

Mis- Selling - Hurdle on Path of The Growth of Indian Life Insurance Sector

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ABSTRACT

Early lapse of life insurance policies is a serious threats and issues encountered in the growth pace of Life Insurance market. In the recent times IRDA report witnesses twenty percentages of lapsed policies. After the emergence of private sector in India, Life Insurance Industry had a significant growth that paves the way for competition as well as introduction of innovative policies with varieties of features. Early lapsation costs the Life insurer the major part of the first year's premium, high degree of financial losses for policyholders and general dissatisfaction over Life Insurance. As half million people needs to be covered with insurance in India, lapsation and existing policy holders' dissatisfaction over products will make difficult for the insurance companies to rope in the customers towards Life Insurance. This paper aims to suggest new strategies to reduce early lapsation and to enhance the growth of Life Insurance Sector.

Keywords: *Lapsation, Private sector, Dissatisfaction*

INTRODUCTION

Mis-selling, promoting a product by giving a wrong representation of a product, it may include, giving immoral information, giving idealistic information, not giving full information about the product. Mis-selling is not relegated to insurance sectors besides it pervades in various lines of

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businesses like loans, credit cards, investment products, pharmacy, hospitality and so on, but Insurance being an service centered business, the principle of Caveat emptor need to be insisted. Often, the intermediary does not explain the full policy details to the customer. Sometimes the buyer is in a hurry and doesn't care about what they have purchased. There have been several cases reported as the agent deliberately misguided the buyer. A survey conducted by Ernst & Young, compared to different types of frauds, insurance companies are most affected by "mis-selling" due to deliberate falsehood or fraudulent misrepresentation of material facts.

LAPSATION

Lapsation has been one of the major concerns for insurance companies. Generally, once the policy is accepted in life insurance, the insurer undergoes costs for administrative processes , agent 's commission and medical charges, which many times eat up almost major part of the first years premium collected as well as the major part of second year premium. After incurring these expenses if there is an early lapse in the policy then it poses a major financial threat to the insurer. A major reason for lapsed policies is the lack of communication between the insured and insurer after the sale of policy, leading to strained relationships.

REASON BEHIND POLICIES LAPSATION

Considerable factors are alleged to the lapse of Insurance policy. All or some of these could be impacting persistency of a life insurer at any given point of time. The spate of reasons leading to lapsation range from quality of sales, service, customer's financial literacy level, general outlook of economy, etc.

1. Lack of proper need analysis at time of sale
2. Financial crisis of policyholder
3. Adverse market performance
4. Customer service & complaints management experience
5. Lack of adequate financial underwriting
6. New product options

7. Ignorance of policyholder
8. Policy Returns (ROI)

FACTORS LEADING TO MIS-SELLING

HOSTILE MARKETING

Nowadays insurance products are promoted in a hostile way by the private companies and the agents have no option but to sell aggressively. Often, many of the insurance agents show a performance chart to the proposer which shows sky-high returns of 15% over a period of one year. Many times customers of ULIPS's complain that they were told that they need to pay the premium only for three (or five) years and would receive tax-free returns, but when they check the actual condition after three years they get stunned to see that their actual value of the fund.

DEARTH OF SKILLED AGENTS

Most agents do not take this profession sincerely and end up terminating their agencies sooner than later. The policies sold by these unskilled agents become "orphan policies" and without servicing they lapse. In the financial year 2010-11, 10.45 lakh agents left the insurance business while only 7 lakh joined which has led to a fall of 35 %. The companies are finding it really hard to recruit good agents.

LACK OF TOLERANCE

After the customer agrees to buy the policy, most of the agents didn't explain the policy terms and conditions clearly or else they will skip up something. They are in a rush to close the sales and they don't even study the features properly. Even though agent explain about the product insured is also responsible to check what they have purchased. Prompt inspection of the policy documents and policy regarding details are the need of the hour.

COMPLAINTS RECEIVED BY IRDA

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As on 31st March, 2012, there were 1,282 complaints pending resolution by life insurance companies. During the year 2011-12, the life insurance industry received 3,09,613 complaints out of which, 52,300 related to LIC and 2,57,313 related to private sector life insurers. Of these, the insurance companies resolved 99.58 per cent of the complaints in 2011-12. While the private life insurers resolved 99.57 percent

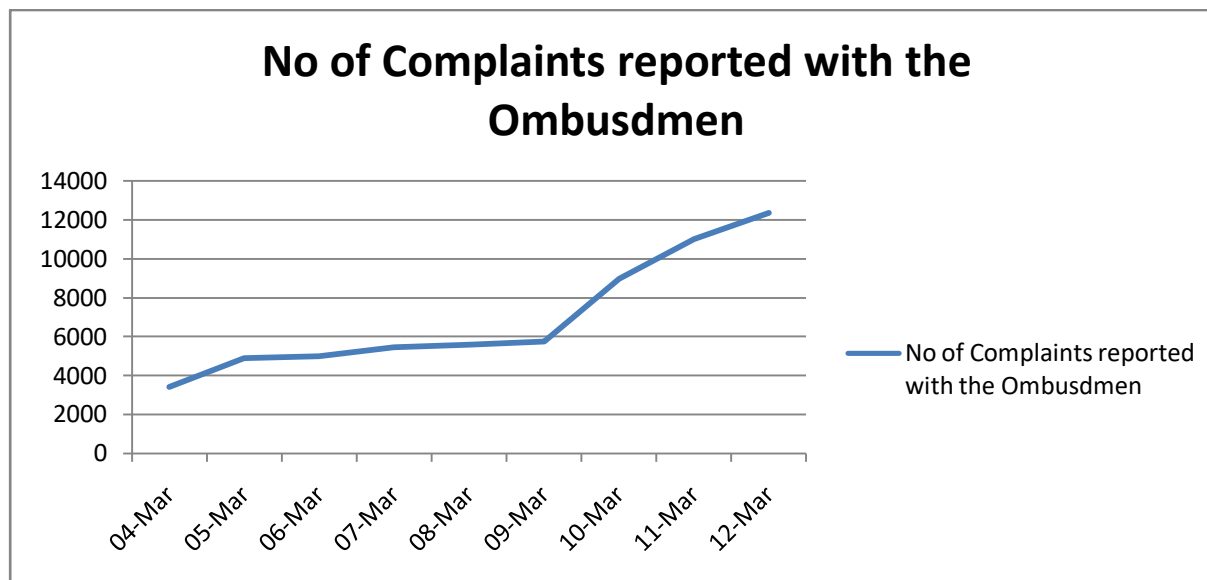
S. No	Complaint Description	Traditional	ULIP	Total
1	Advice concerning Exclusions/ limitations of cover not communicated	71	122	193
2	Options not included as requested	359	34	393
3	Credit/Debit card debited without consen of Customer	139	106	245
4	Do Not Call Registry	121	146	267
5	Free-look refund not paid	3284	2350	5634
6	Illegitimate inducements offered	1635	562	2197
7	Intermediary did not provide material information concerning proposed cover	614	793	1407
8	Malpractices	20529	10961	31490
9	Misappropriation of premiums	2581	2243	4824
10	Mode of premium payment differs from requested or disclosed	727	448	1175
11	Premium paying period projected is different from Actual	2127	1624	3751
12	Product differs from what was requested	10179	7484	17663
13	Proposed Insurance not in the interest of proposer	1928	1809	3737
14	Single premium Policy issued as Annual premium Policy	4027	4040	8067
15	Surrender value projected is different from actual	447	471	918
16	Tampering, Corrections, forgery of proposal	6186	3067	9253
17	Term(Period) of the policy is different	912	442	1354

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*Source: Handbook on Indian Insurance Statistics 2011 – 12

REDRESSAL OF CONSUMER GRIEVANCES

Particulars	Marc h 04	Marc h 05	Marc h 06	Marc h 07	Marc h 08	Marc h 09	Marc h 10	Marc h 11	March 12
No of Grievances reported	519	1433	2516	861	2057	1794	2449	9565	30961 3
No of Complaints reported with the Ombudsman	3404	4893	4980	5433	5565	5753	8967	11017	12353



Interpretation

From the above table and chart it is very shocking to see how much complaints have been registered against insurance companies as well as against insurance agents. The level of complaints registered in the year 2011 itself is self explanatory. Mis-selling is one among the major complaint. Number of complaints registered is also getting increased day by day.

Now only general public and the policyholder get the knowledge about grievance redressal forums. Earlier when the policyholder encounters a problem they don't know where to complain but now due to the awareness creating by IRDA now everyone wake up and making sure that they have purchased insurance products according to their needs.

STEPS TAKEN BY IRDA AND INSURANCE COMPANIES TO CURB MIS-SELLING PERSISTENCY NORMS

It has been seen that persistency in the life insurance business is on a turn down and this can be attributed to mis-selling. Companies are not able to retain customers and hence IRDA came up with a persistency norm which said that the license of the agent will get terminated if 50% of the policies sold by them are not renewed. This is a courageous move by the regulator and it will make sure that the policies are sold on proper advice. More pressure should be laid on collection of renewal premium rather than generating fresh business.

ONLINE GRIEVANCE MANAGEMENT PORTAL

With the initiate of IGMS (Insurance Grievance Management System) portal and call centers, an aggrieved customer can shoot up his complaint to IRDA in case the insurer is no able to resolve the grievance. GMS provides a common base to all insurance companies to resolve policyholder issues. Regulations for Web Aggregators in November'11, IRDA came up with some restrictions for the web aggregators which do not allow them to compare products. These websites push products on which they receive high commissions from the insurance companies and often the prospect lands up making wrong choice. Under the new guidelines, which came

into effect from 1 February 2012, the commission which they receive has been capped and they have been banned from reviewing and rating products.

CUSTOMER CENTRIC INITIATIVES

Many companies have started taking customer centric measures to eradicate this problem like making ‘welcome calls’, in which the insured is again briefed on the product features and charges involved to ensure that he has taken an learned decision while buying the policy. HDFC Standard life also came up with their initiative “Most Important Document” (MID), a questionnaire to ensure that customers understand the product well before making a decision to purchase it.

INDUSTRY SOLUTIONS

1. Drafting product literature in vernacular languages which will be easier even for a layman to understand and it will also widen the reach. The terms and conditions, benefits, charges, lock-in period etc should be specified in bold and simple language.
2. Agents are an inter-face to the industry and it is the best interest of the companies to work together and devise superior training programmes for agents/advisors that can reduce mis-selling.
3. When the application for the insurance is under process, the underwriter should get in touch with the customer and elicit response from them regarding the product which has been sold to them.
4. Companies should simplify their terms and conditions to remove any hidden meanings or terms. They should take this as a part of their corporate governance to financially educate the insured.
5. The interest of the distributor and the customer needs to be aligned by remunerating him throughout the term of the policy rather than heavily paying front loaded commissions. This will force the agents to sell products with long term perspective and will ensure proper policy servicing.

CONCLUSION

This problem of mis-selling can only be eradicated by the collective efforts of Insurers, Regulators, Intermediaries and Customers as well. Business conservation or retention not only reflects the financial strength of the insurer and ensures commission continuity for the advisor but also ensures that the customer wellbeing and returns are safeguarded. If policyholder is disappointed at the sales process, then it is a permanent and irreparable loss to distributors. Further, insurers may also impose penalties due to lapsation, such as denying club membership associated facilities and fringe benefits.

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