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Policyholders' Protection towards Unfair Business Practices in Life Insurance

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Abstract

This paper aims to examine policyholders' protection against unfair practices in the life insurance industry. The study employs a quantitative approach and uses survey data from a sample of 150 policyholders located in Madurai. Convenience sampling method is utilised for this study. primary data was collected from policyholders of life insurance. This study used percentage analysis, ANOVA, independent t-test for the analysis. The findings suggest a concerning prevalence of unfair practices in the industry, with a significant number of policyholders experiencing issues such as misleading information about policy terms, denied or delayed claims without valid reasons, poor customer service, and unclear marketing practices. The study also highlights the role of policyholder education towards policyholders' familiarity with their rights and protecting against unethical practices. This paper concludes by recommending policy reforms to address the identified issues and improve policyholder protection in the life insurance industry. Ultimately, the study underscores the essential improvement of various areas such as transparency in policy terms, complaint handling process and importance of regulatory action and market

forces in promoting fair and ethical practices in the industry to enhance policyholders' trust and confidence.

Keywords: Unfair practices, Life insurance, Quantitative approach, Mis-selling, Hidden charges, Lack of transparency.

I. INTRODUCTION

Life insurance is an essential financial product that provides policyholders with financial security and protection for their loved ones. However, recent studies have shown that the life insurance industry has significant challenges with unfair practices that can expose policyholders to significant financial risks. Unfair practices refer to issues such as mis-selling, hidden charges, and lack of transparency, which can be detrimental to policyholders' interests. In this context, examining policyholders' protection towards unfair practices is critical to promote fair and ethical practices in the industry and safeguard policyholders' interests. This paper aims to investigate policyholders' protection towards unfair practices in the life insurance industry, employing a quantitative approach and using survey data to examine the prevalence of unfair practices and the effectiveness of policyholder education and regulatory mechanisms in addressing them. The study concludes by recommending policy reforms to address the identified issues and improve policyholder protection in the life insurance industry.

Objectives

The main objectives of the study are as follows:

- To identify an overview of unfair business practices in the life insurance industry.
- To study the level of familiarity of policyholder's rights about insurance product.
- To analyze complaints related to unfair practices.
- To examine the complaint redressal mechanisms employed in the life insurance sector.

Literature Review

Smith (2019), the evolution of regulatory measures has aimed to address consumer protection by enforcing transparency and fairness in the life insurance sector. This includes mandates for clear communication and stringent disclosure requirements to prevent mis-selling and other deceptive practices. Brown (2021) expands on this by comparing consumer protection strategies across different countries, highlighting that while regulatory frameworks vary, common themes include the need for transparency, accountability, and effective complaint resolution mechanisms. Brown's

comparative analysis underscores that harmonizing regulatory standards could enhance consumer protection globally. Williams and Green (2022) investigate these practices, noting that mis-selling often arises from inadequate training and in centivization structures within insurance companies. This study suggests that robust regulatory oversight and industry self-regulation are crucial in mitigating such issues. Ferguson et al (2021) provide empirical evidence of how inadequate complaint handling mechanisms contribute to consumer dissatisfaction. Their study indicates that many policyholders face difficulties in resolving disputes due to complex procedures and insufficient support from insurers. Chen et al (2020) examine the impact of regulatory policies on insurance market efficiency, finding that well-designed regulations can improve market functioning and consumer trust. They argue that effective enforcement and periodic reviews of regulatory frameworks are essential to adapting to new market challenges. Johnson (2018) highlights international standards for consumer protection, emphasizing the importance of cross-border regulatory cooperation.

Johnson's review points out that while some countries have robust consumer protection laws, others lag, affecting global market integrity and consumer trust. insistent and effective protection for all policyholders.

Materials and Methods:

This study used both the primary and secondary data. A structured survey was distributed to 150 policyholders in Madurai across various demographics, focusing on their experiences with unethical business practices and the effectiveness of current protection mechanism. Conveniences ampling method was chosen to select the respondents. The sample size of this study is 150collected from the policyholders of life insurance. structured Questionnaire was prepared and survey were conducted for the purpose of collecting the data. Percentage analysis, Independent T-test & ANOVA analysis was used.

Unfair practices in life insurance:

Unfair practices in the life insurance sector involve unethical behaviours by insurers or their agents that compromise the industry's fairness and openness. These actions might include deceptive advertising, unjust claim denials, discriminatory pricing strategies, or withholding crucial information about policy details. Such conduct not only harms policyholders but also diminishes the trust in the insurance field. It's vital to address and correct

these practices to ensure that consumers are treated equitably and provided with clear, truthful information when selecting life insurance.

Misrepresentation and Misleading Information

Insurers may provide incomplete or misleading information about policy terms, benefits, or risks during the sales process. Policyholders may purchase policies based on incorrect or incomplete information, leading to misunderstandings and dissatisfaction.

Unfair Claims Settlement Practices

Delays in processing claims without reasonable justification, undervaluing claims, or outright denial of valid claims. Policyholders may face financial distress or emotional strain when insurers fail to honour their obligations promptly and fairly.

Opaque Fee Structures and Hidden Charges

Including hidden fees or charges in policy contracts that are not adequately disclosed to policyholders. Policyholders may end up paying more than expected, affecting the overall affordability and perceived value of the insurance product.

Twisting and Churning

Persuading policyholders to replace existing policies with new ones that offer little or no benefit but generate new commissions for agents. Policyholders may incur unnecessary costs or lose valuable benefits associated with their original policies.

Unfair Underwriting Practices

Discriminatory practices in underwriting based on factors unrelated to risk, such as race, gender, or genetic information. Policyholders may be unfairly denied coverage or offered less favourable terms based on discriminatory criteria.

Post-Claims Underwriting

Insurers conducting extensive underwriting after a claim is filed to find grounds for denial based on information not disclosed at the time of application. Policyholders may believe they have coverage until they file a claim, only to have it denied retrospectively.

Refusal to Renew Policies

Insurers refusing to renew policies without valid reasons or without providing adequate notice. Policyholders may lose coverage unexpectedly, especially in cases where finding alternative coverage is difficult or more expensive.

Impact of MIS-Selling

Complaints about unfair business practices can significantly damage the perception of the life insurance sector. This negative sentiment can hinder efforts to improve insurance inclusion, as reflected in insurance penetration and density. Increased instances of mis-selling can also stunt growth in the insurance industry, affecting the availability of long-term funds for economic development.

Factors Leading to MIS-Selling

Product-Related Issues

The complexity of insurance products and the information asymmetry between the insured and the insurer or their agent contribute to mis-selling. Policy documents often contain jargon and fine print that can be difficult for consumers to interpret, leading to disputes between policyholders and insurers.

Lack of Awareness

Being literate is not enough to understand insurance products; financial literacy is crucial. When prospects lack financial savvy, they are more likely to purchase products that do not meet their needs. Many people are unaware of their financial goals and, as a result, cannot assess their needs accurately.

Dearth of Qualified Agents

Many insurance agents do not take their roles seriously and often leave the profession quickly. Policies sold by such agents, termed "orphan policies," may lapse due to lack of servicing. Insurance companies struggle to recruit competent agents.

Lack of Patience

Customers often rush through the purchasing process without thoroughly reviewing the policy details. While agents should provide accurate information, customers also have a responsibility to verify what they are buying. Timely inspection of policy documents can help in effectively using the "free-look period."

Rewards System for Insurance Agents

High front-loaded commissions can lead agents to engage in unethical practices, as they have financial incentives to promote specific products, regardless of whether they meet the client's needs.

Corporate Governance Guidelines–Policy holder Protection Committee

To address compliance issues related to protecting policyholder interests and ensuring they are informed and educated about insurance products and complaint handling procedures, each insurance provider must adhere to the Policyholder Protection Committee. This committee, which reports directly to the Board, is tasked with establishing effective procedures to handle policyholder complaints and grievances, including those related to mis-selling by intermediaries. Additionally, the committee reviews the status of complaints periodically and ensures compliance with statutory requirements and adequate disclosure of "material information" to policyholders.

Table : 1Number of Complaints Registered Against Unfair Business Practices in Life Insurance

Year	Insurer	No. of UFBP complaints	% change Over last year	Total Life complaints	%of UFBP complaints	No. of new policiess old	% of UFB Pto New policies sold
2015-16	LIC	1891	-19.97%	64750	2.92%	20546749	0.01%
	Pvt.Life Insurers	98366	-31.10%	139951	70.29%	6193339	1.59%
2016-17	LIC	1215	-35.75%	30784	3.95%	20131500	0.01%
	Pvt.Life Insurers	61071	-37.91%	90063	67.81%	6325145	0.97%
2017-18	LIC	2908	139.34%	77184	3.77%	21338176	0.01%
	Pvt.Life Insurers	51321	-15.97%	77183	66.49%	6860602	0.75%
2018-19	LIC	4276	47.04%	102127	4.19%	21433256	0.02%
	Pvt.Life Insurers	45294	-11.74%	61137	74.09%	7254556	0.62%
2019-20	LIC	3994	-6.59%	112005	3.57%	21925106	0.02%
	Pvt.Life Insurers	39450	-12.90%	53212	74.14%	6961463	0.57%

(Source: Consumer Affairs Booklet, official website IRDAI)

The above table shows the number of complaints registered against unfair business practices in LIC and private insurers form the year 2015 to 2020. Gradually the percentage has increased from 2.92 % to 3.57 % in LIC and 70.29% to 74.14% in private insurance against unfair business practices.

Table : 2 Number of Complaints Registered Against Unfair Business Practices

Grievances	2021-22			2022-23		
	Public	Private	Total	Public	Private	Total
Total No. of grievances on Life Insurers	1,14,202	40,624	1,54,826	81,494	45,884	1,27,378
No. of UFB Pgrievances	3,509	22,207	25,716	2,978	23,129	26,107
Share of UFB Pgrievances to total grievances (%)	3.07	54.66	16.61	3.65	50.41	20.50
Share of UFBP to new policies sold (%)	0.02	0.3	0.09	0.04	0.11	0.09

(Source: Annual Report, official website IRDAI)

Action Taken by IRDAI Againsts Complaints on Unfair Business Practices

Various measures to tackle complaints against unfair business practices in the insurance industry through IRDAI initiatives.

➤ **Agent Regulation:**

IRDAI mandates strict regulations and guidelines for insurance agents, covering licensing and conduct. Agents must complete mandatory training and follow ethical standards to avoid mis-selling.

➤ **Grievance Redressal System:**

IRDAI has set up a grievance redressal system featuring a Consumer Affairs Department and an online complaint portal. This system allows policyholders to submit and track complaints against insurers and agents.

➤ **Regulatory Guidelines:**

IRDAI issues guidelines such as the IRDAI (Protection of Policyholders' Interests) Regulations, which require insurers to offer clear and accurate policy information, promoting transparency in the sales process.

➤ **Monitoring and Audits:**

IRDAI conducts regular audits and inspections to ensure that insurance companies comply with regulatory standards.

➤ **Consumer Education:**

IRDAI fosters financial literacy and consumer education through various initiatives and campaigns, aiming to help consumers make informed decisions and understand their rights.

➤ **Dispute Resolution:**

IRDAI supports the Insurance Ombudsman scheme, offering an alternative dispute resolution process for policyholders to address grievances not resolved directly with insurers.

➤ **Code of Conduct:**

IRDAI has established a code of conduct for insurance companies and intermediaries to ensure ethical practices and fair behaviour in the insurance market.

Analysis:

Table :12. 1 Demographic Profile

Demographic Profile	Options	No of Respondents	Percentage
Gender	Male	66	44
	Female	84	56
	Total	150	100
Age	under 25	15	10
	25-34	35	23.3
	35-44	46	30.7
	45-54	27	18
	55-64	20	13.3
	65 and above	7	4.7
	Total	150	100
Marital Status	Married	102	68
	Unmarried	40	26.7
	Divorced	8	5.3
	Widowed	-	-
	Total	150	100
Educational Qualification	Post Graduate	43	28.7
	Graduate	34	22.7
	Diploma	25	16.7
	HSC	20	13.3
	Illiterate	28	18.7
	Total	150	100
Occupation	Business	30	20
	Employed	52	34.7
	Profession	33	22
	Housewife	25	16
	Retired	10	7.3
	Total	150	100

Monthly Income	BelowRS.25000	30	20
	Rs.25,000 to Rs.50,000	37	24.7
	Rs.50,000 to Rs.75,000	50	33
	RS.75,000 to Rs.1,00,000	20	13
	Rs. 1,00,000 and above	13	8.7
	Total	150	100
Residence	Urban	98	65.3
	Semi-urban	20	13.3
	Rural	32	21.3
	Total	150	100
Type of insurance sector	Public	106	70.7
	Private	34	22.7
	Both public and private	10	6.7
	Total	150	100
Type of insurance policy	Term life policy	41	27.3
	Whole life policy	96	64
	Endowment Policy	13	8.7
	Total	150	100

(Source: Primary data)

Table 12.1 indicates the result of demographic profile of the policy holders. over the 150 respondents, 56 percent are female and 44 percent are male. The predominant age group of the respondents is 30.7 per cent 35-44 years. 23.3 percent respondents are distributed among age group of 25-34 years, 18 percents belong to 45-54 years, 13.3 percents belong to 55-64 years, 10 percent of the policyholders under 25 years and 4.7 percent of the respondents 65 years and above. The highest educational qualification is 28.7 percent are post graduate, 22.7 per cent of the respondents belong to graduation, 18 percent of the policyholders are illiterate and 16.7 percent are belong to Diploma. 68 percent are married, 26.7 percent are unmarried and 8 percent of the policyholders are divorced. 34.7 percent of the respondents are

employed, 22 percent of the policyholders are professionals, 20 percent of the respondents belong to business group, 16 percent of the policy holders are housewife and 7.3 percent of the policy holders are retired people. 33 percent are having monthly income of Rs.50,000-75,000, 24.7 percent of the policyholders are having income of Rs.25,000 – 50,000, 20 percent of the policyholders are having monthly income less than 25,000, 13 percent of the respondents belong to Rs.75,000- Rs.1,00,000 and 8.7 percent of the respondents are having monthly income above Rs.1,00,000 .

65.3 percent of the respondents' residence located in urban area, 21.3 percent of the respondents' residence is based on rural area and 13 percent from semi-urban area. 70.7 percent preferred public sector for their insurance policy, 22.7 percent of the policyholders preferred private sector and 6.7 percent of the policyholders prefer both public and private sector. 64 percent of the policyholders having whole life policy, 27.3 percent are having term life policy and 8.7 percent of the policyholders are having endowment policy.

Table : 12.2 Duration of the policy

Duration of the policy		Frequency	percent	Valid percent	Cumulative percent
valid	Less than 5 years	25	16.7	16.7	16.7
	5-10 years	62	41.3	41.3	58.0
	10-15 years	29	19.3	19.3	77.3
	15-20 years	21	14.0	14.0	91.3
	More than 20 years	13	8.7	8.7	100.0
	Total	150	100.0	100.0	

(Source : Primary data – SPSS Output)

Above table shows that 41.3 percent of the policyholders are having insurance policy for the period of 5-10 years, 19.3 percent having insurance policy 10- 15 years of duration, 16.7 percent of the respondents are having insurance policy less than 5 years of duration, 14 percent having insurance

policy 15-20 years of duration and 8.7 percent of the respondents are having more than 20 years of duration.

Table :12. 3 Unfair business practices with Respondents' life insurance provider

Unfair business practices with Respondents' life insurance provider					
		frequency	percent	Valid percent	Cumulative percent
valid	misleading information about policy terms	42	28.0	28.0	28.0
	denied or delayed claims without valid reason	35	23.3	23.3	51.3
	unclear or deceptive marketing practices	33	22.0	22.0	73.3
	poor customer service	40	26.7	26.7	100.0
	Total	150	100.0	100.0	

(Source: Primary Data- SPSS output)

The above table shows that 28 percent of the policyholders faced unfair business practice in misleading information about policy terms, 26.7 percent of the respondents faced poor customer service, 23.3 percent of the respondents faced denied or delayed claims without valid reason and 20 percent of the respondents faced unclear or deceptive marketing practices.

Table : 12.4 Filed a complaints regarding unfair practices

filed a complaints regarding unfair practices					
		frequency	percent	Valid percent	Cumulative percent
Valid	Yes	117	78.0	78.0	78.0
	No	33	22.0	22.0	100.0
	Total	150	100.0	100.0	

(Source: Primary Data- SPSS output)

Above table shows that 78 percent of the policyholders filed a complaint regarding unfair practices with the insurance providers and 22 percent doesn't filed a complaint regarding unfair practices.

Table :12.5 Relationship between educational qualification and familiarity of policyholders' rights.

ANOVA is a statistical tool which is used to compare the means of more than two groups. The null hypothesis for this test is that there is no significant association between the educational qualification towards familiarity of policyholders' rights. Table 5 deals with the association between educational qualification towards familiarity of policyholder's rights.

H0: There is no significant relationship between the educational qualifications towards familiarity of policyholder's rights

ANOVA					
Familiar with the rights of a policyholder					
	Sum of squares	Df	Mean square	f	Sig.
Between Groups	120.948	4	30.237	200.091	.000
Within Groups	21.912	145	.151		
Total	142.860	149			

(Source : Primary data-SPSS Output)

Table 12.5 shows the results of the ANOVA. Based on the results, the significant value is lower than 0.05 for familiarity of policyholder's rights. That's why the null hypothesis is not accepted and it is concluded that there is no relationship between the educational qualification towards familiarity of policyholders' rights.

Table : 12.6 Relationship between gender and satisfaction with the complaint resolution process .

Independent t-test is a statistical method which is used to compare the means of two different groups. Table 6 deals with an association between gender and the satisfaction with the complaint resolution process.

H0: There is no significant relationship between the group based on gender towards satisfaction with the complaint resolution process

Group statistics					
Gender of the Respondents		N	Mean	Std. Deviation	Std. error mean
satisfaction with the complaint resolution process	Male	66	1.88	.691	.085
	Female	84	4.45	.547	.060

(Source: primary data-SPSS Output)

The above result indicates the mean value of male is 1.88 and the female mean value is 4.45. Standard Deviation for the male .691 and female is .547, standard error mean for the male .085 and female .060.

Independent sample t- test								
Levene's test for equality of variance and T- Test for equality of means								
		F	Sig.	T	DF	Sig	Mean	Std .Error
Satisfaction with the complaint resolution process	Equal variance assumed	.047	.829	-25.472	148	.000	-2.574	.101
	Equal variances not assumed			-24.774	121.633	.000	-2.574	.104

(Source: primary data-SPSS Output)

From the result shown in the table the p value is less than 0.05 hence it is proved there is no significant difference between the group based on gender towards complaint resolution process.

Suggestion

The following suggestions are recommended based on the findings mentioned in the study.

1. Insurance providers should enhance policyholders' education about their rights and how to identify unfair practices.
2. There should be increased transparency in insurance contracts and business practices.
3. Insurance providers should establish clear communication procedures and timelines for processing claims.
4. Insurance Providers should improve the quality of their services by implementing regular performance evaluations and customer feedback surveys.

II. CONCLUSION

Protecting policyholders from unfair practices, such as delays, denials, and poor customer service, is crucial for ensuring fairness and equity in the insurance industry. This study identifies several key areas for improvement, including stronger regulatory frameworks, more efficient claim processing, improved customer service standards, and enhanced transparency and accountability. Insurance companies should address these issues by establishing clear procedures for claim handling, improving customer support systems, and effectively enforcing regulations. Additionally, investing in employee training, adopting technological advancements, and fostering a customer-centric culture are essential to enhancing service quality and building trust within the industry. Implementing these changes will not only safeguard policyholders' rights but also contribute to a more transparent and efficient insurance market.

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