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Mis-Selling of Life Insurance Products-A Greatest Bane

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ABSTRACT: The paper is based on secondary data and is descriptive in nature. In this paper an attempt is made to define the concept of mis-selling. Later on, the paper tries to reveal mis-selling practices prevailing in India. Finally, the paper tries to answer some of the questions- just as why mis-selling? What are the disadvantages of mis-selling and how to tackle the problem of mis-selling? etc.

Objectives of Study:

- To understand concept of mis-selling in life insurance industry.
- To reveal mis-selling practices prevailing in India and finding the solutions.

Methodology:

The paper is based on secondary data and is descriptive in nature.

Meaning of Life Insurance:

Life insurance or life assurance is a contract between the two parties – policy owner and the insurer. In this contract the policy owner agrees to pay premium (a stipulated amount) at regular intervals or in lump sums and in return the insurer agrees to pay a sum of money upon the occurrence of certain event such as death of insured or at the end of the policy term or critical illness etc.

Meaning of Mis-selling:

‘Mis-selling of insurance policies is a serious issue in the insurance industry’. ¹Mis-selling means selling a product, which is inappropriate for the consumer. It includes the following:

1. If an agent sells a life insurance policy with a ‘life-cover’ to a bachelor on whom no one is dependent, it can be called mis-selling.
2. If an insurance policy is sold to a non-earning member and the earning member will be the beneficiary in the event of some mis-happening, it is mis-selling.
3. If an insurance policy is sold to a minor, who would be paying the premium in case of the breadwinner’s demise, who is around to take care of the premium?
4. If an agent sells a Unit Linked Insurance Plan projecting future returns on the basis of past returns as guaranteed one with some confusing language, it is mis-selling.

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5. It is mis-selling, if an agent does not aware you of the charges involved in insurance plan e.g. upfront charges, asset management charges, entry and exit load, surrender charges etc.

Environment of Mis-selling

Though, various types of mis-selling practices are common in India, 'The instances of mis-selling is significantly larger in the unit linked insurance plans (ULIPs)...The incidence of mis-selling, however, has come down a little from 14 per cent in 2006-07 to 12 per cent in 2007-08. But still about 10 per cent of total complaints received by the IRDA are on mis-selling.'²

Life insurance companies are working with multiple channels of distribution consisting of agency, corporate agency, broking and bancassurance- all of them are approved by IRDA and well-established channels of distribution. In between, an illegal and unethical 'Multilevel Marketing' (MLM) has been developed to promote sale of life insurance products through 'Pyramid of Consumers'. In this model one needs to purchase any one life insurance product and he will become a member as well as insurance agent without either passing any examination or undergoing an agent's training. He needs to make further members (i.e. Agents) by selling insurance product and every time his downline grows, he gets an incentive. 'TLC Insurance (India) in Bangalore, RMP Infotec in Chennai, Golden Trust Financial Services in Kolkata and SecureLife in Delhi'³ are a few examples of such companies. These are spread all over the country. All the above four claim to be selling policies of various insurance companies such as Bajaj Allianz, Max New York Life, Reliance Life Insurance, Life Insurance Corporation of India and Kotak Mahindra Life Insurance. It has enhanced the problem of mis-selling.

Why Mis-selling:

Dual role of insurance intermediaries as advisors to consumers of insurance products and sales channels for insurance companies is responsible for mis-selling.

Disadvantages of Mis-selling:

A mis-sold product is a bane for consumers. It results into lapsed policies, which create reduced cash inflows in times of need leading the insured to distress. It also destroys the reputation of insurers, as the bubble of any scandal is sure to burst, even if 20 years later.

How to Prevent Mis-selling:

In certain countries, regulator conducts retrospective reviews of mis-sold products and penalizes insurers where they are found guilty e.g. 'The UK recently saw a large-scale endowment scandal, which resulted in compensation and fines of up to £ 500 million (about Rs. 4000 crore). The guilty parties included intermediaries like building societies, insurance companies and banks that did not handle complaints in the proper way... Prudential paid about £ 1.6 billion (Rs.12, 800 crore) towards cost of compensation arising from a previous pension mis-selling scandal before the endowment scandal hit.'⁴ There is a lesson to be learnt from this UK experience for the Indian insurance industry. Stiff regulations and laws are required.

The principle that one size fits all is unacceptable. We need to create an *ethical agency* force with a good understanding of the basic concepts of insurance, adequate product knowledge, and the capacity to understand and analyze consumers' needs and recommend the appropriate insurance products that will meet the customers need.

Knowledge about the insurance sector is inadequate in our country, but very little has been done to educate the consumers about the life insurance products when they are offered and the needs they serve. Therefore, there is an emergent need for children to learn, How to manage money? They should be educated to various financial products at the school level itself. 'By the time they complete their college education they would have to develop into financially savvy adults capable of making their money work for them. We should know that the share market legend Warren Buffet and the richest man in the world bought his first share at the age of eleven... Catching our young people young

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and helping them to learn to manage their money is therefore important as this is also an equally important 'life skill'. Besides, there cannot be a better safeguard against mis-selling and unethical selling than a financially savvy customer.'

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If consumer is informed, he must ask a lot of questions from intermediary, as it is his money which should be safe. Consumers must learn more about the products he buys – on the net or in physical form and must share with intermediary what he wants clearly, firmly and loudly and consult with other experts also. In this way he can avoid some pitfalls.

SEBI now has a fund for investor education; on the same way there should be a fund for educating the consumers of insurance products also.

Conclusion:

The need of the hour is to adopt the measures that can curb mis-selling of life insurance products. Otherwise, a scandal is in pipeline and can burst and harm the economy at any time.

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