

Unjust System & Ferocious Practices of Promoting Life Insurance Products: Panoramic view

Lieutenant - Yashodhan P Mahajan
Head, Department of Accountancy
Brihan Maharashtra College of Commerce
Pune (Maharashtra)
Mob: 9822432231
Mail: mahajan.bmcc@gmail.com

ABSTRACT: It is marked by IRDA (Insurance Regulatory Development Authority of India) formally Governing Body of Insurance Council in its report that insurer parties and their agents are often play foul while promoting the product. Mis-selling has become a common phenomenon in publicizing of insurance products especially in life insurance products. Therefore it is an acute need to curb this social evil. Not only that when due claims are made they are rejected on any fishy and unreasonable grounds. Insurer parties exercise its right to reject as privilege, considering that insured does not have right at all to get satisfied the claim. Despite order by Ombudsman, similar nature of complaints has been observed subsequently, it shows insurers are not serious about customer complaints.

KEYWORDS: Unjust system, ferocious practices, mis-selling, unreasonable grounds, promotion

INTRODUCTION

Duty of Disclosure- Is it one sided?

It is open but disgusting truth that, on large-scale insurer parties engages themselves in false promises, wrong explanation, and concealment of information. It is observed that many complaints arise because customer is not made fully aware of the proper terms and conditions. Principle of Ube remaie fidei has been used as sword and not only shield. Insured must disclose facts affecting protection under relevant policy but what about obligation on part of insurer party and their representatives.

Practices like taking signatures on blank documents, false representations, very wide exclusion clauses, non- providing offer letters, non- disclosure of information, taking advantage of financial illiteracy of consumers, using very complex terminologies in policy etc. are some of the practices observed Ombudsmen in the Report. Though maximum grievances arise because of non- reading of Policy documents, reading blindly or without understanding, the same does not serve the purpose. Informed consent or independent expert advice should be made must. Insurance agents cannot lend such impartial advice; often they themselves are ignorant about implication of terms. They want to sell the products, so it can't be expected from them. There

could be many reasons for non-reading like small font, providing contents in such a jumbling manner and using very technical or complex terms so that consumer will be discouraged to read the same. Many unfair practices are also observed with respect to 'Free Look Cancellation'.

It is argued that if consumers are allowed to return the policies on ground of unfairness, which is difficult to prove it will lead to uncertainty in the industry.

It can be fairly said from decisions of the judicial & quasi-judicial forums like the Supreme Court, High Courts, Insurance Ombudsman, and Consumer Forums etc. that insurer companies incorporating terms which legally & ethically should not be a part of the insurance policy. They have failed to disclose information and lack genuineness in providing explanation. Exclusions clauses are misinterpreted to avoid claims. This all shows, though IRDA is doing a good job in protecting insurance consumers, in some respects they have failed and need to be work more upon such issues. It is also observed that national/ govt. /statutory insurance companies are blamed less and not much indulges in such practices. But private companies, who have sole motive to gain profit & profit only, engage largely in such practices.¹

OBJECTIVES

- To reveal unjust system for publicizing life insurance products
- To know barbarous conditions for depriving claims which otherwise legitimate
- To examine judicial decisions relating to the topic

LITERATURE REVIEW

Dealing with US position three documents are considered here viz. Restatement of the Law, Second is Uniform Commercial Code and last is Consumer Credit Code. It can be concluded that in US as a general principle the doctrine of unconscionability is recognized. The law of contract while determining unconscionable nature of contract emphasizes on extreme unfairness or gross disparity. The law does not consider inadequacy of consideration as a ground to set aside a contract. It is already mentioned above that the law makes distinction between mere inadequacy of consideration and gross unequal exchange of values. Though distinction between substantive unfairness and procedural unfairness is not expressly provided from the provisions it can be made out. A contract can be refused to be enforced merely on ground of substantive unfairness.

¹ "A Riddle of, Unfair Practices Promoting Life Insurance Products & Entailing Unconscionable Terms on Gullible Consumers: A Critical Study in Jurisdiction of Pune City" by Mr. Yashodhan P. Mahajan, MRP, Savitribai Phule Pune University

The courts took overall view or impact of the contract to decide whether the contract is of unconscionable nature.²

Insurance fraud is one of the most serious problems threatening viability of insurance companies. Insurance frauds are driving up the overall costs of insurers and premiums for policyholders. It encompasses a wide range of illicit practices and illegal acts. Insurance companies have witnessed increase in the number of fraud cases since couple of years. Risk Management has been acquiring monumental importance in insurance industry. Insurance business is of dynamic nature that puts an additional onus on risk management. Therefore, insurance companies need comprehensive risk management strategies that involve fraud risk assessment and fraud prevention. The purpose of this study is to analyze various types of life insurance frauds, assess the risks associated with these frauds and finally frame an ideal risk management strategy to curtail or minimize the frauds associated with life insurance. The existing literature on life insurance fraud is used to explore the fraud risk management and internal control system of various organizations.³

According to Swiss Re, India's life insurance market was ranked at number 9 among 156 countries in terms of premium in FY11; India's total premium adjusted) while the total global premium grew by 3.2%. The sector has grown at more than 24% CAGR over the last 10 years. The number of policies issued, declined at a rate of 22.61% to 48.2 million in FY11 from 53.2 million in FY10. The total premium underwritten by the life insurance sector was INR2, 916 billion in FY11 as compared to INR2, 655 billion in FY10, exhibiting a growth of 9.85% down from the 19.69% premium, which is a measure of new business secured, underwritten by the life insurers during FY11 was INR1, 264 billion as compared to INR1, 098.94 billion in FY10 registering a lower growth of 15% in FY11 as compared to 25.84% in FY10. In terms of linked and non-linked business during the year 2010–11, 37.38% (as compared to 43.52% in FY10) of the total premium was underwritten in the linked segment while the balance 62.62% of the business was in the non-linked segment (as compared to 56.48% in FY10).⁴

² Chapter V International Position & Comparative Analysis: UNIDROIT, CISG, UK & USA Standpoint by Prof.Vijay A Chavan

³ Life Insurance Fraud – Risk Management And Fraud Prevention By Ms Dhara Jitendra Chudgar;Dr. Anjani Kumar Asthana, Gujarat

⁴ Insurance Industry Challenges, Reforms And Realignment By Confederation Of Indian Industry, Ernst & Young

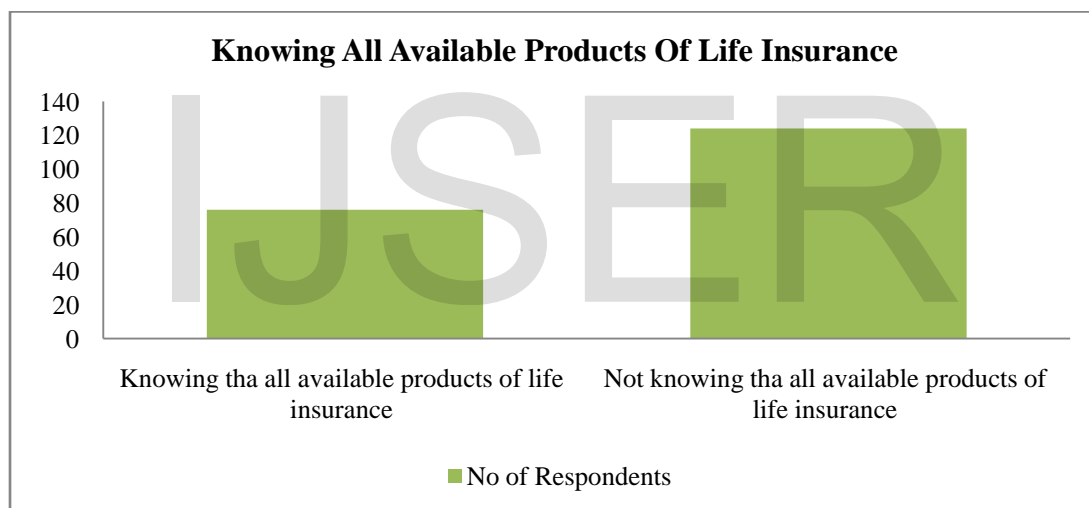
RESEARCH METHODOLOGY

Researcher used the non- doctrinal (empirical) & critical method to carry out the research in the above mentioned topic. Both primary as well as secondary data are collected. Using appropriate statistical tool and technique such data are analyzed to form research findings. Researcher has collected the data from 200 policy holders from Pune city through convenient random sampling method

DATA OBSERVATIONS

Table – 1 – Knowing all other plans/types of Life Insurance Policies (products)

Particulars	No of Respondents
Knowing the all available products of life insurance	76
Not knowing the all available products of life insurance	124
Total	200



Graph – 1 – Knowing all other plans/types of Life Insurance Policies (products)

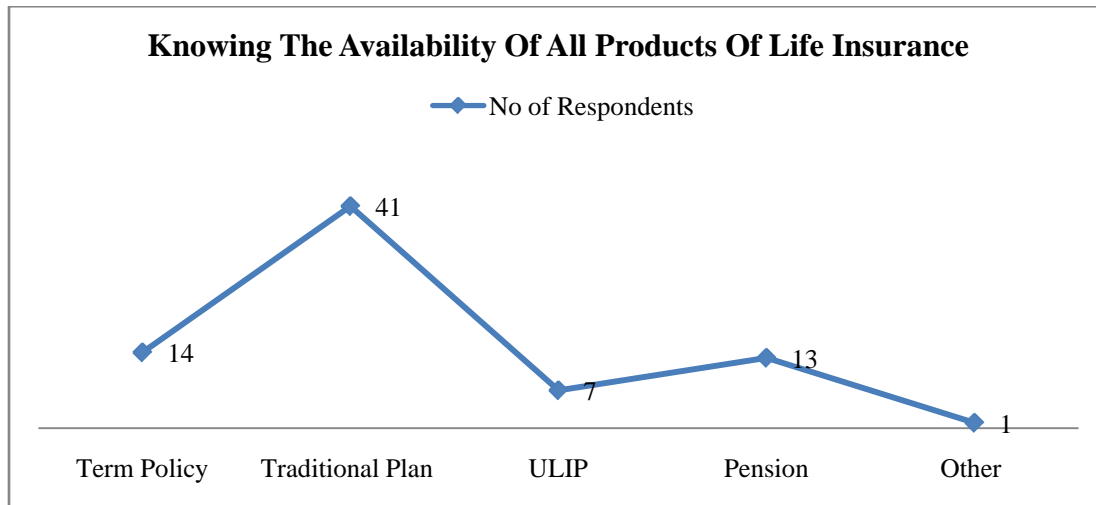
Out of 200-samplesize, only 76 respondents are aware of all available products of life insurance, remaining 124 respondents do not know about all available products of life insurance.

It means almost 60% of the people do not know all the available products of life insurance. For the sake of to be insured they just buy the life insurance product.

Table – 2 – Knowing the availability of all products of life insurance

Types of plans	No of Respondents
Term Policy	14
Traditional Plan	41
ULIP	7

Pension	13
Other	1
Total	76

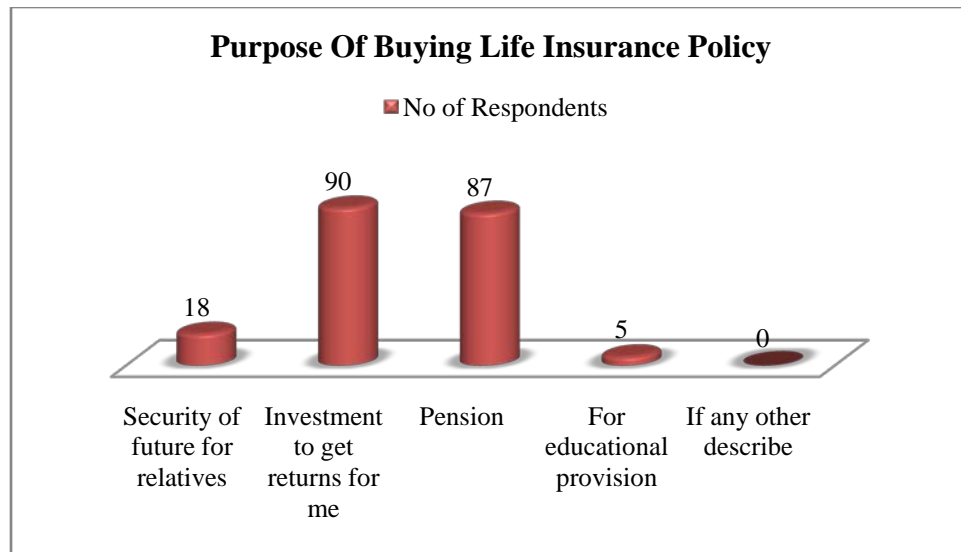


Graph – 2 – Knowing the availability of all products of life insurance

14 respondents buy term policy, 41 respondents buy traditional plans, 7 respondents buy ULIP, 13 respondents buy pension and 1 respondent buy other plan. It can be conclude that almost 60% of the population purchases traditional plans, besides that few are interested in purchasing term policies only.

Table – 3 – Purpose of buying life insurance policy

Particulars	No of Respondents
Security of future for relatives	18
Investment to get returns for me	90
Pension	87
For educational provision	5
If any other describe	0
Total	200



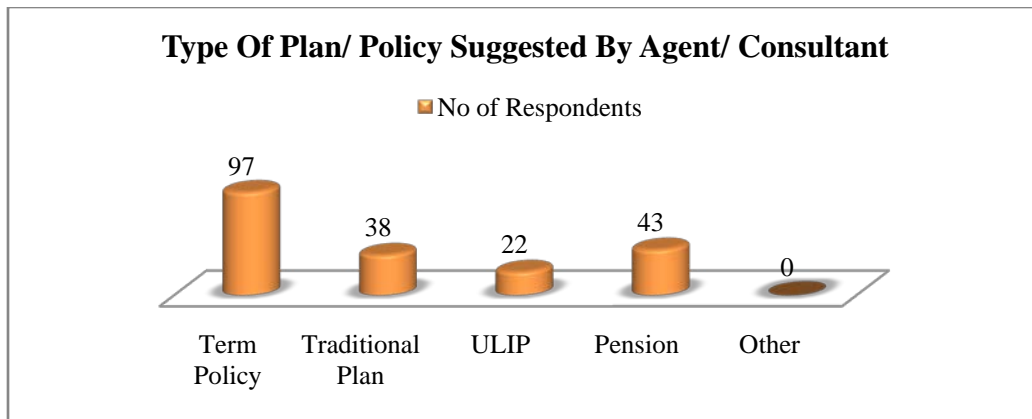
Graph – 3 – Purpose of buying life insurance policy

18 respondents buy the insurance to have a security for relative, 90 respondents buy the insurance to get him/her return, 87 respondents buy for pension purpose and 5 respondents purchase for educational provision.

After analysis, it can be conclude that almost 55 % of the total population buys the insurance products for investment purpose. On the contrary, the very purpose of buying the insurance product must be security of future for relatives.

Table – 4 – Types of plan/policy suggested by agent

Particulars	No of Respondents
Term Policy	97
Traditional Plan	38
ULIP	22
Pension	43
Other	0
Total	200



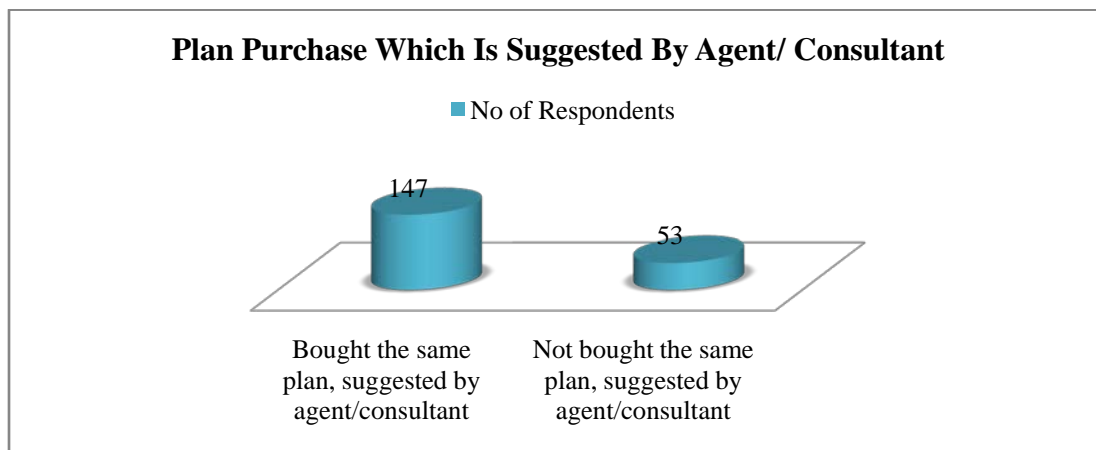
Graph – 4 – Types of plan/policy suggested by agent

97 respondents buy Term Policy, 38 respondents buy Traditional Plan, 22 respondents buy the ULIP Plans, and 43 respondents buy Pension Plan

After analysis, it can be conclude that almost 48 % of the total population buys the term policy and few buy Pension plans. It can be said that very purpose of buying the insurance product is defeated.

Table – 5 – Plan purchase suggested by agent

Particulars	No of Respondents
Bought the same plan, suggested by agent/consultant	147
Not bought the same plan, suggested by agent/consultant	53
Total	200



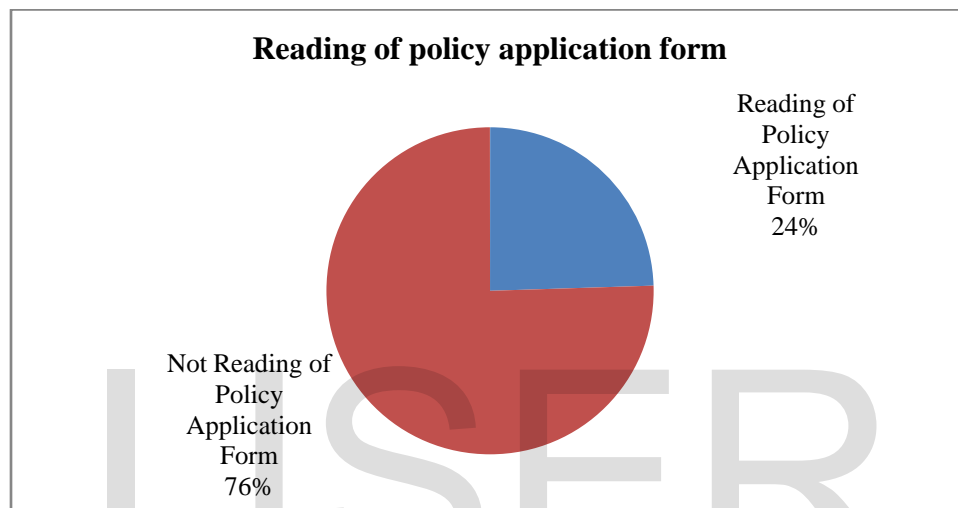
Graph – 5 – Plan purchase suggested by agent

147 respondents buy the same plan, suggested by agent or consultant, 53 respondents not buy the same plan, suggested by agent or consultant.

It means almost 70% of the population strongly and blindly believes on the recommendation made by agent or consultant while buying their insurance policies.

Table – 6 – Reading of policy form

Particulars	No of Respondents
Reading of Policy Application Form	49
Not Reading of Policy Application Form	151
Total	200



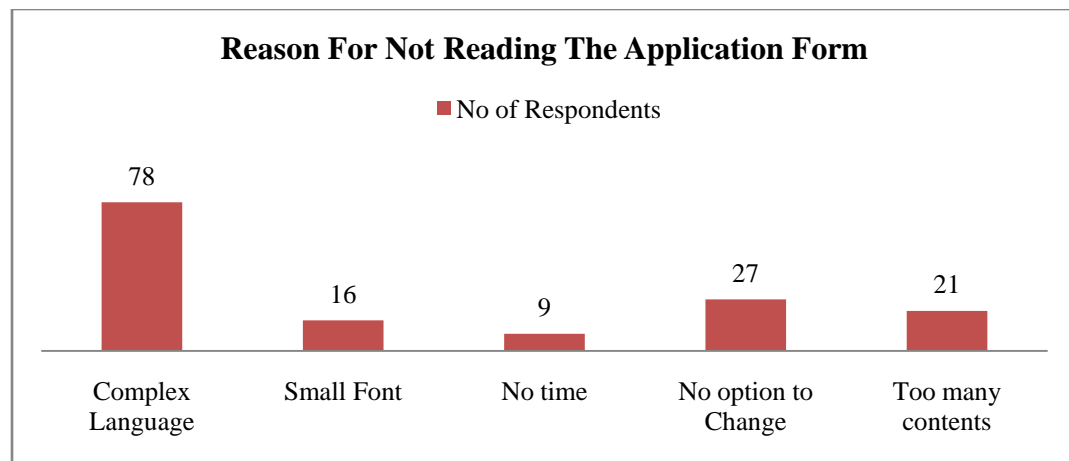
Graph – 6 – Reading of policy form

49 respondents read the application form before buying the insurance plan, 151 respondents does not read the application form before buying the insurance plan.

That is 72% of the population does not even read the application form, blindly sign the same, and land into trouble at the time of claim settlement.

Table – 7 Reason of not reading the application form

Particulars	No of Respondents
Complex Language	78
Small Font	16
No time	9
No option to Change	27
Too many contents	21
Total	151



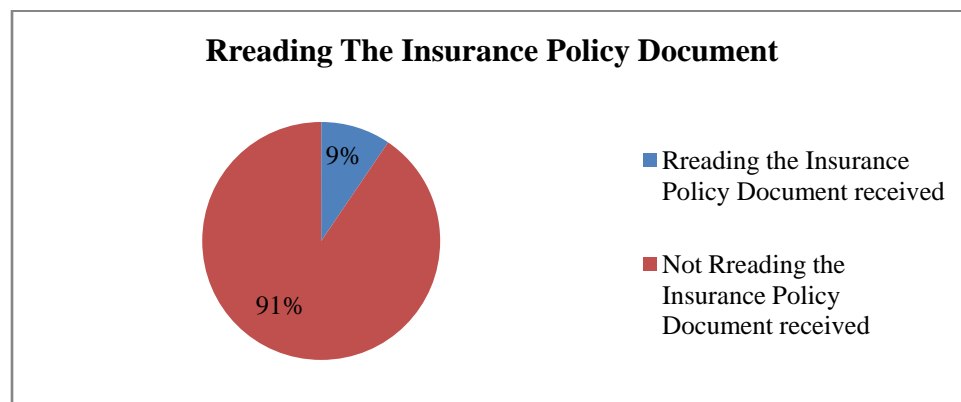
Graph – 7 Reason of not reading the application form

Out of total sample size of 200 respondents, 78 respondents do not read the application form because of complex language used in the form. 16 respondents do not read the application form because of small font used in the form. 9 respondents does not a time to read the application form, 27 respondents feels that there is no option to change the content of the form and 21 finds that there are too many contents involved in the application form before buying the insurance plan.

It means because of the most complex language used in the application form, discourage the insured for reading the same.

Table – 8 Reading the insurance policy document

Particulars	No of Respondents
Rereading the Insurance Policy Document received	19
Not Rereading the Insurance Policy Document received	181
Total	200



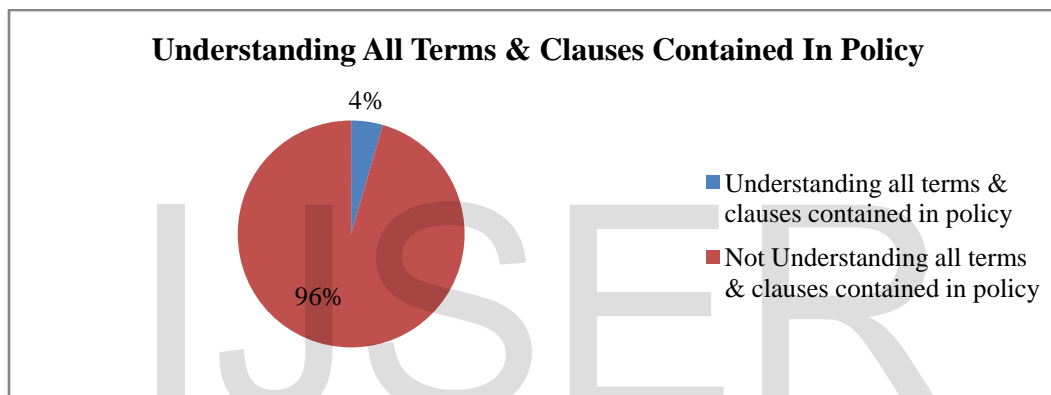
Graph – 8 Reading the insurance policy document

Out of total sample size of 200 respondents, 19 respondents read the policy document received from Insurance Company. 181 respondents do not read the policy document received from Insurance Company.

That is 91% of the sample size of respondents does not feel that it is important to read the policy document received from.

Table – 9 - Understanding all terms & clauses contained in insurance policy document

Particulars	No of Respondents
Understanding all terms & clauses contained in policy	9
Not Understanding all terms & clauses contained in policy	191
Total	200



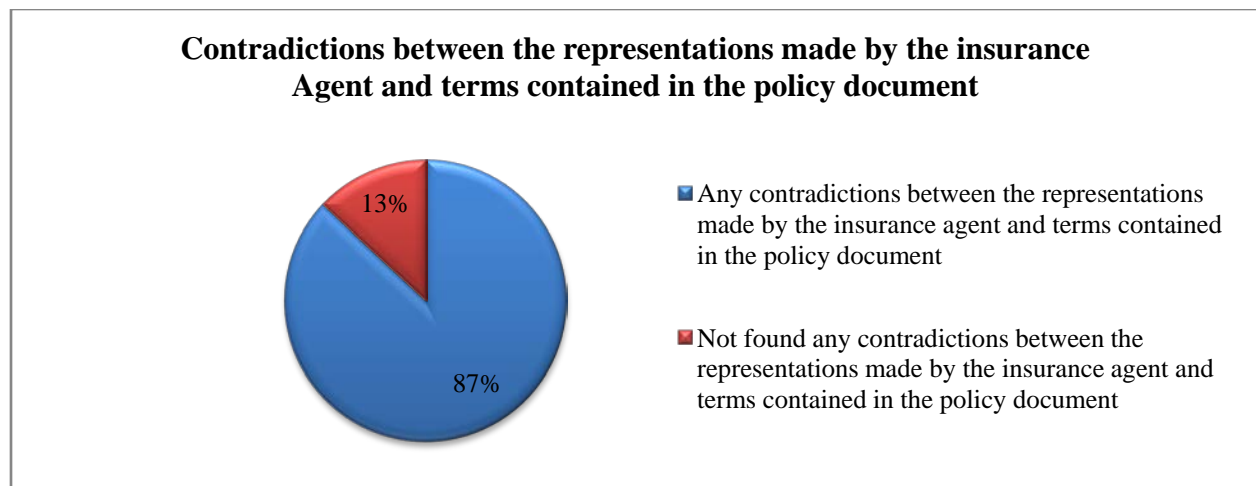
Graph – 9 - Understanding all terms & clauses contained in insurance policy document

96% i.e. 191 respondents out of total sample size of 200 respondents, not understand all terms and clauses contained the policy. Only 4% i.e. 9 respondents understand all terms and clauses contained in policy.

It is shocking to know that majority of the policy holders does not understand all terms and clauses contained in the policy. However, majority of the policyholders are learned.

Table – 10 - Contradictions between the representation made by the insurance agent and terms contained in insurance policy document

Particulars	No of Respondents
Any contradictions between the representations made by the insurance agent and terms contained in the policy document	174
Not found any contradictions between the representations made by the insurance agent and terms contained in the policy document	26
Total	200



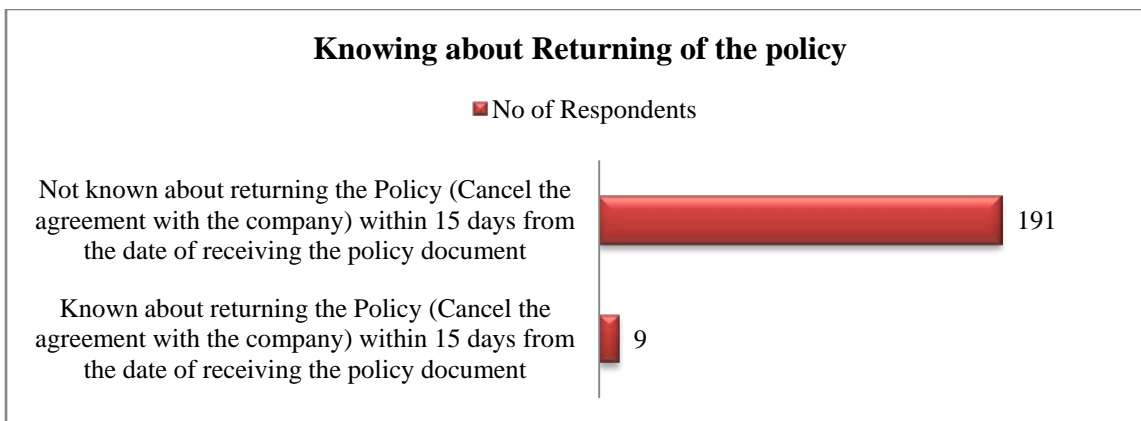
Graph – 10 - Contradictions between the representation made by the insurance agent and terms contained in insurance policy document

87% i.e. 174 respondents out of total sample size of 200 respondents, agree that there is a contradiction between representation made by the insurance agent and terms contained in the policy document. Only 13% i.e. 26 respondents does not find any contradiction between representation made by the insurance agent and terms contained in the policy document.

It can clearly understand from the above that mis-selling had happened, at the time of promoting the life insurance product insurance agent give vary promising and glorious aspects. On the contrary, when such policyholders go for clam settlement they found there is a contradiction. It is nothing but cheating by the insurance agents/consultants.

Table – 11- Known about returning the Policy

Particulars	No of Respondents
Known about returning the Policy (Cancel the agreement with the company) within 15 days from the date of receiving the policy document	9
Not known about returning the Policy (Cancel the agreement with the company) within 15 days from the date of receiving the policy document	191
Total	200

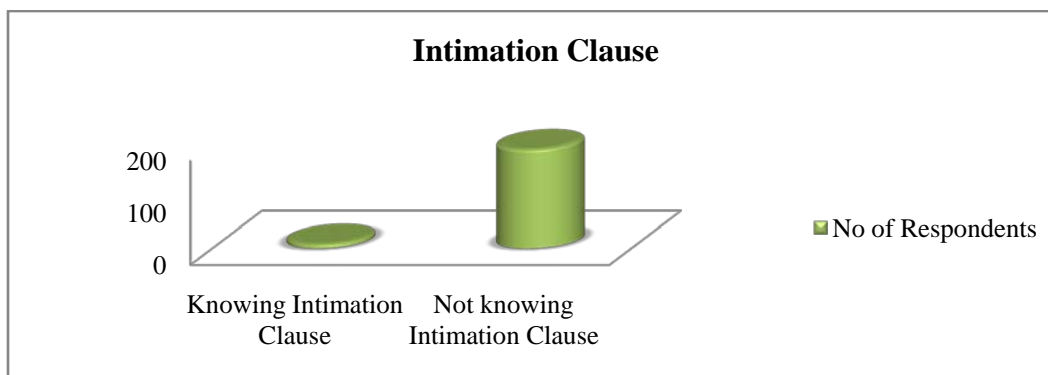


Graph – 11 Known about returning the Policy

Only 5% of the total sample are aware of the fact that Policy can be returned or (Cancel the agreement with the company) within 15 days from the date of receiving the policy document policy. Majority of the respondents are not aware of the about returning the Policy (Cancel the agreement with the company) within 15 days from the date of receiving the policy document. It means, majority of the policyholders are under the impression that once the policy docket is received, it cannot be revoked or cancelled. Bur as per IRDA norms 15 day are given as buffer to policyholders for returning or cancelling the policy.

Table – 12 knowing the intimation clause

Particulars	No of Respondents
Knowing Intimation Clause	9
Not knowing Intimation Clause	191
Total	200



Graph – 12 - knowing the intimation clause

Only 5% of the total sample is aware of the fact that Policy contains intimation clause. Majority of the respondents i.e. 95% of the total sample are not aware of the fact that, there Policy contains intimation clause

As per intimation clause, it is the duty of policyholders to intimate about the loss of life or accident to the insurance company in a stipulated time. If it is not intimated, claim cannot be lodged with the insurance company. From the above analysis, it can be revolved that, majority of policy holders are under wrong impression that, after the death or accident of insurer, insurance company will automatically will settle the claim.

FINDINGS AND SUMMARY

- ❖ 60% of the people do not know all the available products of life insurance. For the sake of to be insured they just buy the life insurance product.
- ❖ Almost 60% of the population purchases traditional plans, besides that few are interested in purchasing term policies only.
- ❖ 55 % of the total population buys the insurance products for investment purpose. On the contrary, the very purpose of buying the insurance product must be security of future for relatives.
- ❖ 48 % of the total population buys the term policy and few buy Pension plans. It can be said that very purpose of buying the insurance product is defeated.
- ❖ 70% of the population strongly and blindly believes on the recommendation made by agent or consultant while buying their insurance policies.
- ❖ That is 72% of the population does not even read the application form, blindly sign the same, and land into trouble at the time of claim settlement.
- ❖ Because of the most complex language used in the application form, discourage the insured for reading the same.
- ❖ 91% of the sample size of respondents does not feel that it is important to read the policy document received from.
- ❖ It is shocking to know that majority of the policy holders does not understand all terms and clauses contained in the policy. However, majority of the policyholders are learned.
- ❖ Mis-selling had happened, at the time of promoting the life insurance product insurance agent give vary promising and glorious aspects. On the contrary, when such policyholders go for clam settlement they found there is a contradiction. It is nothing but cheating by the insurance agents/consultants.
- ❖ Majority of the policyholders are under the impression that once the policy docket is received, it cannot be revoked or cancelled. Bur as per IRDA norms 15 day are given as buffer to policyholders for returning or cancelling the policy.
- ❖ As per intimation clause, it is the duty of policyholders to intimate about the loss of life or accident to the insurance company in a stipulated time. If it is not intimated, claim cannot be lodged with the insurance company. From the above analysis, it can be

revolved that, majority of policy holders are under wrong impression that, after the death or accident of insurer, insurance company will automatically will settle the claim.

- ❖ Death of family member is a great loss to the family. Mentally all family members are in disturb phase so they do not even think that there could be such intimation cause contained in the policy. Even, 10 days are such a short period for the family members to intimation the death or accident of the policyholders to the insurance company.

CONCLUSION

Researcher can conclude that, with the prospective potentials of insurance industry needs tapping of market at right time. But unfortunately to tap such market potentials unethical / immoral practices are followed by insurance companies as well as their agents. Sometimes insurance companies deliberately put ambiguous clauses in the insurance policies. Such clauses are not explained by the insurance agent while promoting such life insurance product to the gullible consumers. At the time of settling the claim, insurance companies take the benefit of doubt of such clauses and reject the claim. This practices leads to frauds which have increases in numbers as far as life insurance products are concern. It put pressure on the insurance companies to remain in the market. This adversely affect on raising the premium amount. Such frauds can be prohibited by codifying systemic risk policy; mapping susceptible areas, constituting risk yardsticks, acquiescing with relevant laws, rationalizing the current conduct and its interminable advancement.

REFERENCES

- A Riddle of, Unfair Practices Promoting Life Insurance Products & Entailing Unconscionable Terms on Gullible Consumers: A Critical Study in Jurisdiction of Pune City” by Mr. Yashodhan P. Mahajan, MRP, Savitribai Phule Pune University
- Chapter V International Position & Comparative Analysis: UNIDROIT, CISG, UK & USA Standpoint by Prof. Vijay A Chavan, Pune
- Life Insurance Fraud – Risk Management And Fraud Prevention By Ms Dhara Jitendra Chudgar; Dr. Anjani Kumar Asthana, Gujarat
- Insurance Industry Challenges, Reforms And Realignment By Confederation Of Indian Industry, Ernst & Young
- KWEK Mean Luck, ‘Law, Fairness and Economics – Unilateral Mistake in Digilandmall’ “(2005) 17 SacLJ 411” Ibid
- Andrew Phang, ‘Vitiating Factors in Contract Law- The Interaction of Theory and Practice’, “(1980) 10 SAcLJ 1” pp. 1-57
- Delhi Transport Corporation v D.T.C. MazdoorSangh MANU/SC/0031/1991: AIR 1991 SC In this case facts similar to Brojonath, the SC followed Brjonath ratio as it is.
- Chowdhury, International Journal of Emerging Research in Management & Technology ISSN: 2278 9359 (Volume-5, Issue-1)

- The Times of India, “MFI agents “forcing “debtors to commit suicide: Study”
- The insurance Europe "The impact of insurance fraud"
- International Journal of Multidisciplinary and Scientific Emerging Research, Performance of Insurance Industry in India: A Critical Analysis B. Nagaraja, PhD
- Fraud in insurance on rise Survey 2010–11 by Ernest & You

IJSER