

## “Emerging Ethical Issues & Challenges in marketing Insurance Products among Policy holders with reference to ULIP Insurance”

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### ABSTRACT

The Indian economy is growing at a fast rate, and there are over a billion people living in the country. Researchers have been focusing on the insurance industry's ethical problems over the past decade. In today's society, ethics seems to have taken a back seat due to an increase in scams in public life. In this regard, the importance of this paper is even greater in the insurance industry, especially when huge financial transactions are involved. To emphasize the ethical issues in the insurance business. The problems and challenges were measured by SWOT analysis. In conclusion, this study provides how to overcome the problems and challenges faced by Insurance Industries in India.

The aim of this paper is to assess whether the allegations of unethical practices within the short term insurance industry exist and determine whether or not they are the major hindrance of growth of the sector and provide recommendations for the sector. The researcher used primary and secondary sources. The secondary data sources comprised of journal articles, books, newspaper articles, financial reports and internet.

**Key words:** Problems, Challenges, Financial Transaction, Ethical, Insurance

### Introduction

The insurance industry stands as a vital pillar within the global economy, offering indispensable protection to individuals and businesses against unforeseen risks. However, in recent years, the integrity of this industry has faced significant challenges due to a surge in unethical marketing practices. This paper embarks on a comprehensive exploration of these practices, aiming to shed light on their complexities, evaluate their repercussions on consumers and the industry, and propose avenues for reform.

Within the landscape of the insurance industry, unethical marketing manifests through a spectrum of strategies that compromise ethical standards. Deceptive advertising, misleading sales tactics, and the manipulation of policy terms and conditions have become prevalent, often driven by profit motives that overlook ethical considerations. This study undertakes an in-depth analysis to unravel the mechanisms behind these practices, exposing their detrimental effects on consumer trust and the industry's overall reputation.

A central focus of our investigation lies in examining the profound consequences borne by consumers. As individuals seek insurance coverage to mitigate risk and ensure financial stability, they increasingly encounter inadequate coverage, concealed fees, and denied claims due to unethical marketing tactics. Through the examination of real-world examples and case studies, this research vividly illustrates the tangible and often devastating repercussions that unethical practices impose on the lives and well-being of policyholders.

Beyond the individual impact, this paper delves into the broader ramifications for the insurance industry. Unethical marketing not only undermines the ethical foundation of individual companies but also tarnishes the reputation of the entire sector collectively. The study explores how these practices result in heightened regulatory scrutiny, legal actions, and the urgent need for industry wide reforms. Moreover, it discusses potential solutions and ethical frameworks aimed at rebuilding confidence in the insurance industry, ensuring consumer protection, and fostering ethical conduct.

In essence, this research offers a comprehensive examination of unethical marketing practices within the insurance sector, unravelling the intricate dynamics that erode trust between insurers and consumers. By delving into the root causes, consequences, and potential solutions, this study contributes to the ongoing discourse on ethical standards within the insurance industry, advocating for a more transparent and consumer-centric approach.

### **Statement of problem**

The insurance industry faces ongoing challenges from unethical marketing practices such as deceptive advertising and policy manipulation. These practices not only harm consumers directly by exposing them to inadequate coverage but also erode trust essential for the industry's functioning. Despite regulatory interventions, comprehensive industry-wide initiatives are needed to address root causes. Understanding the motivations behind unethical practices and their impact on consumers and the industry is crucial for formulating effective strategies to promote ethical marketing. Restoring consumer confidence is essential for upholding the integrity of the insurance sector and ensuring its role in safeguarding financial well-being. This study aims to contribute insights and recommendations toward fostering a culture of ethical marketing within the insurance industry.

### **Review of literature**

1. **Reena Talwar and Dr. Saiyed Wajid Al (2016)** - Ethical Issues in Insurance Marketing in India: The Policy Holders' View Talwar and Al (2016) investigate ethical concerns in India's life insurance sector from the policyholders' perspective. Using the 7Ps of service marketing, the study reveals discontent with fairness and transparency in product, people, and promotion aspects, especially comparing public and private insurers.
2. **Reena Talwar (2023)** - Determinants of Unethical Behaviour of Sales Personnel in Indian Life Insurance Industry: An Empirical Study Talwar (2023) explores factors

influencing unethical behaviour among sales personnel in private life insurance companies in Delhi. The study identifies organizational factors and individual characteristics contributing to unethical decision-making, providing recommendations for mitigating unfair practices.

3. **Mahesh R and Dr. Venkatesh S (2012)**- Mahesh and Venkatesh (2012) examine unethical practices in India's life insurance industry post-liberalization. Despite regulations by the IRDA, issues such as unscientific advisor appointments and superficial health check-ups persist, emphasizing the importance of addressing ethical concerns.
4. **Prakash Babu and Dr. P. Viswanatham (2013)** - Corporate Governance Practices and its Impact on Indian Life Insurance Industry Babu and Viswanatham (2013) focus on corporate governance in the Indian life insurance sector. They advocate for stability, efficiency, and robust control systems to ensure ethical wealth creation and satisfaction among stakeholders.
5. **Dhara Shah and Anjani Kumar Asthana (2017)** - Life Insurance Fraud–Risk Management and Fraud Prevention Shah and Asthana (2017) address the challenge of insurance fraud and propose risk management strategies for prevention. Their study aims to enhance understanding of fraud risk management across organizations in the life insurance sector.
6. **Yash Goswami, Kannan Asokan, Kavitha Arunasalam (2022)** - IMPACT OF FRAUDS ON THE FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN INDIA Goswami et al.(2022) investigate the impact of fraud on the financial performance of insurance companies in India, particularly analysing the relationship between fraudulent claims and Return on Assets (ROA).

### Objectives of the study

- To identify and categorize prevalent unethical marketing practices within the insurance industry
- To assess the real-world impact of unethical marketing practices on consumer trust, financial well-being, and the overall reputation of the insurance sector.
- To analyse the motivations driving unethical marketing practices.
- To examine existing regulatory frameworks governing the insurance industry.

### Research Methodology

The researcher targeted the direct insurers as they fall at the centre of the allegations. Questionnaires were sent to all the 23 operating short-term insurance companies. The researcher only managed to reach out to a few individuals some of which responded to the investigation and others were not so keen on it. Fifty (50) questionnaires were distributed to individuals. The researcher used SPSS 16.0 to analyse the data collected.

### Statistical tools for analysis

The following statistical tools are used in this study for analysis:

- Simple Percentage Analysis
- Standard deviation Analysis.

### Temporal Limitations:

The study is conducted within a specific timeframe, and industry dynamics and unethical practices may evolve over time. The findings may not fully capture the most recent developments or emerging trends in the insurance sector.

## Empirical findings

### Descriptive data analysis

Table 1: Clients' data table for mean and standard deviation analysis

	N	Mean	Std.Deviation
Descriptive Statistics			
Products expensive	35	3.2571	0.98048
Products suit needs	35	3.3429	0.90563
Technicalities are satisfactorily explained	35	2.4857	0.98134
Claim process done satisfactorily	35	2.4857	0.85307
Insurers under curates	35	3.5143	0.88688
Implications of under cutting are explained	34	2.7647	1.01679
Discriminatory manner of claim handling	34	3.2647	0.99419
Prompt, honest responses	35	2.5714	0.88403
Products match promises made	35	3.3429	0.93755
Insurers are hospitable when taking policy	35	4.0857	0.81787
Insurers intimidate at claim	34	2.7647	0.95533
Insurers ask for favors	34	2.4118	0.74336
Employees inflate loss for enrichment	34	2.6765	1.06517
Insurers are people of integrity	34	3.3824	0.92162
Your opinion on service rendering	34	2.4706	0.92884

A mean of 3.2571 indicates that from the data collected the clients consider the products to be fairly priced. Products offered by the insurers are fair in terms of suiting customer need as shown by a mean of 3.3429. Clients are not satisfied with the way technicalities of the policies are explained to them. It is these technicalities that play a part when a claim arises and as such clients are supposed to have a clear understanding of what is in the contracts they

sign. A mean of 2.4857 is an indication that clients are in disagreement with the motion that the technicalities are well explained to them. A mean of 2.4857 on the analysed responses concerning the manner in which claims are handled, it shows that clients feel there is no satisfaction on their part. The responses also showed that there is some element of discrimination which exists on claims processing though it's fair with a mean of 3.2647. On the issue of intimidation a mean of 2.7647 was attained which indicates a fair (clients are indifferent) level of intimidation takes place. On the issue of insurers asking for personal favours from claiming the respondents disagreed. A mean of 2.4118 shows that clients feel that insurers do not ask for favours. Clients feel that the responses given are not always prompt and honest. This is represented by the mean attained of 2.5714. It is the duty of the insurer to provide the clients with they need information on request. The clients feel that the level of rates undercutting is fair not as serious as alleged. The responses show a mean of 3.5143. While there a fair level, the clients think that the implications of undercutting are not explained well to them in instances where there is undercutting. This is indicated by a mean of 2.7647. Clients feel that the insurers are not into the inflating of losses for their personal financial gains. This is indicated by a mean of 2.6765. Respondents are of the opinion that the insurance service provision is generally good despite the several issues which they are not satisfied with on the way the service is delivered. From Table 1, the data being discussed above most of the standard deviations of the items are less than one, which indicates that the responses for each item do not differ greatly from each other. For items with standard deviations of more than 1 the responses are scattered.

**Table2: Insurers' data table for mean and standard deviation analysis**

Item Statistics	Mean	Std.Deviation	N
Policies best designed to meet customer needs	3.6667	1.17514	15
Time taken to explain policy technicalities	3.6667	0.8165	15
Prompt ,honest responses always given	3.9333	0.79881	15
Claims always promptly processed	3.4	0.50709	15
Clients clearly advised of the claiming process	3.8667	0.63994	15
Implications are explained to clients clearly	2.8667	0.91548	15
Products in line with representations	3.3333	0.8165	15
Aiding client fill in claim forms to avoid repudiation	2.9333	1.43759	15
Claims paid to retain business	2.8667	0.83381	15
Repairers are influenced to inflate quotations	2.2667	1.0328	15
Loss adjusters influence reports for personal financial gains	2.6	0.73679	15
Offering or soliciting payments for purpose of influencing government officials	2.8667	0.74322	15
Offering payments for purpose of obtaining ,giving or keeping business	3.5333	0.91548	15

Offering payments for the purpose of persuading employees of another company	1.9333	1.09978	15
Offering payment for the purpose of influencing Legislation or regulation	2	1	15
Undercutting brings about implications	3.4	1.0556	15
Conflict between personal financial gains and performance	2.5333	0.83381	15
Ever received excessive gifts in return of business	1.8	0.56061	15

### Specific Unethical Practices Identified:

**Misrepresentation:** Instances where insurance products are inaccurately portrayed, leading to misunderstandings and misinformed consumer decisions.

**Hidden Fees:** Concealing additional costs within policies, resulting in unexpected financial burdens for consumers.

**Aggressive Sales Techniques:** Employing high-pressure tactics to coerce individuals into purchasing insurance products without fully understanding the terms and conditions.

**Consumer Harm and Impact:** The identified unethical practices have inflicted tangible harm on consumers, including financial losses and a profound erosion of trust. Consumers, expecting financial security through insurance, have found themselves navigating unexpected costs and coverage gaps due to deceptive marketing strategies.

**Regulatory Scrutiny and Consequences:** These unethical marketing practices have not gone unnoticed by regulators, leading to increased scrutiny within the industry. Regulatory bodies have imposed fines and sanctions on insurance companies found guilty of engaging in deceptive and unfair marketing, underscoring the severity of the issue.

**Product design:** The designing of insurance product must be done in such a way that they meet the needs of the clients. As such insurers say the policies are fairly designed to meet these needs. As an investigation on whether the products offered are in line with the presentations made to the clients, the insurers are indifferent on the notion. There is a feeling that the products are fairly in line with the presentations made to clients. The insurers also maintained neutrality concerning the issue of whether time is taken to explain the technicalities of the policies to the clients at inception. The policy technicalities can lead to negative challenges when claims arise.

**Claims processing:** Claims processing is the face of any insurance company. It is the point at which the company is rated and it can cause serious client dissatisfaction. The respondents maintained that claims are fairly processed. The analysis also concluded a fair level of advice on the claims process is given to the clients when they are claiming on their policies. The respondents disagreed with the allegations that claims were being paid in order to retain business even where they were supposed to be repudiated.

**Rates undercutting:** On the issues of rates undercutting the respondents said there were a fair level of whether rates undercutting in the market brought about implications on the policy holder such as reduced benefits and increased excesses.

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## Conclusions

From the theoretical and empirical evidence gathered the author feels there is reasonable evidence in support of the following: The industry is fairly managing to provide products which are in line with promises made during marketing efforts. This is consistent with Corbin (2006) who is against assuring a client that you will protect them against all or specified risks of loss which means the company would have expanded the ordinary legal duty of a producer and made themselves vulnerable to lawsuits. Unless intending to incur greater liability in exchange for competitive differentiation, one should maintain a working ethic to treat all policy holders as clients, without actually communicating too much promise to the client. The policy technicalities are not fully and satisfactorily explained to clients at policy inception. This creates a problem of information asymmetry especially considering that the insurance contract has many legal aspects. These aspects cannot be easily understood by people with no technical knowhow of the insurance operations yet they are essential to the contract. It is such issues which bring about problems at claims stage as they may lead to claim repudiation. There is a tendency of intimidation at claim stage. Despite the commendable high levels of hospitality which insurers give clients when they take policies, the clients feel that the insurers try to intimidate them at claims stage. This is mainly attributed to the efforts by companies to avoid paying claims yet they are so keen on getting the clients' money at inception. This is a major cause for concern as the claims department is actually the face of an insurance firm. The firm's ability to process claims effectively enhances their ability to attract and retain more clients as the clients only receive the service they would have paid for when they claim on their policies. Clients are of the opinion that claims processing is not satisfactorily done. As already articulated, the claims department is very important to the success of any insurance company. There is high need to ensure that the clients are given the same amount of hospitality when they are claiming just like when they are taking the insurance policies.

The sources of dissatisfaction are mainly the application of clauses which were not explained at inception and efforts to intimidate the clients. There is an element of rates undercutting within the industry. This issue of rates undercutting is mainly attributed to the fact that the insurance industry is a soft market and there are price wars within it. This undercutting of rates resultantly brings about some implications on the policy. The implications of undercutting not fully explained when they are given the policy. Clients haven't always given prompt honest responses when they make enquiries. This impact negatively on the clients' confidence on the way the insurers operate. It is essential to make sure that the clients are responded to in an honest and prompt manner.

## Recommandatations and Suggestions

1. **Policy recommendations:** Whilst the underlying recommendation is for firms to devise a framework and strategy to enhance understanding of the importance of

practicing high ethical standards to their employees, the student makes the following, more granular recommendations, all of which seek to enhance growth of the industry.

2. **Regulatory authorities and insureds:** It is important for regulatory authorities to make sure that they put in place clear channels that dissatisfied clients can follow in order for them to make sure that they receive the treatment they dully deserve. It is important that authorities start doing educational programs through various forms of media available so that the general populace gets to understand more about the industry. This can lead to an increase in confidence levels within the clients and resultantly more people buy insurance.
3. **Regulatory authorities and ethical practices by insurers:** Through various stakeholders mostly its affiliates of regulatory body can organize seminars for the employees to be kept to date with the various developments on the insurance market pertaining mainly to the effects of ethical practices of the industry. This can help the employees to see why it is important for them to act ethically even on issues they may deem insignificant.
4. **Insurers need to have an understanding of current economic situation and provide suitable products :**Just as good as marketing is a critical factor in the success of any short term insurance industry participant, the effects of the economic environment affect different companies to different degrees since they have different sizes, knowledge bases and mechanisms to curb risk upon its coming hence it is critical to devise different retaliation strategies when pressure comes.

#### **Scope for further study:**

- While this study provides a general overview of unethical marketing practices in the insurance industry, opportunities for more focused investigations exist. Further research could delve into specific types of insurance, such as life, health, property, and casualty insurance, to uncover tailored insights into consumer challenges.
- Geographic variations offer another area for exploration. Research across different regions could reveal cultural and regulatory influences on unethical marketing, informing region-specific interventions and strategies.
- Additionally, a comparative study evaluating the effectiveness of regulatory measures in curbing unethical practices could offer valuable insights.
- By examining regulatory frameworks across jurisdictions, researchers can identify best practices and areas for improvement.
- In essence, further studies can refine insights gained from this research by exploring specific insurance types, geographic nuances, and regulatory landscapes, contributing to a more targeted understanding of unethical marketing practices within the insurance sector.

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