

Ethical Issue in Insurance Companies: A Challenge for Indian Insurance Sector

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Abstract

India is a fast growing global economic power with over a billion of people. The past decade in the insurance industry characterized various ethical problems which grab the attention of researchers towards it. There are increasing numbers of scams in public life and ethics seems to have taken a backseat in today's society. As such, the need for this paper assumes greater significance in insurance, particularly when selling and handling of enormous financial transactions are involved. This research paper seeks to emphasis importance of ethics in insurance business on the need to go back to the basics and examine whether ethical practices exist. The study aimed to investigate and analyze claims settlement, an ethical issue in insurance companies in India, to find out if these insurance companies recognize it to be an ethical issue and also to find out how they handle insured's claims. This study concluded with proposition for future researchers to look into how the challenges encountered by personnel managing insured's' claims in insurance companies in India can gain the awareness of the insuring public and make them understand the terms and conditions of insurance service.

Keywords: *Ethical issue, Indian insurance sector, social responsibility, Claim settlement.*

Research Objectives

1. To investigate ethical issue in insurance companies in India.
2. To find out the role of ethics in insurance business.
3. To find out relationship between claims settlement & ethics.
4. To find out the affect of ethics on insurance companies.

Research Methodology

In the view of the issue of ethics practically, the interview questions have been designed to investigate the issue of claims in Indian insurance companies; so as to know how insurance companies are ethically managing the claims of their clients and also if they

recognize the moral dilemma involved in claim settlement. For this 50 people from insuring public were interviewed with insurance policies of life insurance to find out the ethical ways in settlement of claims. Convenience sampling technique was used for this.

Sample size: 50

Source of data: Primary as well as secondary

Introduction

Ethics

Ethics are those rules and principles which are derived from good and bad conducts. Individual and corporate entities use such code of conduct to run their business efficiently and for decision making skills. False and misleading representation of products or services in insurance affects the overall image of the company as well as the sales efforts. Ethics is an approach that touches every phase of the customer relationship. Ethics are defined as a branch of philosophy which deals with moral questions such as good and bad, noble and ignoble, right and wrong. It was rightly said that these moral basis and rules that are applied in determining what is right and wrong are developed from human cognitive moral development, moral philosophies and value base customs. The term "ethics" is the study of whatever is right and good for human beings to run their life smoothly. Wikipedia defines business ethics as "a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment". Business ethics applies to all aspects of business conducts whether product segment or service, it is also relevant to the conduct of individuals and business organization as a whole. Insurance business is totally based on trust between insurers and the insured. Because insurance product lies under services and these are intangible products, they are not edible items that you can hold with your hand. Insurers are trusted by those who ask them to carry

their risk and they have a duty to carry the risk responsibly. Therefore there is requirement of ethics in the conduct of insurance business.

Business Ethics

It is from ethics that business ethics stem from. In order to help readers of this research work to understand the study clearly and also to achieve the research objectives there is need to look into the definition of business ethics. Business Ethics investigate business practices in the light of human values. Business ethics is a form of the act of applied ethics that examine ethical principles and morals or ethical problems that can arise in business environment. Issues regarding the moral and ethical rights, duties and corporate governance between a company and its shareholders, employee's customers, media, government, suppliers and dealers are dealt with in business ethics. Business ethics means "the standards of conduct of individual business people, not necessarily the standard of a business as a whole" (Henry, 2003). According to him a business that lacks ethical principle is bound to fail sooner or later. Business ethics can be defined as written and unwritten codes of ideology and values that govern decisions and actions within a company. In the business world an organization sets standards for determining the difference between good and bad decisions making and behavior (White, Sundblad and Finley, 2010).

Ethical Issue in insurance Business

Currently there is high level of market indiscipline going on in insurance business. In the pursuit of the operators in this market to get their own share from the market, they engage in all sorts of unethical practices such as; rate cutting, thrashing basic facts that policy holders should know from them. They are more concerned in the premium they will get from the insured and not in carrying risk which is supposed to be the primary objective. One of the legal principles that bind insurance business is that every insured should contribute equitably to the insurance pool in proportion to the risk they are bringing into the pool. One of the standards is being misplaced since clients are charged different rates for the same risk. Another implication of this is that it leaves little reserve in the hand of underwriters after removing running cost of the policies and management expenses. And this in turn makes it very difficult for

underwriters to meet their major obligation which is claims settlement. Unluckily this has led to loss of greater percentage of the industry's revenue and as result poor performance of this business due to under – pricing of its products and services. Ethics play key role in making trust and a good relationship, doing things in the right way that it should be done. A lot of insurance companies in India urge ethics but they do not act it. The mindset of businessmen as "business is business" has done lot of harm to their business. It has rendered them to be irresponsible and personally insensitive. Players in this market are supposed to put themselves in the shoes of their customers and should work with empathy. The nature of insurance business has to do with trust between them and their clients. In this case ethics in insurance business can be measured in terms of the standards on which insurance transactions are based. Below are mentioned some of the challenging issues found in Insurance sector:

a) Premium Collection issues

This is another challenge identified to be affecting this business in India. These intermediaries are the distributing channels that stand between the insured and insurers. It has been reported that insurance brokers and agents are fund of collecting premium from insured and not remitting to insurance companies. These people use premium for other things and quickly run to remit when claim occur and if claim does not occur they refuse to remit the premium.

b) Problem of solvency

Cash flow problem is a confrontation to insurance business in India. It can be said that these sectors live from hand to mouth. Based on this investors are chased away from this market as no one is ready to embark on an investment that will not be viable.

c) Lack of Standards

It has been observed that there is lack of standard for this business in India, despite the fact that there are recognized regulating bodies. Every player in this market act the way they like and want without observing the laid down protocols. The standard kept in place for the operation of this business has long been misplaced.

d) Poor Attitude of Government

The government does not encourage insurance practitioners. Over the years they have not been able to release any relevant incentive to the operators into this business. The failure of government to inject fund into this business has made it impossible for them to attract investors as they cannot pay dividend not to talk of declaring bonus to shareholders.

e) Poor Management

A sizeable number of practitioners managing insurance business both the top management and low level management are under – qualified. They are not competent enough to manage this business. And this has really done a great harm to the business as insurance business itself is a technical business and should not be handled by just anybody but the right people, these are people that have passion and vision for the business not just those that pop in to see what is happening.

f) Lack of Integrity and Trust

Successful insurance companies evolve around trust which is absent. The major if not the only reason of insured taking up an insurance policy is to have their claims settled should in case of mishap. The image of insurance company can simply be determined by their ability and attitudes to claims settlement.

Insurance professional ethics

The field of insurance ethics is to look at the challenges facing core professionals involved in insurance such as actuaries, lawyers, marketers, agents and brokers. The world of insurance involves complex and tricky ethical decisions, as professionals in the field know. “Insurance ethics – a provocative title of one recently published academic article – suggesting a profound contradiction between insurance practices and ethical principles. Another insurance researcher, *Tom Baker*, from the *University of Pennsylvania* Law School, has argued just the opposite: “insurance is a form of social responsibility”. Insurance profession is based on ethics and it is the responsibility of professionals at all level of business.

Importance Of Ethics In Any Business

Jones, 1991, stated that moral intensity influences every step of ethical decision making process in a business. There is an increasing expectation for businesses to be more ethical and socially responsible in the way they discharge their duties. Insurance business by its nature is exposed to criticism of ethics. Therefore it is a necessity for insurance practitioners to show high level of social responsibility in their actions. However it was pointed out that before managers’ behavior can become ethical and reflect greater social responsibility they must first perceive social responsibility to be important for organizational effectiveness. And so if there is need for ethics in the conduct of insurance business, why then is ethics an issue in this industry, what are the reasons for the ethical issues on ground and how do they affect the performance of the companies involved.

Literature review

The nature of insurance business has to do with trust between insurer and insured. In this case ethics in insurance business can be measured in terms of the standards on which insurance transactions are based. Any insurance business that will survive must not throw away ethics in the conduct of its business. Henry (2003) said when a business behaves ethically other business associates are convinced to behave ethically as well. If responsibilities to customers, employees and suppliers of a company are met with care, it earns her an award of honesty, loyalty, quality and productivity. He cited an example that employees who are treated ethically by their employers are more likely to behave ethically themselves in their dealings with their customers and business associates (Henry, 2003). A business is rooted in its core values, and philosophies, this was opined by Drucker. He said that “profits are by-products of business not its very goal” Henry cited by Rupal (2010) said “business that makes nothing but money is a poor kind of business.” “Quite apart from the issues of rightness and wrongness, it is a known fact that ethical behavior in business serves the individual and the enterprise much better in the long run (Holland cited by Rupal, 2010). It was said by some management guru that ethical companies have greater competitive advantage above their competitors, because they tend to do better in their respective market. “If ethics are poor at the top the behavior flows down the other levels in the organization”, (Robert cited by Rupal,

2010) Ethics is very important in building relationship with clients and dealing with them. Ethics in business helps to establish an entities reliability and reputation with its clients. It is a norm that nobody will want to be in business with a person or a company known to be fraudulent (Green, 2004). Ethics is an attitude that touches every aspect of the customer relationship. It is a known fact that good ethics makes a good business (Mahatma cited by Rupal 2010). Increasing awareness of potential and actual business abuses has resulted to increased attention on investigating causes of unethical business behaviors (Akaah, 1997; Dubinsky and Loken, 1989; Fritzsche 1995, Wyld and Jones, 1997). In Low et al., 2000's review, ethical decision making in business is pointed out as an area that has rapidly experienced increased level of interest and research and the need for research in this area is still very strong. Theoretical and empirical examinations of ethical decision making in organizations are minimal despite the increased attention on ethics in organizations (Jones, 1991). Trevino (1986) offered a general theoretical model while Ferrell and Greshan (1985), Hunt and Vitell (1986), and Dubinsky and Loken (1989) offered a model that focus on marketing ethics. Rest (1986) presented a theory of individual ethical decision making that can be easily incorporated into an organizational setting. Ford and Richardson (1994), in their own research work on ethical decision making identified variables that have influence on ethical believes and decision making of people. The two types of variables identified by them are those unique to the individual decision makers and those considered to be situational in nature. Variables identified to be unique to individual

decision makers by them are; nationality, religion, sex, age, education, employment and personality. According to them situational variables are referent groups, rewards and sanctions, codes of conduct, type of ethical conflict, organizational effect industry and competitiveness. Kohlberg (1984) observed that socio moral atmosphere of an organization is a significant factor in the ethical decision making of individuals working within it. Insurance is said to be critical to a well functioning economy according to Pritchett et al (1996). Hence the importance of and the roles played by insurance business cannot be overlooked in India. One of the main reasons for this is because of the nature of this environment. In India, there is; high death rate, high theft rate, frequent occurrence of accidents of all kinds. The level of risk that one is being exposed on a daily basis is high compare to other developing and developed countries in the world (World Fact Book by CIA). By taking up insurance policies individuals and business entities (small and large corporations) can have reliable cover for their risk and be secured. Any insurance business that will survive must not throw away ethics in the conduct of its business. Henry (2003) said when a business behaves ethically other business associates are persuaded to behave ethically as well. If responsibilities to customers, employees and suppliers of a company are met with care, it earns her an award of honesty, loyalty, quality and productivity. He cited an example that employees who are treated ethically by their employers are more likely to behave ethically themselves in their dealings with their customers and business associates (Henry, 2003).

of these respondents which represent 50% are bachelors' degree holder, 30% are masters dergree holders.

Analysis of Data Collected from the Insured Clients

- **Level of Education**

LEVEL OF QUALIFICATION	FREQUENCY	%
Secondary Education	5	10
Bachelors Degree	25	50
Masters Degree	15	30
Doctorate Degree	5	10
TOTAL	50	100

The above table reflects the level of qualification of the insuring public from which data was sourced. 25

- **Awareness About Insurance**

RESPONSE	FREQUENCY	%
YES	50	100
NO	0	0
TOTAL	50	100

All the respondents said to us that they are all aware of insurance service.

• **Possession of Insurance Policy**

RESPONSE	Frequency	%
Yes	40	80
No	10	20
Total	50	100

Out of the 50 respondents only 40 of them have one form of insurance policy.

• **Have you had claim on your policy before?**

Respondents	Frequency	%
Yes	29	72.5
No	11	27.5
Total	40	100

Of the 40 respondents that have insurance policy only 29 have had claim on their policy.

• **Are you satisfied with the way your claim was handled by your insurer?**

Respondents	Frequency	%
Yes	21	72.4
No	8	27.6
Total	29	100

Out of the 29 respondents that have had claim on their policy before only 21 of these indicated that they were satisfied with the way their claim was handled. The other 8 respondents made us to understand that they did not like the way their claim was handled. According to one of the respondent that said he was not satisfied he explained that what they did not tell him about his policy was what they held on to as an excuse that his claim was not valid which made them not to settle his claim.

• **Relationship between Insured's and Insurers**

RESPONSE	FREQUENCY	%
Very Cordial	11	27.5
Cordial	20	50
Not so Cordial	9	22.5
TOTAL	40	100

Amongst the 40 respondents that have insurance policy 27.5 % maintain a stand that the relationship between them and their insurers are very cordial while 50% of the respondents said that relationship between them is a cordial one.

• **In your own opinion do you think insurers are ethical in handling claims**

RESPONSE	FREQUENCY	%
YES	25	50
NO	20	40
INDIFFERENT	5	10
TOTAL	50	100

Here 25 of respondents which represent 50% are of the opinion that insurance companies are ethical in handling insured claims, 40% of the respondents are not in support of this.

Findings

Insurers are the ones responsible for settling the claims of their insured's in the event of loss and the insurance personnel working in the claims departments recognize the fact that there is a moral dilemma in every decisions related to the claims of their clients. Personnel in claims administration in insurance companies understand that if the claims of insured are mismanaged, it can be harmful to them as employees and also to the company as a whole. Therefore they handle insured's claims in a professional way and also stick to the rules of the business. Before an insured's claim can be processed certain requirements needs be fulfilled by insured themselves which are basically notifying his insurer of his loss, must be able to proof the loss and submit all the necessary documents. Challenges for personnel in claims administration;

- long procedure involved in processing claims
- fraudulent aspect of the insured's
- inadequate human resources
- inadequate material resources
- circumstantial determinism
- relationship management
- lack of understanding of insurance terms by and conditions by insured's
- bad negotiation by distributing channels
- inflexibility in the part of supervisors
- insincerity on the part of repairers

- logistics problem
- inability of insured's to produce documents to process their claims
- Delay in remitting premium by insurance brokers
- Untimely notification of renewal notice to insureds by underwriters
- Cash flow issue

Ethical issues are found common in insurance business.

1. Failure in identifying the customer's needs and recommend products and services that meet their needs.
2. Conflicts between personal benefits and proper performance of employees responsibilities
3. Unethical remarks about competitors, their products, or their employees or agents
4. lack of expertise or skills to competently perform one's duties
5. Misrepresenting in terms and conditions while selling products to customers.
6. Failure to provide prompt, honest responses to customer inquiries and requests
7. Failure to provide products and services of the highest quality in the eyes of the customer
8. Conflicts of interest involving business or financial relationships with customers, suppliers or competitors
9. Failure to identify the customer's needs and recommend products and services that meet those needs.
10. Misrepresenting or concealing limitations in one's abilities to provide services.
11. Failure to provide prompt, honest responses to customer inquiries and requests .

Conclusion

The purpose of this research paper has been to examine and critically analyze ethical issue in Indian insurance companies, to find out how clients are handled in insurance companies and if insurers recognize it as an ethical issue. The research paper confirmed that insurance companies recognize the moral dilemma in claims settlement; they understand that if claims are not settled in ethical manner it will result in bad consequence for company image which will fall back on the insured or the beneficiary.

Therefore it is the responsibility of the personnel to discharge their duties in a professional way and making sure that all genuine claims are settled and only fraudulent and non genuine claims are repudiated. However the challenges involved in claims settlement has really affected and it is still affecting the perception of people on how insured claims are handled by insurance companies. From this paper it is clear that the insurance business sector has many areas for improvement and development. I found out through this research paper the issues diminishing mutual trust between the insurers and insured. The improvement of this mutual trust will improve if ethical standards will be maintained in insurance sector.

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