicecomplaints, also called mis-selling,constituted the largest class ofcomplaints accounting for 52 per cent ofthe complaints in the life sector during2014-15.This was followed by policy-servicingrelated complaints which constituted 20per cent of the total complaints in thelife sector during 2014-15.

Review of Literature:

Bali, S. et.al, (2010)[1] revealed that there have been increased incidences of mis selling overthe last one year. According to the survey report, there are various types of insurance mis sellingwhich occurs in all the areas of insurance, e.g., as claims and surrenders, fake documentation,mis-selling, collusion between parties, etc. Indian insurance industry is workingtoward reducing costs, one of its main focus areas to control or reduce costs is by proactivelyarresting mis-selling, which can be achieved through an effective Mis selling Risk Assessment (FRA)program i.e. Effective policy holder and vendor due diligence process, Effective claimsvalidation, Mystery shopping, i.e., gathering market intelligence relating to tied and corporateagents, brokers etc., Channel reviews pertaining to tied agency, bancassurance and tele-calling,Contract compliance reviews including review of advertising expenses, Intellectual Property (IP)compliance, etc., Effective mis selling analytics and electronic dashboards.**Baradhwaj, C. (2011)**[2] identifies that customer related mis selling could take placeby submitting false documents at the proposal stage, misrepresentation on health, family history,occupation, etc., in the proposal form, money laundering, fake claims by submitting fake claimdocuments. Distributor related mis-selling could take place by submitting false/forged documents andinformation, misappropriation of funds, issue of fake receipts/policies and lastly employeerelated mis-selling.**Gupta, A., & Venugopal, R. (2011)**[3] revealed the fact that in USA, the cost of insurance mis-sellingwas more than 100 billion USD in the year 2003 working out to 950 USD per family. In 2001,73 percent of the US Property & Commercial insurers rated mis selling as a serious problem - 4.6 on ascale of 5. In U.K. the mis selling is in excess of four million pounds per week. The yearly figures areone billion pounds. In Canada, it is 1.3 billion Can Dollars. Survey done by India forensicrevealed the fact that the insurance industry is losing close to Rs.15000 Crores every year. Thatis almost 9 percent of revenues of an insurance company. This clearly indicates the seriousnessof the problem. According to a PWC Survey, more than a third of Indian companies do nothingabout the mis-selling. 32 percent of the mis sellers are simply warned/ transferred/reprimanded. 28 percent are dismissed. 60 percent are criminally charged/civil action taken.Mostly the mis sellingster is a person who has a long standing relationship with the victim company.31 percent are Agent-hackers, 19 percent are external suppliers, 15 percent top and middlemanagement and 8 percent are customers.**Rose, S. (2008)**[4] discussed many faces of insurance mis-selling and also highlighted the keytechniques for detecting and preventing mis-selling. Another technique explained in the paper ispredictive modelling which means to use data mining tools to build models to produce mis sellingprosperity scores. **Tseng & Shih (2012)**[5] conducted a study and the results indicated thatinsurance coverage affected ethical judgment and perceived fairness, and ethical judgment andperceived fairness related to the false representation. Perceived fairness is related to ethicaljudgment. The more people feel it is fair to cheat, the higher propensity they have to deem thecheating as ethical. More number of studies has been carried out in measuring policyholder’s satisfaction. But very few studies have been carried out in ascertaining reason for mis selling of life insurance policies. In order to fill this gap the present study has been carried out.

Objectives of the Study

The present study has been carried out in order to:

- To identify the reasons formis selling among life insurance companies and
- To suggests the steps to bring down mis selling

Research Methodology

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Data required for the study is primary in nature. The primary data have been collected by making use of well structured questionnaire.The present study is confined to employers that of sales managers and branch managers of both public and private sector insurance companies in Coimbatore district.By adopting convenient sampling method, data have been collected from 300 insurance officials comprising sales managers and branch managers of both public and private sector life insurance companies in Coimbatore district.There are totally 24 Life insurance companies operating in Coimbatore district. Among that 53 respondents are selected from the public sector company i.e LIC. Total numbers of branch managers from LIC are 12 and sales managers are 41. The total number of samples selected from the private sector are 247, among that 180 of them are sales managers and 67 are branch managers. The samples are selected based on the availability of the managers in their respective branches.The collected data have been analyzed by making use of Friedman rank tests. It is used to identify the prominent reasons of mis selling separately for LIC and other private insurers.

Analysis and Interpretation:

To identify the reasons of mis selling Friedman rank tests is employed. The following table illustrates the various reasons of mis selling in LIC.

Table: 1 Reasons for Mis selling in LIC

	LIC		**Particulars**	**Private Insurers**	
	Mean Rank	**Rank**		**Mean Rank**	**Rank**
Ignorance of policyholders about insurance plan and technical jargons	7.55	7	Ignorance of policyholders about insurance plan and technical jargons	7.53	9
Heavy sales pressure	10.37	2	Heavy sales pressure	10.44	1
Agents make quick buck in form of insurance commissions	10.71	1	Agents make quick buck in form of insurance commissions	8.89	4
Lack of employee loyalty towards the insurance company	7.07	13	Lack of employee loyalty towards the insurance company	6.62	13
No provision of punishment to guilty persons who are caught in	7.15	12	No provision of punishment to guilty persons who are caught in	6.98	12
Non-existence of any fraud database in companies to identify culprits	8.41	4	Non-existence of any fraud database in companies to identify culprits	7.90	6
Role Ambiguity	7.52	8	Role Ambiguity	8.19	5
Commission rebating among agents	7.33	10	Commission rebating among agents	7.89	7
Fake NAV units for the past data	9.99	3	Fake NAV units for the past data	10.28	2
Preparing regional brochures by agents itself	7.69	6	Preparing regional brochures by agents itself	7.50	10
Non-disclosure of critical information	7.51	9	Non-disclosure of critical information	7.44	11
Agents arranging fake age proof	7.17	11	Agents arranging fake age proof	7.75	8
Managing fake medical tests	8.41	4	Managing fake medical tests	9.34	3
Proposal form filled by agents and other sales man	8.09	5	Proposal form filled by agents and other sales man	7.50	10
Putting customer signature in the proposal form without his absence	5.05	14	Putting customer signature in the proposal form without his absence	5.77	14

Results and Discussion:

The result of Friedman rank test disclose that agents make quick buck in form of insurance commissions, heavy sales pressures and fake NAV units for the past data are the reasons and forms of mis-selling at public insurance company. Heavy sales pressure, fake NAV units for the past data and managing fake medical certificates are the forms and method of mis-selling at private insurance companies.

Suggestions:

Based on the result the following suggestions are offered.

- Agents have targets to sell insurance products which bring lucrative premiums to the Insurance Companies .They are forced to sell insurance products such as Whole life insurance and ULIP instead of term insurance. These products might not match the customer’s needs.In order to avoid, this persistency and service based commission structure should be designed. For term products commissions are less, so agents neglect these products to sell in the market. IRDA should design a uniform commission payment structure to the agents.

- Heavy sales pressure is the one of the major causes for mis-selling. It is important to set realistic targets for all branches and ease the unnecessary pressure on the field staff. They will be able to focus better on each of their customers, and have the time for providing after-sales service.
- In order to achieve the aggressive sales target few agents tend to modify the administration charges, manipulating highest NAV in the case of ULIP product and creating regional language brochure without approval from their insurance company and IRDA. Even after strict regulations laid by the IRDA, mis selling is prevalent in insurance sector in order to avoid this problem IRDA should enforce cancellation of licence of the agent and enforce strict penalty.The action initiated should be appropriately communicated across the organization and making employees aware of the mis selling.
- There is a problem of non-existence of any fraud database in companies to identify culprits. In order to safeguard the policyholders, Integrated Grievance Management System set up by IRDA to file the complaints of the policyholders in the insurance industry.The number of complaints of policyholders who have not registered at IGMS will be huge since a large number of populations are not computer savvy. Secondly many would not be having the knowledge of submitting the complaint in the online form to IGMS. Also the first point of contact is the insurance company. Before registering a complaint to IGMS the policyholders must first approach the insurance company directly and in case of non-resolution of grievances the complaint may be made online to IGMS.
- Few policyholders allow the agent to fill the application form or sign at blank proposal form. This is one of the main reasons for the mis-selling. The proposal form is the basis of the insurance contract. It is important to ensure that all details are entered correctly in the proposal form.The decisions made at the receipt of claim depend on details, information or disclosures provided by the insured in the proposal form while entering into a contract with the insurer. Any discrepancy in it could result in non-payment of claims. Hence, the proposer should read the documents carefully and sign in the proposal form.
- Managing fake medical tests is also another reason for the mis-selling. In order to being down the problem the insurer should create an agent KYC score card, that is a centralized KYC database,a unique identification code for the insurance industry, which is use to monitor and screen the agents number of business logged in and number of policies lapsed due to mis-selling.
- Role ambiguity is another area of concern. Employee related frauds are the significant risk exposure faced by the organization. Proper training should be enforced to clearly specify the roles and responsibilities of the employees.

Future Scope of the Study:

This study was carried to indentify the reasons for mis selling in public and private sector life insurance companies. This study can be extended to identify the mis selling of the policies in other segment of insurance industry like health insurance, property insurance and agriculture insurance. Further a comparison study between the LIC and other private insurers can be done to identify.

Conclusion:

From the study it is clear that major reasons for mis-selling are that heavy sales pressure, ignorance of the policyholders and lack of employee loyalty. To reduce this mis selling in insurance industry the suggestions given are companies should seek customized mis-selling awareness program training for their employees. Industry bodies and the industry regulator need to take lead in mandating reporting and sharing of information regarding precautions to stop the mis selling. All these measures would surely help to minimize the occurrence of mis selling in every direction in the insurance industry. Insurers also need to work withpartners to put in place morestringent risk management practicesto avoid instances of mis-selling andunethical norms. The customers also have aresponsibility of informing the IRDAIin case they come across anymisdemeanour done either by theinsurer or the intermediary, as perRegulation 11 of the Policyholder'sProtection Guidelines 2002 of theIRDAI. Therefore, the insurerhas no other choice but to excel infaster and better among the competition they should take preventive measures to reduce the mis-selling.

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