

## Unethical Practices and Control of IRDA in Indian Insurance Market

Ram Prakash\*  
Prof. Lalit Gupta\*\*

\*JRF (UGC), Department of  
Management Studies, FCMS,  
JNVU, Jodhpur

\*\*Professor & Head, Department of  
Accounting, FCMS, JNVU, Jodhpur

### *Abstract*

Ethics is the key to success as it renders stability to any organization in business. It is notable that ethical firms play important role even in the industry. This article attempts to provide some facts regarding the presence of business ethics in Life insurance industry. In insurance industry guidelines of IRDA frame boundaries for working of life insurance companies. LPG Model in this context leads to innovative ideas due to competition. Globalization of insurance enhances the avenue of ethics in market for customers' welfare. Author depends on some research papers and other literature surveyed to identify the business ethics and its presence in the insurance, further, to learn about the nature and extent of control of the IRDA over business practice. The paper aims at providing suggestions and remedies to curbs the unethical practices in Indian life insurance market.

### *Keywords:*

Ethics, Unethical Practices, IRDA, Agents

---

### *Introduction*

Risk is essentially an inevitable element in business. Without risk, thinking of gaining would be futile. Insurance offers the most appropriate tool to handle the risk of uncertainty inherent within the business organization. After liberalization, the insurance sector has become more sensitive and a customer-oriented market. Business of insurance is growing in India day by day with the economic development. The all three elements of the LPG Model push to openness and transparency of insurance plans and policies. Globalization comes up as a challenge for the Indian insurance sector. It also indicates some aspects for the researcher of ethics to study like new fields for the research like culture, value, thought and beliefs. MNCs always focus at customer without harm of their beliefs and social values. They treat customers with dignity and respect, and believe in diversity of thought, culture and background. They insist on excellence and being the best. The concern for Ethics becomes more important in the present age of insurance. The role of IRDA, Insurance Institute of India and other regulatory bodies is widening with the need. New plans are more complex than the old plans of LIC for example, ULIPs and Health Insurance plans may be improved and attractive plans for solving the real content of the concept of insurance but the complexities cause possibility of unethical practices. It has required tight vigilance of IRDA for calculation of premium, appointment of middle-person, presentation of plans and policies to customer. The competition is another cause for the customer to be misleading here.

However, functioning of IRDA is under the proper vision of ethical criteria. The privatization has expanded the place for Unethical practices and misbehavior with customers with the entry of numerous private firms who are driving more by the profit-making concept. Under this phenomenon, the variables like Selling, Marketing, Profit figures etc. become the key criteria for the best insurer or pioneer of insurance sector instead of service providing, the real service and features of policy.

### ***Business ethics – Emergence and Concept***

Time is dynamic, it moves too fast to thinking of person, individual or organization. It is not possible to bind a business for everything with the law for no single provision could be suitable for all situations and problems. Solutions to organizational problems may have more than one alternative, and sometimes no right solution may seem obtainable. Questions arise in terms of knowing the difference between right and wrong, good and bad, and harmful and beneficial regarding decisions and actions in organizations (Weiss 2006). To complicate the matter even further, not everyone agrees on what is morally right or wrong, good or bad, ethical or unethical (Lewis 1985). Our concern is for good behavior. We feel an obligation to consider not only our own personal well-being, but also that of other human being. (Albert, Schweitzer, 2009)

Ethics comes from the Greek word ethos, which means "character". Ethics is complement to Aesthetics in the philosophy field of Axiology. Business Ethics is about the integrity we bring to our business practices, the way we develop our people, our focus on our customers and our commitment to operational excellence. Our ethics bind us together, just as they define us as a culture, as a Company and as a community of individuals. Ethics is a moral philosophy that suggests to analysis the situations and takes decisions, which can favor the milieu of business. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control (Berle, A. A., & Means, G. C. 1932). In philosophy, ethics studies the moral behavior of human, how one should act and decide right and wrong. Ethics involve systematizing, defending and recommending concepts of right and wrong conduct. It is a set of concepts and principles, which guide us in determining what behavior helps or harms sentient creatures (Paul, Richard; Elder, Linda 2006). It helps organization to reduce chances of conflicts between the interested groups of business/organization. Commonly used interchangeably with 'morality' ... and sometimes it uses more narrowly to mean the moral principles of a particular tradition, group or individual (John 1995). Ethics is a social relation theory, which relates society and business (Singer 1991).

### ***Objectives of study***

***'Need of customer can cause change in the policy of business,***

***A strong insurance plan can change the history of business'***

Insurance industry is suffering from an ethical dilemma. It is a risk sharing technique, oriented to social pattern for covering the risks of the customer. However, privation in the sector has covered the heights of capital market. LPG Model led it to moneymaking business and ground for agents and brokers by realizing their potentials. Forces of market also allure customers to cover their risk against the hazards of nature available through insurance market. Need of insurance has diversified with time in other areas

like tax benefits, money endowment etc. New aspirations of customers are towards capitalization of insurance against the social pattern. Sometimes, under the avenue of capitalization, insurance activities go beyond the values and ethics. Therefore, the study is covering the following objectives for justification.

1. To identify unethical practices of insurers in insurance sector.
2. To identify the role and position of agents, brokers in context of ethics in particular.
3. To critically understand acts of IRDA in mitigating and curbing unethical practices of insurer.

### ***Unethical Practices in Insurance: Nature and Generation***

Agent and broker play an important role in the marketing of the insurance plans and policies. Today, more than 70% of business is carrying through insurance agents by their personal contact and relationship with the customer (Singh, M.P., 2011). Mostly, business of insurance is depending on the efforts of agents. Insurance agents are four pillars of insurance company (Agarwal, 2012). Life insurance agent is the foundation stone of the glorious building of Life Insurance Corporation of India (Kothari et. all, 2010). The life insurance agent is to act, keeping in view the interest of the policy-holder and the insurance company (Singh et. all., 2009). The insurance agent is in a position of trust. On his assurance, the policyholders entrust their small savings to an insurer (Balachandran, 2007). An agent has the right to get remuneration in lieu of his functions, to get commission on the insurance business secured by him and the amount of premium due on renewal of existing insurance policies as per prescribed rules (Kothari et. all, 2010). Insurance intermediaries like insurance agent and broker provide in correct information on the transaction cost leading to information asymmetric in the hand of customer (Traub, 1994). A broker's strategy is often sales-driven and focused on insurance solutions instead of customer orientation. Therefore, brokers are unable to offer services originating from companies' needs (Maas 2006). Direct marketing as per the National Association of Insurance Commissioners (NAIC) regulations provide for bringing more transparency to buyers, it also saves buyers against the misleading of agents like the case of Metropolitan Life Insurance Co. In the case, it was found that agents were selling whole life policies as retirement plans due to high rate of commission (Shah 2008). Things go wrong in insurance when the agent becomes concerned with the commission that he will earn from the policy, rather than the benefits to the prospect (Balachandran, 2007).

Business policy, marketing policy in particular, followed by insurance companies are too old and outdated. The companies' expense little on the research and development of the insurance sector. Premium charges by the insurance companies in India tends to relatively high due to obsolete and rigid actuarial practices and inefficient operations (Govt. of India, 2002). Quality of services is poor compared with the pricing or premium rates charged for services. Prior liberalization, the LIC had enjoyed a monopolistic exploitation with limited products. (Govt. of India, 2002). As competition increases and the product life cycle shorten, the actuary is under increased pressure to respond quickly to changes in the market place (Jacques, 2008). In the first decade of privatization, the focus was more on expanding and stabilizing the business applying the prevailing business models rather than on

innovation (Sondhi, Sachin et. all., 2011).

To cover the risk of individual in fewer funds, health insurance is very suitable tool of insurance. Very often, in developed countries, it is most favorable by employer to divert health and hygiene related risk of his employees. Health insurance benefits the poor and the weak people in terms of better coverage and health services at lower costs without the negative aspects of cost. The experience from other places (countries) suggest that if health insurance is left to the private market it will only cover those which have substantial ability to pay leaving out the poor and making them more vulnerable. Hence, India should proactively make efforts to develop Social insurance pattern (Mavalankar, 2000).

Insurance sector faces many more unethical practices such as untrue advertisements, half-truths and nondisclosure of material information regarding what the policy covers and what it does not (Chandrasekharan, 2008). They advertise themselves king of the market by false statement of competitor. Indian insurer misrepresents competitor's product to gain a competitive edge (Flesch, 2010). Private sector develops and introduces only those policies/schemes, which involve minimum risk burden and are more profitable to them. They overlook the interest of common people (Mathew, 2010). Business of life insurance did not flourish in India, is suffering regional imbalance due to favor of some states and union territory of India (Chaudhary, 2011). Business of new companies also skewed in some favor states. In the first decade of privatization, the focus was more on expanding and stabilizing the business applying the prevailing business models rather than on innovation (Sondhi, Sachin et. all., 2011).

#### **Actions of IRDA to Control Unethical Practices**

There is no fixed remuneration to agents (Maheshwari, 2005). They are depending at commission, provided by the insurance companies on basis of annual sales of insurance policies. The rate of commission is varying according to plans, which lead them towards the unethical practices to earn more by the sale of the insurance policies anyhow. IRDA is responsible to take action for controlling the agents by both qualitative and quantitative measures. Therefore, IRDA framed and issued agency regulations in the year 2000, providing a code of conduct for agents. In addition to this, through these regulations (Sharma, 2005):-

1. IRDA introduces compulsory pre recruitment training for 100 hours in accredited institutions. For composite agents 50 hours of additional training is prescribed.
2. Agents are getting license only after successful completion of the test conducted by Insurance Institute of India (I.I.I.). The license is only for three years. At the time of renewal,

further training for 25 hours is necessary.

3. Strict vigilance on training institutions and review of the quality of their work has been undertaken.

The accreditation has to renew periodically. The quality of agents has improved to a certain extent due to the above steps. A factor that has helped here is the infusion of professionals and executives who took voluntary retirement from banks and other organizations (Sharma, 2005).

To control the monopoly of insurance agents IRDA initiated some new channels for the marketing of insurance. These channels make insurance products more transparent and avail in easy access of customer. The Insurance Regulatory and Development Authority (IRDA), through issuance of regulations, has permitted a variety of distribution channels to enter the marketing process expecting that they would stimulate a greater demand for purchase of insurance products. An extensive public awareness drive also initiated by the IRDA on TV, radio and in the print media to make the uninsured know the benefits of insurance. The IRDA has also stipulated obligations on insurers to develop a minimum business annually from the social and rural sectors (Rao, 2004).

Insurance industry is an important part of financial market. IRDA takes steps to make it more flexible. To enhance the flexibility in the operation of unit-linked insurance products, IRDA decided to increase the allowable share of money market instruments to 40% from the existing 20% (Vermani, 2007). Technology takes part itself in agenda of IRDA with pace of time. Technology enhances the knowledge of insurer, insured and regulatory body for betterment of product. Activities to increase IRDA's knowledge of health insurance and managed care are already underway with technical assistance sponsored by the US Agency for International Development, USAID (Rao, 2004). To provide relaxation of documentation to purchase low cost policies reduces to make it less paper, formality oriented and for easy sale of products. IRDA decided to provide exemption up to a total annual premium of INR10,000 on all the life insurance policies held by a single individual from the requirement of recent photograph and proof of residence (Vermani, 2007).

#### **Penalty for Defaulter**

IRDA have vigilance over the activities of insurance companies if they were noted failure in keeping with the regulation and guidelines of the body. In such cases, they may be penalizing with monetary values. Here below is a list of amount of penalty imposed and realized in the consulting company for the nonobserving of the regulations and guidelines for a period of last three years.

**List of Penalty (Year-Wise)  
Year - 2011-12**

Sr. No.	Name of Insurance Company	Amount of Penalty	Date of Penalty	Brief Particulars of the Violation Committed
1.	SBI Life	70 lakh	8th July, 2011	Failure to comply with Group Insurance Guidelines
2.	MetLife	2 lakh	9th January, 2012	Failure to comply with timely processing of the proposal forms for insurance
3.	Future General Life	20 lakh	11th January, 2012	Failure to comply with procuring business through licensed individuals / entity

4.	Sahara Life	`12 lakh	28th February, 2012	Failure to comply with payment of death claims with penal interest in delayed settlements
5.	Max Life	`5 lakh	23rd March, 2012	Failure to comply with the provisions with regard to Licensing

**Year - 2010-2011**

1.	SBI Life	`10 lakh	11th August, 2010	Failure to comply with File and Use guidelines
2.	Bharti Axa Life	`10 lakh	27th September, 2010	Violation of stipulation under regulation 2(g) (i) of IRDA (Registration of Indian Insurance Companies) Regulations, 2000
3.	Reliance Life	`10 lakh	29th October, 2010	Failure to comply with File and use guidelines as well as violation of Referral Circular dated 14th February, 2003
4.	TATA AIG Life	`5 lakh	14th December, 2010	Failure to comply with Section 40B of the Insurance Act, 1938, read with Rule 17D of Insurance Rules, 1939 for the financial year 2009-10
5.	Bajaj Allianz Life	`10 lakh	18th March, 2011	Failure to comply with File and Use guidelines as well as violation of ULIP guidelines

**Year- 2009-10**

1.	Life Insurance Corporation of India	`5 lakh	(07-01-2010)	Failure to comply with its obligations towards rural sector under section 32B during 2008-09
2.	HDFC Standard Life	`5 lakh	(07-01-2010)	Failure to comply with its obligations towards rural sector under section 32B during 2008-09

Source: Annual Report of IRDA, 2009-10, 2010-2011, 2011-12.

**Suggestions and Remedies**

Today, insurance is need of common person. Terrorism, natural calamity, Impact of technology has enhanced its need in business organization as well as for the common person also. Nowadays, working style of people, living life as a machine, require proper protection policy against hazards on health due to working with machinery. To make pace with dynamic age, IRDA have realized a better policy for the insurance, with less cost and scope for fraud in insurance sector. It required some changes regarding the education of customer to tackle the risk with insurance policy. Insurance Regulatory is requiring reviewing and reconstructing the industry to make pace with the dynamic and global environment. Further, it require taking action for redesigning the insurance plans/schemes and riders & features of plans/policies for penetration in untapped market. It may help introducing quota for the rural insurance, social insurance etc. the form and quality of product require diversifying with the varied need of customers.

The handling of insurance agents the admitted four pillars of the industry is to important for the sake of future of insurance being free from fraud and unethical practices. To stop misacts of agents, the regulating agencies should ensure a move to create professionalization for agents. However, agents are under the strict guidelines and have fear of debar with professional body. IRDA should imitate recognition of agents for the ethical practices against the MDRT, Crorepafi awards of insurance companies.

India has 22 languages as scheduled. However most of Indian speak, read (newspapers, magazines) Hindi. IRDA should require making a strict regulation for the insurer to provide information of

new policies and plans in Hindi and other regional languages to better communication with the customers. Insurance companies should print materials in English with popular language of region.

**Conclusion**

IRDA have proper vigilance over activity of life insurance companies. It reviews the regulations and guidelines as the needs emerge. Whenever any insurer failed in compile with the guidelines they have to suffer penalties in terms of monetary values. It creates new mechanism of insurance for the investment regarding investment of funds. It provides new source for investment on flexible conditions. Act of less documentation of lower costs policies has attracted customer who are illiterate and have no document. However, it fails for proper communication with customer due to lack of strict regulations of languages and broker, agent's guidelines. There is an apparent increase in cases of unethical practices rebuild. Policies of IRDA regarding rural market are not producing their desired results. New technology of distribution does not get popularity in market over traditional monopolies of agents and brokers and takeover the technical problems of processing, documentation, reliability of channels. Position of social insurance is as formality due to fewer attention of insurer.

Working of IRDA has started indicating its penetration on the unethical practices of insurance companies in new market. Its guidelines open new opportunities for insurance as a financial institution with social and monetary security of customers. After all, insurance is not in access of common people because IRDA has almost wholly failed with lower cost insurance plans.



## References

- Agrawal, Anuj, “*Insurance Distribution Channels in India: A Study of Pre and Post Period of IRDA* Period,” International Journal of Economics and Management Thoughts (IJEMT), Varanasi, Vol. 2, 2 Oct. - March 2011-12. ISSN - 2229-3736.
- Albert, Schweitzer, “*Modern Management: Concepts and Skills Management*,” 11th ed., Upper Saddle River, NJ: Prentice Hall, 2009.
- Balachandran, S, “*Life Insurance (New Syllabus)*”, IC-33, Insurance Institute of India, Mumbai, 2007.
- Berle, A. A., & Means, G. C., “*The Modern Corporation and Private Property*,” New Jersey: Transaction Publishers, 1932.
- Chandrasekharan, David, “*Ethics in Life Insurance Selling*,” Irda Journal, Volume VI, No. 5, April 2008.
- Chaudhary, Sonika, Priti Kiran, “*Life Insurance Industry in India - Current Scenario*”, International Journal of Management & Business Studies IJMBS Vol. 1, Issue 3, September 2011 pp146-151
- Flesch, Fred, “*Ethics in Insurance*,” Aon Risk Services of the Americas pp.847, 953-6397.
- Govt. of India, Planning Commission, “*9<sup>th</sup> Five-Year Plan*,” (1997-2002) vol. 1, p 146.
- Jacques Tremblay “*Life Insurance Costing and Risk Analysis*”, Canadian Institute of Actuaries, 2008 John Deigh in Robert Audi (ed), *The Cambridge Dictionary of Philosophy*, 1995.
- Kothari, R.K., Jain, Mukesh, “*Risk and Insurance Management*,” RBD Professional Publications, Jaipur, 2010.
- Lewis, P., “*Defining business ethics: Like nailing jello to a wall*,” Journal of Business Ethics, 4(5):377-383, (1985).
- Maas, peter, “*How Insurance Broker Create Value – A Functional Approach*,” Working Papers on Risk Management and Insurance no. 27, institute of insurance economics, sept, 2006.
- Maheshwari, Sunil, “*Insurance Industry in India: Structure, Performance, and Future Challenges*,” ch -Managing Insurance: Managing the Agents, Vikalpa, Vol., 30, July – Sept. 2005, pp 116.
- Mathew, M.J., “*Insurance Principles and Practice*”, RBSA Publishers, Jaipur 2010
- Mavalankar, Dileep, Ramesh Bhat, “*Health Insurance in India Opportunities, Challenges and Concerns*” one day workshop (IIMA 1999) and a conference held at IIM Ahmedabad (IIMA 2000)
- Paul, Richard; Elder, Linda, “*The Miniature Guide to Understanding the Foundations of Ethical Reasoning*,” United States: Foundation for Critical Thinking Free Press. p. np. ISBN 0-944583-17-2.
- Rao, G. V., “*Where are the Customers?*” Niche Markets, irda Journal, June 2004.
- Shah, R.S., M.G. Diwan, “*Applications of Life Assurance*,” IC-23, Insurance Institute of India, Mumbai, 2008.
- Sharma, V. K., “*Teaching Hard Sell—Professional agents are the need of the hour*,” The Silent Army, irda Journal, January 2005
- Singer, P, “*A Companion to Ethics*,” Blackwell Publishers Ltd., Oxford, UK, 1991.
- Singh, Inderjit, Rakesh Katyay, Sanjay Arora, Neelam, “*Insurance Principal and Practice*,” Kalyani Publishers, third rev. ed. 2009.
- Singh, M.P., Chakraborty, Arpita, G, Raju, “*Contemporary Issues in Marketing of Life Insurance Service in India*,” International Journal of Multidisciplinary Research, Vol.1 Issue 7, November 2011, ISSN 2231 5780. Retrieved from, www.zenithresearch.org.in
- Sondhi, sachin et. al, “*Indian Insurance Sector Innovate Now Or Stagnate*,” Deloitte Touche Tohmatsu India Private Limited., 2011.
- Traub, W., “*Marktfunktion und dienstleistung des versicherungs zeitschrift für die geante*,” Versicherungswirtschaft, 1994, pp 369-397.
- Vermani, Lalit, “*The Changing Face of Insurance Laws*,” Insurance Legislation Need For Change, irda, Journal october, 2007.
- Weiss, J.W., “*Business ethics: A stakeholder and issues management approach*,” Fourth edition, Mason, Ohio: Thomson/South-Western, 2006.