

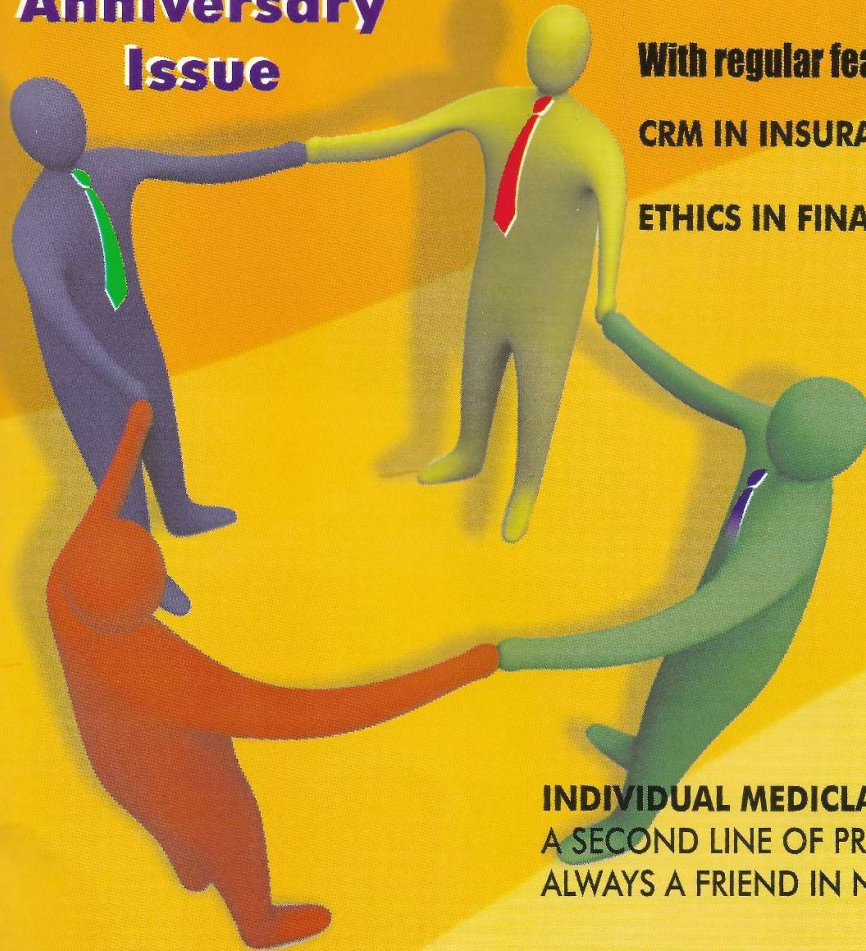


INSURANCE PIONEER

A JOURNAL ON INSURANCE

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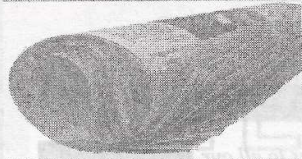


**With regular features &
CRM IN INSURANCE SECTOR
ETHICS IN FINANCIAL SALES**

**INDIVIDUAL MEDICLAIM POLICY :
A SECOND LINE OF PROTECTION
ALWAYS A FRIEND IN NEED**

CUT THROAT

Pioneering Insurance Movement



News

- General insurance (5)
- Life insurance (9)
- Health insurance (11)
- IRDA (12)

A R T I C L E



CRM IN INSURANCE SECTOR (13)
 - Dr. Suresh Chandra Bihari, Prof. In Banking & Finance, Research Co-ordinator, IBS Hyderabad.



Individual Mediclaim Policy : (17)
A secondline of protection
Always a helping friend
 - Pravat Kumar Sahu, FIII



Ethics in Financial Sales (22)
 - Siddarth Baliga



Cut Throat (25)
 - Sanjeeb K. Mohanty



● **Case Study (27)**



SUMMATION OF LEGAL CASES



■ **General Insurance (28)**

■ **Life Insurance (31)**



Question Bank (33)

CONTENTS

- Statistics (39)
- Help Line (41)
- Glossary (43)
- Poll (44)

ARTICLES



Ethics in Financial Sales



By Siddarth Baliga

Financial Products

The market is flooded with a host of financial products ranging from simple fixed deposits in banks/post-offices to complex derivatives, unit linked insurance plans and mutual funds. Whereas traditional investment options like fixed deposits are primarily pull-products insurance plans and mutual funds are push-products.

Financial Products Vs Other Products

The financial jungle is such a complex area that even the best of the people make wrong

The financial jungle is such a complex area that even the best of the people make wrong investment decisions.

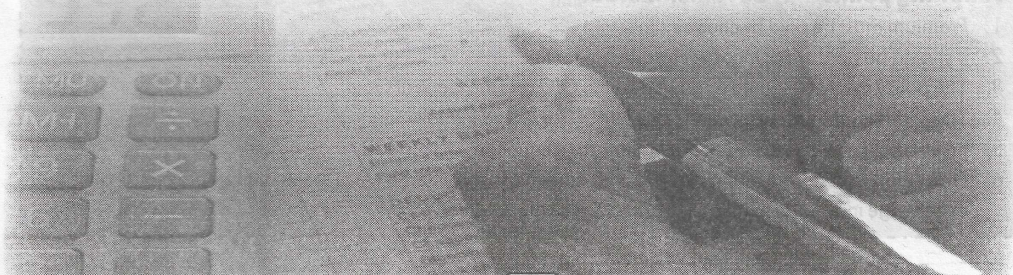
investment decisions. Moreover the intricacies of finance make people gullible and sales reps, taking advantage of this, try to make a fast buck. Financial products are difficult to understand, for the layman, as compared to other goods.

Insurance & ULIP Demystified

Insurance and Unit Linked Insurance Plans (ULIPs) are now the most commonly mis-sold products. Mis-selling obviously takes place where big money is at stake. Selling ULIPs fetch big commissions for Agents.

Particulars	Year1	Year 2	Year 3	Year 4
First Premium (FP)	5,00,000	5,00,000	5,00,000	5,00,000
Renewal Premium (RP)	0	5,00,000	10,00,000	15,00,000
Commission on FP@12%	60,000	60,000	60,000	60,000
Commission on RP@5%	0	25,000	50,000	75,000
Total Earnings	60,000	85,000	1,10,000	1,35,000

Table 1: Insurance Agents' Commission Structure (Source: Insurance World, November 2008)



Mis-selling takes place in several forms. A significant portion (IRDA, the insurance watchdog is working on reducing the charges) of the first year premium is deducted on account of fund management, administrative and other charges. This is rarely told to the prospective customer. In fact IRDA had mandated that an electronic benefit illustration be signed by the customer. However sales reps tend to find a loop-hole in each rule. Some employees of a private life insurer kept page 2 of the electronic benefit illustration along with the application (called proposal) form. The unsuspecting customer usually signs all the pages while the sales rep keeps a conversation going. Common Cheating Styles

- ❖ Pressuring the customer to sign a blank form so that inconvenient details are not disclosed on form
- Taking too many counter-signatures in the margins of a blank form
- ❖ Selling insurance plans as mutual funds or fixed deposits with guaranteed returns
- ❖ Accepting application (proposal form) even in case of non-availability of required supporting documents. Sales reps are known to manipulate documents to achieve their sales targets Insurance plans are also promoted through banks, a channel known as bancassurance in insurance parlance. The bancassurance channel has an added advantage given the access to contact details of High Net Worth customers of the bank. One such customer at a leading private sector bank was made to believe that the ULIP application form was actually a form for fixed deposit. The man, although literate, was not qualified

The unsuspecting customer usually signs all the pages while the sales rep keeps a conversation going. Common Cheating Styles

enough to understand the differences. He signed wherever his "Relationship Manager" asked him to do so and invested a whopping Rs.10 lakhs on an unwanted policy!!

One may argue that IRDA offers a 15-day free look period during which the customer may return the policy and get a refund. One, all customers, even though literate, cannot understand the matter in the policy kit. Two, full refund is still not given. Administrative charges are deducted even if there is no fault on the customer's side. In case of literate or educated customers it becomes extremely difficult to prove that the company had cheated them.

One might wonder what insurance companies do with all the front-loaded charges deducted from the premiums. Apart from commissions for agents, employees ranging from lower level team managers to the Vice President draw huge incentives. Besides, there are periodic contests, parties and exotic foreign trips—all for fooling innocent and gullible people. A top insurance giant had the "culture" of organizing annual "meetings" or "get-togethers" where Bollywood stars are invited to perform for a huge fee. The entire national sales team flies to Mumbai or elsewhere to stay in 5-star super-deluxe hotels and enjoy the bollywood dances. So who sponsors this lavish lifestyle? Who else but the customer who puts in his hard-earned money hoping to earn the falsely assured exotic 50% returns in 3 years! Moreover, many people do not realize that the expected returns are on funds available postdeduction of specified charges. The table below will clarify the same:

Amount	Deduction	Amount for Investment	Rate of Interest	Expected Amount in 1 Year
10,000 (ex: ULIP)	25%	7500	25%	9375
10,000 (ex: FD)	-	10,000	8%	10,800

Table 2: Return on Investments

ARTICLES

It is evident that even a 25% rate of interest on a ULIP does not make sense if it is heavily frontloaded. The idea is not to degrade ULIP as an investment option but to highlight the negative aspects as well. With IRDA putting an axe on reducing front-loading drastically ULIPs may definitely become more attractive. In any case the "3 year invest and withdraw option" is not viable for all ULIP plans and a long term investment horizon is advised.

Loans-Rate of Interest

This is another financial product which is a banker's (especially private banker's) favorite. Even finance companies are glad to extend a variety of loans like personal loans, car loans, auto loans etc. In 2008, a young executive approached a finance company as well as a bank for a car loan. The bank offered loan at the rate of 12% per annum. The finance company appeared too generous when it offered a loan at the rate of 9% per annum. The executive jumped on to the offer in excitement and availed the loan. This is what many banks/finance companies hide from loan seekers. There is a difference between reducing balance method and the flat rate of interest method. In the former the interest is calculated on the reduced principal on each payment. Hence the interest burden is greatly reduced in the reducing balance method.

It is essential that the layman no longer remains a layman and updates himself at least on the basics of finance. This will reduce the number of people falling prey to the

Credit Cards

The piece of plastic is already known world over to pull people into the vicious debt cycle. But telemarketing departments of banks have found newer ways to worsen people's plight. Free upgrade option is the latest trap. One is made to believe that the upgraded card is more prestigious and moreover comes for free** (conditions apply)!! But it never comes free. They talk of some free gift vouchers which are worth the amount paid towards card's joining fees. Thus they claim the card is free. Of course their speech generally picks speed while talking about this and many poor souls think they are getting a free card as well as free gift vouchers.

This is an era of agency business and we have at least one agent representing some financial product in our neighborhood. It may be the over-friendly neighbor, the distant aunt (who suddenly

starts visiting us frequently) or even the "friendly" bank clerk (who was rude till a couple of months ago until an incentive scheme was launched for promoting investment plans!). It is essential that the layman no longer remains a layman and updates himself at least on the basics of finance. This will reduce the number of people falling prey to the sales-hungry agents!

The author is the writer of many topics on management, insurance, marketing, finance, etc, which are published in reputed journals. Basically being a Bachelor of Engineering from Manipal University and a Post-Graduate in Business Economics from ICFAI University, currently is a management student of Indian Institute of Management, Kozhikode

