Mis-selling of insurance and its impact on target given and target achieved by the insurance agents in the survival at insurance companies

^Renny Thomas
Research scholar, Rayalaseema university
(Register Number-PP MAN.0713)
*Dr.Bhaskar Reddy C.M
Research guide Rayalaseema University

Abstract:

The insurance industry is highly competitive with customers focusing on low premium and insurance industry focusing on high targets. it is imperative that the insurance sets high targets on their agents. The insurance industry sets high targets on their agents this leads to high pressure on the marketing staff. The marketing staffs try to sell more and more policies to the same customer to make him to buy more insurance products. Besides the I.R.D.A have set targets for agents so that agents only survive that meet the target of selling only 12 policies. Hence the Insurance industry weeds out automatically non performing agents.

Key Words: Mis selling, financial planning, Insurance history, I.R.D.A

Introduction: "The goal of life insurance is to provide a measure of financial security for your family after the death of the customer. So, before purchasing a life insurance policy, you should consider your financial situation and the standard of living you want to maintain for your dependents or survivors. For example, who will be responsible for your funeral costs and final medical bills? Would your family have to relocate? Will there be adequate funds for future or ongoing expenses such as daycare, mortgage payments and college? It is prudent to re-evaluate your life insurance policies annually or when you experience a major life event like marriage, divorce, the birth or adoption of a child, or purchase of a major item such as a house or business.

According to Essvale(2010) An insurance is a contract under which an individual or entity receives financial protection or reimbursement, against losses from an insurance company which pools clients risk to make payments more affordable ,in exchange for a premium.Insurance is also a protection from a possible hazard that can be bought against an event that may or may not happen, such as a burglary, an illness, loss of property or a legal liability

Kumar(2006)Bancassurance has great benefit to the bank and customers across various types of customer in the indian banking sector.He also observed that the Indian banking sector will go through a variety of changes in the coming years and this is going to make the task easier for bancassurance to integrate with the

customers.He also observed trust was a major factor for the Indian customers and banks need to ensure that customers trust the data about themselves given by the banks

Origin of insurance

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.
1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

The concept of insurance has evolved over the past 300 years The origin and concept of insurance is as human civilization. The concept of Yogakshema (Well being prosperity originated from the ancient Indian text of Rigveda.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.
The insurance sector was opened for private participants in 2000 after the passing of the IRA proposing substantial amendments in Insurance Act 1938

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1sst 1973.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the

insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The I.R.D.A opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

In 2008 Jan 8 the sensex and nifty registered the highest closing level ever of 21000 and 6300..This was followed by insurance taking interest in creating new products for the customers in the form of U.L.I.P(Unit linked insurance plan). The first insurance product was created by unit trust of India in 1971, this was not successful as capital market was very limited to a few Indian communities. Since 2008 all insurance launched various versions of U.L..I.P. to attract customers towards their products. In 2011 the sensex the fell down by 25% which lead people to dislike ULIP products and made agents along with insurance companies to focus on new products like bonds .Bonds have been combined with insurance to attract the customers.

Today there are 29 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 28 life insurance companies operating in the country.

The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country

Insurers and their agents have also been observed by the researcher to be constantly focusing on acquiring new customers and not on the existing customers. The reason for this can be because of insurance companies providing higher commission to their agents in the first year of sales. This practice benefits the agents in the short term but in the long term the customers may not have good opinion about the insurer and company. In 2011 February I.R.DA has made it mandatory for all the agents to have 50% persistency ratio for their policies in subsequent years or risk losing their license

Literature Review:

According to C.bharathi,Dr.C.H et al(2011)The indian insurance industry after a period of high growth in the last decade has overcome the effects of globalization Misselling is the result of the lack of understanding of the customers need and plan analysis .The insurance agents in order to achieve their sales targets regularly sell insurance products by giving good offers to customers.This prompts the customer to buy the insurance products out of temporary pressure

Hence the customers need to properly educated to understand this in the right scenario The above study conducted also found out that the misselling has reached such high levels that customers are forced to cancel their policies and also do policy lapses.

Roman inderst and marco (2009) analyzes the implications of the inherent conflict between two tasks performed by direct marketing agents: prospecting for customers and advising on the product's "suitability" for the specific needs of customers. When structuring salesforce compensation, firms trade off the expected losses from"misselling" unsuitable products with the agency costs of providing marketingincentives. We characterize how the equilibrium amount of misselling(and thus the scope of policy intervention) depends on features of the agency problem including: the internal organization of a firm's sales process, the

Cummins and David Tennyson(1999)has talked that in mature markets mergers and acquisitions have been found to be great in developing the insurance sector.This paper examines the relationship between mergers and acquisitions, efficiency, and scale economies in the US life insurance industry. We estimate cost and revenue efficiency over the period 1988–1995 using data envelopment analysis (DEA). The Malmquist methodology is used to measure changes in efficiency over time. We find that acquired firms achieve greater efficiency gains than firms that have not been involved in mergers or acquisitions. Firms operating with non-decreasing returns to scale (NDRS) and financially vulnerable firms are more likely to be acquisition targets. Overall, mergers and acquisitions in the life insurance industry have had a beneficial effect on efficiency.

Financial products can be so misleading and this can be due to many reasons this finding was due to a study done by Mark (1996)the study suggest how evaluation can be improved during purchase and post purchase evaluation.There is a big difference in purchase patterns during evaluation and post purchase activity

It was observed that purchased products customers will be happy if they are given friendly advice and after purchase the employees need to maintain good relation with the company customers so that the products which the customer purchases are reinforced as the right buying behavior.

Mis-selling can be a purely agency problem as described by Inderst, Roman; Ottaviani, Marco(2009)This paper analyzes the implications of the inherent conflict between two tasks performed by direct marketing agents: prospecting for customers and advising on the product's "suitability" for the specific needs of customers. When structuring salesforce compensation, firms trade off the expected losses from "mis-selling" unsuitable products with the agency costs of providing marketing incentives. We characterize how the equilibrium amount of misselling (and thus the scope of policy intervention) depends on features of the agency problem including: the internal organization of a firm's sales process, the transparency of its commission structure, and the steepness of its agents' sales incentive

Mergers and acquisitions have been found to be a great use in the insurance industry as observed by J.David Cummins ,Sharon Tennyson and Mary A. Weiss (1999)The paper examines the relationship between mergers and acquisitions, efficiency, and scale economies in the US life insurance industry. We estimate cost and revenue efficiency over the period 1988–1995 using data envelopment analysis (DEA). The Malmquist methodology is used to measure changes in efficiency over time. We find that acquired firms achieve greater efficiency gains than firms that have not been involved in mergers or acquisitions. Firms operating with non-decreasing returns to scale and financially vulnerable firms are more likely to be acquisition targets. Overall, mergers and acquisitions in the life insurance industry have had a beneficial effect on efficiency

Stephen R. Diacon, Christine T. Ennew(1996) has shared his concern about ethical practices in the marketing of financial services has increased in recent years, despite an apparent strengthening of the regulatory framework. In part the ethical problems associated with the promotion and distribution of financial services may be attributable to specific features of the market such as asymmetric information. From the consumers' perspective, there is a range of anecdotal evidence concerning ethical problems in the marketing of financial services in general and insurance products in particular. Information concerning the industry perspective on these issues is limited. Presents evidence of the extent to which ethical problems in marketing are identified by those in the industry and the extent to which the views of marketing staff differ from those of non-marketing staff.

Objectives of the Study:

The objectives of the study are as follows

a. To identify the relationship on target given

b. To identify the results of the target achieved
c. To focus on the reason for target not achieved

Hypothesis of the Study: There is no relationship between target given and target achieved

The alternate hypothesis was there was a relationship between target given and target achieved

Research Methodology:

The data in this study was analysed using the paired comparison of samples test. The data was analyzed with regards to target given and target achieved and using SPSS tool the data was analyzed by the researcher The data was collected from sales managers of the insurance companies

The number of samples taken for this study was 250 insurance managers from top insurance companies in the city of bangalore

Analysis:

The results of the paired samples statistics was as follows with the standard deviation being .00 for target given and standard deviation being 5.88 for the target achieved.The mean of the target given are 25 and mean of the the target achieved is 16.22

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Targetgiven	25.0000	250	.00000	.00000
	targetacheived	16.2280	250	5.88852	.37242

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	targetgiven & targetacheived	250	.	.

Paired Samples Test

		Paired Differences					t	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			
					Lower	Upper		
Pair 1	targetgiven – targetacheived	8.77200	5.88852	.37242	8.03850	9.50550	23.554	.000

Conclusion: The results from this test revealed that the significance of the two tailed test was .000.This proves that there is no relationship between target given and target achieved.

Usually in insurance companies the agents are given steep target as per I.R.D.A rules .The purpose of these targets are to enable the agents to be competitive and survive .Ideally IRDA specify that agents should have 12 customer in a financial year as their clients.

This target may not be achieved as the agents have full time employment commitments with their respective companies

The alternate hypothesis was rejected by this study

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