

## Impact of Misselling on Insurance Sector

\*Dr. Ashish Nag

\*Assistant Professor (Deptt. Of Accounting and Finance), School of Business and Management Studies (SBMS), Central University of Himachal Pradesh (CUHP), Dharamshala- 176215 (H.P.) India

### Abstract

The Indian insurance business is grief a lot due to Misselling of insurance products. Due to short term gain some advisers, Brokers, lead generating agencies; websites are Misselling life protection policies with a crash. In a business that is growing its wing slowly to tap huge uncovered population, this is perhaps the last thing the industry would want. Insurance playing a domineering role in leveling future risks by individuals. Trapping agent-client relations using misleading contracts and policies leads to fraud selling. Effort has been made to investigate how insurance advisors are associated in Misselling of Insurance?

The speed with which Misselling is increasing in country is an important point for discussions for the smooth functioning of this sector. Various bodied familiarize to one should possibly pursue or remedy these intricate thought. Government and IRDA in particular, are well-placed to have a sound check on Misselling All victims of insurance fraud are encouraged to take advantage of this opportunity to spread the word to judges, juries and other in the courtroom- including the news media- about the nature and severity of this crime.

### Key Words

Insurance, Misselling, banks, fraudulent

### Introduction

The Business of Insurance is related to the protection of the economic values of the assets. Each human being has the propensity to save to protect him from risks or events of future. Insurance is one form of investments where in people try to assure themselves against risks or worries of future. It is assurance against risks or events or losses. People can save their earnings either in the form gold, fixed assets like property or in banking and insurances. All the savings of persons of a country account for gross domestic savings. In India, although savings rate is high but people prefer to devote either in gold or immovable assets so that they can make cash out of it. Hence insurance sector is still unexploited in India.

Insurance is a tool by which losses of a small number are recompensed out of premium payment collected from copious. Insurance is protection against uncertain events that may occur in the future. It is a procedure where the losses practiced by a few are extended over several who are exposed to same type of risks. It is a protection against financial loss arising on the happening of an unpredicted event. Insurance companies collect premium to provide security for the purpose. Loss is paid out of the premium collected from people and the insurance companies act as trustees to the amount so collected. These companies have proposal forms which are filled to give details of insurance required. Depending upon the answers in the proposal from insurance companies assess the risk and decide on the premium. Insurance companies are risk bearers. They underwrite the risk in return for an insurance premium. the utility of insurance is to provide shield, prevent losses, capital formation etc. hence insurance can be defined as a tool in which a sum of money as a premium is paid by the insured in consideration of the insurer's bearing the risk of paying a large sum .it may also be defined as a contract wherein one party (insurer) agrees to pay the other party (insured) or his beneficiary, a certain sum upon a given exigency against which insurance is required. Insurance business commands enormous funds through sales of insurance services to large number of clients. Insurers also create obligations and obligate themselves to recompense for losses occurring to the policyholders on imminent date. It also plays an important role in process of capital development.

**Definition: - 'MISSELLING'**

The ethically questionable practice of a salesperson misrepresenting or misleading an investor about the characteristics of a product or service and In an effort to make a sale to a potential customer, a financial products salesperson could leave out certain information or describe a financial product as something the investor urgently needs, even though sound financial judgment would come to the opposite conclusion good example of Misselling can be seen in the life insurance industry. Consider an investor who has a large amount of savings and investments but no dependent children and deceased spouse. This investor would arguably have little need for whole life insurance and, therefore, an insurance salesperson describing the product as something the investor urgently needed to protect his or her assets in the event of death could be considered a case of Misselling.

**Reasons for Misselling:-**

1. Unawareness of policyholders about the insurance plans and procedural waffles of insurance business.
2. Substantial selling pressure on the insurance advisors/sales managers from the administration.
3. Make a rapid buck in form of insurance commissions.
4. Lack of strict watch by the insurance companies since they are more attentive in getting the business anyway.
5. Lack of employee devotion towards the insurance company.
6. Escalating of chain marketing system which is only interested in grossing.
7. No facility of any penalty to guilty persons who are wedged in Misselling.
8. Nonexistence of any scam database in syndicates to identify culprits.
9. Access of company agents who only take insurance as selling any profitable product for gain.
10. Unqualified employees of Insurance companies.
11. Customers lucrative/greed for high and even double returns.

**Impact of insurance Misselling:**

Many states have enacted victims' rights laws that allow victims to make a statement in court either during a trial or at sentencing. All victims of insurance fraud are encouraged to take advantage of this opportunity to spread the word to judges, juries and other in the courtroom- including the news media- about the nature and severity of this crime. Below are the facts and figures that can be woven into a personal statement of how fraud has affected you and your company. Insurance fraud is a major crime that imposes significant financial and personal costs on individuals, businesses, govt. and society as a whole. Fraud is widespread and growing. Insurance swindles victimize people from virtually every race, income, age, education level and region.

**Realities:**

1. Increase in fraudulent claims due to coalition against Insurance Fraud estimates. This figure includes all lines of insurance. Maximum insurance fraud goes undetected and unreported.
2. It leads to raised amount of insurance premiums due to fraud claims and people are not hesitant to false injury claims involving deliberately staged car accidents.
3. Misselling is a great contributor for people's health lives and property because they are often endangered by insurance fraud schemes.
4. Some cases of murder for life insurance are also noted to get financial reliefs.

5. The safety of people is endangered when they mistakenly buy fake health insurance. In other health schemes, medical providers often perform possibly dangerous and superfluous surgery on healthy people solely to increase their insurance billings.

6. Deceitful insurance agents will pocket client insurance premium checks themselves, leaving the clients hazardously uncovered. Dishonest insurance agents also increase a policyholder's premiums by secretly adding unwanted coverage to clients' policies.

### **Matter Discussed with Insurance company officers**

Firstly, researcher identified the Misselling in Insurance as an area to carry forward the study in. So, researcher consulted with the official of insurance companies and discussed with them about the Misselling prevailing in insurance sector. After the discussion they advised to carry out the study on said area and recommend some suggestions.

### **Methodology**

During the study most of the data used are collected from both primary and secondary sources and the secondary sources are mostly from IRDA website publication like journals and annual statistical reports. Primary data are collected by applying convenience sampling techniques to analyze customers 'perspectives. No statistical or mathematical design is used to establish conclusion. Inference is drawn based on analysis of facts from the collected data. Data has been collected from district Kangra of Himachal Pradesh (India)

### **Need and objectives of the study**

This study finds issues around stagnation of insurance sector in India. Misselling are found to be one of the major factors of loss of trust of investors in the sector. It tries to find out various ways by which an investor is trapped by luring him about his financial prosperity, instead of highlighting the main objective of securing one's life against risk and uncertainty as the primary objective of insurance. It tries to establish the fact that this approach of Misselling as a major contributor for the recession in the industry.

The Objectives of the study are:

- To determine the Present Status of Misselling in India.
- To know About the Various Factors Which Lead to the Misselling?
- To study the awareness level and Perception of customers regarding Misselling.
- To suggest the company how can they control or minimize Misselling.

### **Analysis**

The insurance industry is one of the fastest growing industries in the country and offers abundance growth opportunity to the life insurers. An analysis is made on the responses received from 50 sample investors. The objective of the study is to find out the main issues around stagnation of insurance sector in India. Misselling is found to be one of the major factors of loss of trust of investors in the sector.

**Classification on the basis of Method used by seller to sell the policy to the respondents**

Responses	Frequency	Percent
Asked for it	9	18.0
Tied with product	9	18.0
Special privilege offer	8	16.0
Discount benefit	10	20.0
Forced upon	14	28.0
Total	50	100.0

Source: Primary Probe

The results indicated that out of the 50 respondents in this survey, 28% of the respondents said that most of the seller used “Forced upon method to sell the policy” while all other methods were equally used by the seller to sell them policy.

**Misselling helps insurance companies to generate meaningless profit**

Responses	Frequency	Percent
Disagree	1	2.0
Agree	34	68.0
Can't Say	15	30.0
Total	50	100.0

Source: Primary Probe

The results indicated that out of the 50 respondents in this survey, 68% of the respondents’ said that generally Misselling helps insurance companies to generate meaningless profit.

The results indicated that out of the 50 respondents in this survey, 54% of the respondents felt that the agent has misled them by Misselling the policy.

**Classification on the basis of respondents ho were asked to buy an insurance policy first to have a loan**

Responses	Frequency	Percent
Disagree	18	36.0
Agree	21	42.0
Can't Say	11	22.0
Total	50	100.0

Source: Primary Probe

The results indicated that out of the 50 respondents in this survey, 42% of the respondents said that they were asked to buy an insurance policy first to have a loan. 36% respondents are in disagreement and 22% said they can’t say anything about it.

**Age group wise Responses of respondents**

<b>Age wise Responses of respondents</b>			
<b>Basis</b>	<b>Age Group</b>	<b>No. of Respondents</b>	<b>Mean</b>
Do you think Misselling helps insurance companies to generate meaningless profit	25-35	11	2.455
	35-45	17	2.353
	45-55	18	2.111
	Above 55	4	2.250
	Total	50	2.280
Do you expect the companies should explain all products and services in detail so that the chances of Misselling can be reduced	25-35	11	2.091
	35-45	17	2.235
	45-55	18	2.111
	Above 55	4	1.750
	Total	50	2.120
Do you feel that the agent representing the company is knowledgeable and explained all features of the policy	25-35	11	2.000
	35-45	17	2.176
	45-55	18	2.222
	Above 55	4	1.750
	Total	50	2.120
Do you at any time feel that the agent has misled you by Misselling the policy to you	25-35	11	2.182
	35-45	17	2.059
	45-55	18	2.389
	Above 55	4	2.250
	Total	50	2.220
Were you asked to buy a insurance policy first to have a loan	25-35	11	1.909
	35-45	17	2.000
	45-55	18	1.833
	Above 55	4	1.250
	Total	50	1.860
Were you asked to pay the renewal fee even for single premium insurance scheme	25-35	11	1.909
	35-45	17	1.824
	45-55	18	2.056
	Above 55	4	1.750
	Total	50	1.920
Do you think Misselling has reduced over the time	25-35	11	1.727
	35-45	17	2.412
	45-55	18	2.333
	Above 55	4	2.000
	Total	50	2.200
Do you think increased competition increased the Rate of Misselling	25-35	11	2.636
	35-45	17	2.647
	45-55	18	2.111
	Above 55	4	2.000
	Total	50	2.400

Source: Primary Probe

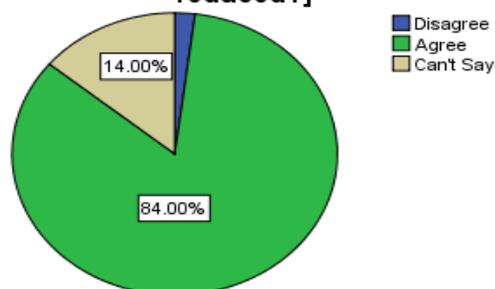
It is evident from above table that the respondents from all the age groups are in agreement with the statement that Misselling helps insurance companies to generate meaningless profit only the respondents from 25-35 age groups are shifting toward being neutral. Also the table shows that all the respondents from all the age group are in agreement that if the company will explain all the product details and information to the buyers then the chances of Misselling can be reduced only the respondents having age above 55 are less adamant. Although the respondents do think that the agents of insurance company are knowledgeable and explained the features but they also said that they do feel the agent has misled them while the respondents above 45 years age group are being neutral. All the respondents except the age group above 55 said that they were asked to have an insurance policy first when they wanted to have a loan. Having all said and done still the respondents think the Misselling has reduced over the time and according to them increased competition in insurance sector was the reason behind Misselling only respondents from age group 35-45 are neutral in this regard.

**Respondents who think explaining all products and services in detail will reduce Misselling**

Responses	Frequency	Percent
Disagree	1	2.0
Agree	42	84.0
Can't Say	7	14.0
Total	50	100.0

Source: Primary Probe

**Do you expect the companies should explain all products and services in detail so that the chances of mis selling can be reduced?]**



The results indicated that out of the 50 respondents in this survey, 84% of the respondents are in agreement and expect that companies should explain all products and services in detail so that the chances of Misselling can be reduced.

**Age wise Responses of in regards to their perception about reasons for increase in Misselling**

<b>Basis</b>	<b>Age Group</b>	<b>No. of respondents</b>	<b>Mean</b>
Birth of Investment-cum-insurance Products	25-35	11	3.091
	35-45	17	3.235
	45-55	18	3.278
	Above 55	4	4.000
	Total	50	3.280
Agents' Eagerness to Earn High Commissions	25-35	11	3.545
	35-45	17	3.824
	45-55	18	4.222
	Above 55	4	4.750
	Total	50	3.980
Expectation of short term gain	25-35	11	3.182
	35-45	17	3.294
	45-55	18	3.500
	Above 55	4	3.750
	Total	50	3.380
Policy Buyers Do not Read the Document	25-35	11	4.091
	35-45	17	3.765
	45-55	18	4.222
	Above 55	4	4.000
	Total	50	4.020
Expiry of the Free-look Period	25-35	11	3.000
	35-45	17	3.353
	45-55	18	3.222
	Above 55	4	3.000
	Total	50	3.200
Lack of Awareness of the customer	25-35	11	4.455
	35-45	17	3.941
	45-55	18	4.167
	Above 55	4	4.250
	Total	50	4.160

Source: Primary Probe

The table above shows the perception of different age group respondents about the factors which they think contributed to the increase in the Misselling. Only the respondents from age group above 55 said birth of investment cum insurance policy is the reason behind the increased Misselling, all other being Neutral. All the Respondents are in agreement that the Agent's eagerness to earn high profit is the reason for Misselling. While they think their own eagerness to earn short term profit was also a factor. The respondents also think the reason of Misselling is because they don't read the documents carefully. And the lack of awareness on the part of customer is also a major contributor in increased Misselling.

**Education Wise Responses of Respondents In regard to Misselling**

<b>Basis</b>	<b>Education Level</b>	<b>No. of respondents</b>	<b>Mean</b>
Insurance Agents are knowledgeable about Products	Matric	7	3.143
	Sen. Secondary	12	3.417
	Graduation	15	3.400
	Post Graduation	16	3.250
	Total	50	3.320
Agents explained me all products and sold only those need -based products	Matric	7	2.714
	Sen. Secondary	12	3.167
	Graduation	15	2.867
	Post Graduation	16	3.063
	Total	50	2.980
Insurance Agent gave me all the information needed to analyze and select the product	Matric	7	2.429
	Sen. Secondary	12	2.917
	Graduation	15	2.600
	Post Graduation	16	3.125
	Total	50	2.820
Insurance Agents are involved in Misselling of Insurance products	Matric	7	4.143
	Sen. Secondary	12	3.750
	Graduation	15	3.400
	Post Graduation	16	3.563
	Total	50	3.640
Insurance agent sold a product which I never needed	Matric	7	3.714
	Sen. Secondary	12	3.417
	Graduation	15	3.133
	Post Graduation	16	3.250
	Total	50	3.320
I bought particular insurance because agent forced me to	Matric	7	3.857
	Sen. Secondary	12	3.167
	Graduation	15	2.867
	Post Graduation	16	3.063
	Total	50	3.140
Insurance agent sold only those products which yield highest commission	Matric	7	3.571
	Sen. Secondary	12	3.750
	Graduation	15	3.733
	Post Graduation	16	3.500
	Total	50	3.640
Insurance agent hide sensitive information	Matric	7	4.429
	Sen. Secondary	12	3.833
	Graduation	15	3.933
	Post Graduation	16	3.688
	Total	50	3.900

The table shows that the respondents from all educational background think that the insurance agents are knowledgeable about the product, but they are tending towards being neutral. They are also neutral on the regard that agents explained all the products and sold only need based product. Also, the respondents are in Agreement that the agents are involved in the Misselling. The respondents with Matric background are strongly in agreement (mean 4.1) than others and they also think the insurance agent sold them the product which they never needed. Also, only the Matric background respondents think the agent forced them to buy the product. All the respondents think the agent sold only those products which yield highest commission and hide the sensitive information.

**Occupation Wise perception of respondents about the factors which resulted in Increase in Misselling**

<b>Factor</b>	<b>Occupation</b>	<b>No. of respondents</b>	<b>Mean</b>
Birth of Investment-cum-insurance Products	Govt. Employee	21	3.476
	Private Employee	17	3.059
	Self Employed	12	3.250
	Total	50	3.280
Agents' Eagerness to Earn High Commissions	Govt. Employee	21	4.048
	Private Employee	17	3.588
	Self Employed	12	4.417
	Total	50	3.980
Expectation of short term gain	Govt. Employee	21	3.571
	Private Employee	17	3.118
	Self Employed	12	3.417
	Total	50	3.380
Policy Buyers Do not Read the Document	Govt. Employee	21	3.905
	Private Employee	17	4.000
	Self Employed	12	4.250
	Total	50	4.020
Expiry of the Free-look Period	Govt. Employee	21	3.238
	Private Employee	17	3.294
	Self Employed	12	3.000
	Total	50	3.200
Lack of Awareness of the customer	Govt. Employee	21	4.143
	Private Employee	17	4.118
	Self Employed	12	4.250
	Total	50	4.160
in initial phase of privatization there was Misselling	Govt. Employee	21	3.524
	Private Employee	17	3.000
	Self Employed	12	3.250
	Total	50	3.280

Source: Primary Probe

The table conveys that the Govt. employees think the birth of investment cum insurance policy was the reason for increased Misselling, all others are neutral. All the respondents think the eagerness of agents to earn highest commission is also a reason here the self-Employed Person are more in agreement (mean 4.4) than others. The other reasons are the customers

eagerness to earn short term profit and because they don't read the document completely. Also, all are neutral about the Misselling in Initial phase of Misselling.

**Area Wise Responses of Respondents with regard to Misselling**

Basis	Place of residence	No. of Respondents	Mean
In Initial Phase Of Privatization There Was Misselling	Rural	20	3.100
	Semi Urban	19	3.474
	Urban	11	3.273
	Total	50	3.280
Insurance Agents Are Knowledgeable About Products	Rural	20	3.200
	Semi Urban	19	3.316
	Urban	11	3.545
	Total	50	3.320
Agents Explained Me All Products And Sold Only Those Need -Based Products	Rural	20	2.900
	Semi Urban	19	3.105
	Urban	11	2.909
	Total	50	2.980
[Insurance Agent Gave Me All The Information Needed To Analyze And Select The Product	Rural	20	2.900
	Semi Urban	19	2.789
	Urban	11	2.727
	Total	50	2.820
Insurance Agents Are Involved In Misselling Of Insurance Products	Rural	20	3.500
	Semi Urban	19	3.737
	Urban	11	3.727
	Total	50	3.640
Insurance Agent Sold A Product Which I Never Needed	Rural	20	3.200
	Semi Urban	19	3.421
	Urban	11	3.364
	Total	50	3.320
I Bought Particular Insurance Because Agent Forced Me To	Rural	20	3.250
	Semi Urban	19	3.053
	Urban	11	3.091
	Total	50	3.140
Insurance Agent Sold Only Those Products Which Yield Highest Commission	Rural	20	3.850
	Semi Urban	19	3.368
	Urban	11	3.727
	Total	50	3.640
Insurance Agent Hide Sensitive Information	Rural	20	4.100
	Semi urban	19	3.737
	Urban	11	3.818
	Total	50	3.900

Source: Primary Probe

It can be depicted from the table that the there is a uniformity among all the respondents irrespective of whether they live in Rural, Urban or Semi urban places. Except in the

statement that the insurance agent sold only those products which yield highest commission here the rural and Urban residents are more in agreement while the Semi urban area who are neutral. Also, the rural people are more in favor that the Insurance Agents hide sensitive information (mean 4.1).

### **Findings:**

- The Results indicate that the Males prefer to buy insurance policies more than the females
- Maximum people (82%) who have bought insurance policy are married
- Maximum people (82%) said they bought the insurance product irrespective of whether they needed or not.
- Only 18% said they bought the insurance product because they actually needed and asked for it
- 28% respondents said they bought it because agent forced them to, and 18% said he tied it with some other product.
- 68% respondents said Misselling helps insurance companies to generate meaningless profit, only 2% were in disagreement with this statement
- 84% said if the company will explain all the products and services in Detail, it will help reducing Misselling.
- Although the respondents think the agents representing the company is knowledgeable but still they were misled by them
- Majority i.e. 42% respondents said they were asked to have an insurance First to have a loan.
- Age gape doesn't affect the perception of respondents about the Misselling in insurance.
- All the respondents except Above 55 age group think Misselling can be reduced if the company would explain the entire product related detail and features.
- All the respondents except Above 55 said they were asked to have an insurance policy first to have a loan.
- Majority of the respondents think the increased competition was the reason behind increased Misselling in insurance sector
- All the age group people think the Agent's eagerness to earn high profit is the main reason for the Misselling i.e. the agents in Lieu of earning high profit sell insurance policies by hook or crook.
- All the respondents irrespective of the age group, education background and gender think the lack of awareness on the part of the buyer is the major reason for the Misselling.
- They also think the buyer's eagerness to earn the short-term profit is another reason.
- Although all the respondents think the Misselling has reduced over the time.
- The respondents also Think that the Agent hide the sensitive information About the Product
- Majority of respondents are Neutral about the Presence of Misselling in Initial Phase of privatization
- Semi urban people are neutral in this regard.
- Males are more in agreement than the Females that increased Competition increased the rate of Misselling.

### **Suggestions**

These are few suggestions based on the study that the group did on the Misselling in insurance sector, which were given to the Manager of Bajaj Allianz Life insurance, Mandi

- The very first thing the company should do is, giving the ethical training to the agents.
- The company should maintain the proper guidelines that the agents don't only sell the product which yield highest commission but the one which is required by the customer.
- The company must keep a check on the working of the agents.

- The company should take the feedback from the customers regularly about the Behavior of the Agents weather he has provided them the policy they asked for on just tied it with some other product.
- The company should warn the behavior of such agents and if the Mistakes are Repeated then a proper action should be taken.
- Agents ultimately represent the company, so if the Agent is trying to missell the policy it will ultimately be a question on the worth of the company.
- The company should explain all the details and Features of different products to the public as the respondents think it will reduce the Misselling.
- As the respondent think the Agents are knowledgeable but they still misled them, so the company should focus on not only giving the training related to the insurance and Marketing only but also the Moral and ethical Training too.
- The company should not encourage the agents to sell the certain type of Insurance policies only by giving them Highest Commission on that.
- The company should run the awareness programs to make the people aware about the different rights the Customers have and the different type of policies that the company sells, as the major factor behind the Misselling is the Lack of the Awareness among the customers.

**References: -**

- Lakshmanan MP& PN Harikumar, “Mis-selling practices in marketing life insurance products and services”, International Journal of Multidisciplinary Research and Development, Volume 3; Issue 3; March 2016; Page No. 274-282; (Special Issue)
- Sahoo SC, Das SC. Insurance Management: Text and Cases. (2nd ed.). Mumbai: Himalaya Publishing House. 2011
- Maheswari Sunil. Managing Insurance: Managing the Agents, Vikalpa, 2005; 30(3):115-117.
- Blewett, L., and Davern, M. (2006). Meeting the need for state-level health insurance estimates: Use of state and federal survey data. *Health Services Research*, 41(3 Pt 1), 946-975.
- Singh, “Dictionary of Insurance”, Jain Books Agency, 2013. ISBN : 9788131308448
- <https://www.bajajallianzlife.com/why-us/life-insurance-company.jsp>
- <http://www.investopedia.com/terms/m/misselling.asp>