15

Ethics and code of conduct

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Learning objectives

After studying this chapter, you should be able to:

- discuss the meaning of ethics;
- analyse the dangers of unethical behaviour;
- discuss the importance of ethics for individuals and insurers;
- analyse typical ethical behaviour;
- explain the elements of an ethical framework;
- explain the importance of underpinning professional responsibilities;
- discuss the importance of evaluation, monitoring and discipline for ethical practices followed by insurance companies;
- discuss the Code of Conduct prescribed by the IRDA.

Introduction

As we discussed in chapter 10 it is important that insurance agents behave in a professional and ethical manner towards their clients at all times. But what do we mean by 'ethics'?

The word 'ethics' comes from the Greek word 'ethikos' which relates to a person's character. Ethics in insurance pertain to certain standards or principles that are followed by insurance agents and insurers in the course of their business, while maintaining the profitability of the business.

In simple terms, sales targets aside, the main concern for an insurance company should be the policyholder's needs and requirements and in providing assistance to them and their family at the time of a claims situation, should the need arise. Unethical practices may result in short-term profits, but in the long run, they will tarnish the image of the company. A negative image can result in a loss of business – both existing and new business.

In this chapter we will highlight the importance of following ethical practices in insurance business and we will also highlight the adverse effects of following unethical practices.

Finally, we will discuss the Code of Conduct that has been prescribed by the IRDA to monitor and discipline the conduct of insurance agents.

Key terms

This chapter features explanations of the following terms and concepts:

Ethics	Churning	Discipline	Unethical behaviour
Delay in claims settlement	Ethical codes	Underpinning professional responsibilities	Overselling of insurance policies
Positive image	Evaluation and monitoring	Underselling of insurance policies	Embedding ethics

A What do we mean by ethics?

Considering the many instances of mis-selling that have been reported in the recent past, one of the biggest concerns and issues of debate for the insurance industry in India is the need for a high standard of ethical behaviour when selling insurance.

Ethics can be defined as:

- those values we commonly hold to be 'good' and 'right;
- behaviour that is based upon the moral judgments of an individual; and
- a study of what makes one's own actions right and wrong.

Ethical standards depend upon the actions – whether they are right or wrong – practised by all those involved in the process of advising on, selling and servicing insurance products. This includes the insurance agents themselves and the officers and managers of insurance companies.

The ethical standards of an insurance agent will be demonstrated by the actions he takes to achieve his desired end result, i.e. his sales target. For example, behaving in an ethical manner means not suggesting products to clients that will help the agent earn a high amount of commission, irrespective of the fact that the product might not be suitable for the client.

Be aware

The agent has a responsibility to ensure that he only recommends suitable needs-based products to his clients. If the agent uses unethical conduct to sell an insurance product to his client then he has failed in his duty to provide his client with the best service.

The objectives of ethics in the insurance industry can be described as follows:

- To establish moral standards for insurance agents/insurers in insurance selling.
- To define 'dos' and 'don'ts' in insurance selling.
- To address the ethical and unethical conduct of insurers.
- To give guidance on the correct/appropriate behaviour for an insurance agent to follow in a specific situation.
- To regulate the wrong and inappropriate practices followed by insurers and intermediaries.

Case study

Sushil Mehta is a newly appointed life insurance agent. Being newly recruited, he doesn't have much experience in the business and he will struggle initially to create a name for himself. He has been asked to sell at least three insurance policies each month.

It's the end of the month and Sushil has not been able to sell even one policy. He is under tremendous pressure to perform and achieve his monthly target. He has been preparing a presentation on financial planning for five prospective clients whom he is scheduled to meet in the next three days.

Sushil decides to modify his presentation and suggest a newly launched product by the insurance company to all his prospective clients, irrespective of whether they require that product or not.

In his meetings with the clients he highlights only some of the good benefits about the product and hides certain charges, exclusions, terms and conditions from them. He does this because he fears it will result in refusal from the clients to buy the product. He is able to convince two of his clients to purchase the product even though it is not the most suitable product for them based on their needs.

Is this ethical behaviour on the part of Sushil?

No, it is not – Sushil has resorted to unethical behaviour by focusing on meeting his sales target rather than meeting the needs of his clients.

Insurance agents should never resort to such unfair and unethical practices. They should always put the clients' needs ahead of their own interests.

Consider this…

In your opinion, what should be the role of the insurance company in the above case study? What steps can the insurance company take to avoid such instances from occurring?

B Typical unethical behaviour

In the past a common statement made about the insurance industry was 'Life insurance is seldom bought; rather it is sold to clients'. This statement still holds good today and underlines the importance of insurers and agents avoiding unethical practices in the course of their dealings with customers.

Some of the common forms of unethical behaviour in the Indian insurance market have been as follows:

- Projecting exorbitant benefits under the plan (for example promising that the amount invested would double in three to five years).
- Passing off a regular premium payment policy as a single premium payment policy or limited premium payment policy.
- Not making complete and true disclosures about the product and its features.
- Not obtaining complete information about the prospective client.
- Offering a rebate or inducement in return for purchasing a policy.
- Selling a policy saying that the client does not have to pay premiums for the full term while the actual features of the product do not substantiate this statement.

B1 Dangers of unethical behaviour

Unethical behaviour such as that outlined above has consequences for the whole insurance industry. In this section we will discuss the consequences of the following unethical practices:

- **The overselling of insurance policies.** An overambitious insurance agent can mislead clients and sell them more insurance cover than they actually require or can afford. The overselling of insurance policies can result in lapsed policies if the policyholder is not able to pay the premiums.

Example

The sale of a term insurance policy and an unit-linked insurance plan (ULIP) to an unmarried individual is an example of overselling. An unmarried young individual may not need a term insurance policy if they do not have any dependants. The basic need of an unmarried individual is to invest their surplus money and to increase their overall wealth. For such an individual a ULIP would be sufficient as it would take care of their protection needs and would also increase their investments at the same time.

- **The underselling of insurance policies**. In order to achieve their sales targets, insurance agents may compromise on the insurance cover and suggest a lower sum insured to clients. This is done because an insurance policy with a lower cover and hence a lower premium is more attractive to the client and enables a higher success rate for the agent. Suggesting a high premium amount can sometimes result in a loss of business for the agent due to the client's financial limitations. In such cases the consequences of underinsurance will have to be borne by the family in the event of the premature death of the policyholder, as the insurance cover would not be enough to meet the family's financial liabilities.
- **Churning**. Churning (refer back to chapter 10, section D4A for an explanation) should only be recommended in very rare cases; however, it is often used for the purposes of mis-selling products by insurance agents. Some agents recommend certain policies to clients with the advice that they can surrender the policy after a certain period of time and withdraw their funds. Churning is often recommended to clients by insurance agents with the purpose of withdrawing invested funds and reinvesting them in a new insurance plan launched by the company for which they have to meet a certain sales target.

  In this unethical process of churning, the policyholder is the biggest loser. They may incur a loss on their investments and they may not even recover the original investment amount. The insurance company also suffers a loss in this case as the policy is closed ahead of its normal tenure.

Be aware

One of the biggest concerns in the insurance industry is the unethical practice followed by some insurance agents in the selling of products which provide them with high amounts of commission.

- **Delay/refusal to make a claim payment** during the claim settlement process. If the policy has been sold on unethical grounds (such as suggesting benefits to the client for which they might not be eligible), this can result in a delay/refusal in making a claim settlement payment. Due to mis-selling, an individual may not be able to get the benefits falsely promised by the agent and this can result in both a loss of money to the individual and also a loss of faith in the insurance company. Unnecessary delay in making a claim payment during the claim settlement process can also result in negative publicity for the company and should be avoided. The claim settlement period is a difficult time for families and the insurer should help them in the best possible way during this time.

It is these types of unethical practice which have resulted in creating a poor public image for insurance agents and the companies they represent which in turn results in a loss of trust for the whole insurance industry. As a result of this, a priority of the IRDA has been to encourage the industry to be proactive in adopting ethical standards with the hope that these unethical practices will no longer take place.

C The business benefits of ethics

If an insurance company follows ethical practices in the selling of its insurance products and in the claim settlement process, this will help build a good long-term reputation for the company. But the use of inappropriate practices by a company and its agents to achieve sales targets will tarnish the company's image which in turn harms the business of the insurance company and, in the long run, the whole industry.

C1 The importance of ethics for individuals and the insurance company

Ethical standards will help to increase business for the company. Ethical selling of insurance products not only benefits the company itself but also helps to build a good reputation for the individual insurance agent. More importantly, if the insurance company and agent have been ethical in selling an insurance policy to an individual and an appropriate policy has been sold, it will help to save the client from a huge financial burden should an unfortunate event occur and a claim need to be made.

The importance of ethics for individual agents and their insurance companies can be summed up as follows:

Positive image	If an insurance company adopts a high standard of ethical practice this will help to build trust and confidence among the public. A positive image is an indicator of success for the company in the long term. Selling the insurance products of a reputable company makes the process of selling insurance comparatively easy for an insurance agent.
Goodwill	Ethical practices help to develop the goodwill of the company. Once public support is obtained, it will have a direct effect on the sales and the profitability of the company. Positive word of mouth publicity about the company and its insurance agents helps in establishing long-term trust with clients who in turn will refer new customers to the company.
Protection by both sides	High ethical standards are of benefit both to the company and also individuals. Insurance selling on ethical grounds also helps the insurance company to expedite the process of claims settlement. Receiving the claim payment on time can also help family members in dealing with the emotional and financial losses.
Model for others	An insurance company that follows high standards of ethical practices leads by example for other companies to follow, in terms of its business success and the loyal clientele it will build up over a period of time.
Confidentiality	During the fact-finding process a client reveals all personal, professional and family information about themself to the agent. In terms of ethical conduct the agent should make sure all client information is always kept confidential and that there is no misuse of this information in anyway.

Question 15.1

What can be the impact on the life insured's family members in the case of insurance underselling?

D Typical ethical behaviour

When advising a client, in order to be sure he is behaving ethically, an agent should always work through the following steps:

Figure 15.1

Recommend a suitable needs-based insurance policy to the client.

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Fully explain the product benefits including the conditions that have to be met for the policy benefits to be received, as well as any exclusions that may apply.

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Recommend an adequate sum insured amount.

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Recommend an appropriate method of payment based on the client's needs.

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Explain the terms and conditions as per the client's needs.

Case study

Madan Mohan is a junior engineer with a telecoms company. He has a three year old son, Rohan. Madan wants to invest for Rohan's education and marriage. He telephones the customer care division of an insurance company and enquires about its child plans. He asks the customer care executive to send an insurance agent to his home so that he can talk to him in more detail about the company's child plans.

Rahul Gupte is a newly appointed insurance agent who visits Madan's home. Rahul starts explaining his company's child plans to Madan. While talking to him, he realises that Madan is very aware of the various insurance plans that are available in the market. He learns that Madan has already invested in a term plan for income protection and has a ULIP to increase his funds. Rahul also realises that Madan has done quite a bit of research about child plans as he has spoken with friends and colleagues and has also read the various published materials that are available.

Madan then asks Rahul about the various terminologies used in a child plan like the 'deferment period', the 'vesting date' and the 'risk commencement date' of the policy. As Rahul is a newly appointed agent he is unsure about the particular information that has been requested by Madan. Rahul looks through the various pamphlets his manager has provided him with but he can't find the relevant information he needs to answer Madan's questions.

In such a scenario what would be the ethically appropriate way of proceeding for Rahul?

1. Should Rahul try to divert the attention of his client to other features of the product such as pricing, which Rahul is well aware of?
2. Should Rahul talk about the maturity amount that will be available to Madan after 15-20 years for his child's education (as Madan is already well informed about child plans)?
3. Should Rahul call upon his sales manager who is more experienced and knowledgeable and will be able to answer Madan's queries?

The answer is number 3. Ethically, it would be more appropriate for Rahul to call upon his sales manager who is more experienced and knowledgeable to answer Madan's questions so that Madan is provided with all the correct information regarding the policy conditions as to when the risk will commence, the deferment period and the importance of vesting.

You can see then that it is very important that the insurance agent and the insurance company provide complete information to the client to help them understand a policy's features and the various conditions associated with it. Nothing should be hidden. The fact that a client may be more aware about child plans than the insurance agent does not change that.

E Ethical frameworks including ethical codes

It is very important to embed an ethical culture within an organisation. This can be done by developing a coherent framework with the following elements:

- Ethical codes.
- Structures and processes to embed ethics.

E1 Ethical codes

Ethical codes are critical to an insurance company. They are developed to establish accountability among employees and board members with regards to their conduct. Everyone within an insurance company, from the CEO to directors to employees, is expected to comply with these ethical codes. The board members and employees have a duty to avoid situations that could lead to violations of these codes.

Insurance companies can define their own standard ethical code which is unique to their company, or they can adopt industry-specific codes.

It is important to note that behaving ethically will depend on an individual's judgment of right and wrong in a given set of circumstances, but an insurance agent cannot follow a defined checklist for each and every situation. However, general checklists and codes can be an important means for providing guidance to the insurer as well as the insurance agent for monitoring and evaluating ethical conduct.

Be aware

In India the insurance regulator, the IRDA, has prescribed the Code of Conduct for insurance agents in the IRDA (Licensing of Insurance Agents) Regulations 2000. (See section H for the IRDA Code of Conduct.)

E2 Embedding ethics

Embedding means ensuring that ethics are practised at all levels of a business, coherently and consistently in all situations. All employees should be aware of the ethical codes followed by their company and should apply good judgments to ensure that these codes are adhered to. In order to do this, companies need to be able to demonstrate the values that underpin an ethical code. This may involve staff practising ethical decision-making in roleplay situations.

Be aware

Insurance companies have a responsibility towards their customers to:

- avoid the use of misleading promotions and ensure appropriate products are sold;
- provide complete information about the terms and conditions of the policy;
- recommend and provide an adequate amount of insurance cover to clients; and
- make the specified amount of claim payments to clients and avoid unnecessary delays in making the payment of a claim.

If an insurance company fails to provide the above services to its clients, then the ethical conduct of that insurance company can be questioned.

F Underpinning professional responsibilities

The IRDA and the Life Insurance Council have a responsibility to outline the underpinning professional responsibilities of insurers and insurance agents. In this section we will outline the objectives of the IRDA and the Life Insurance Council.

F1 Objectives of the IRDA

The main objectives of the IRDA are as follows:

Figure 15.2

To protect the interests of policyholders. The Regulator issued the IRDA (Protection of Policyholders' Interests) Regulations 2002 for the protection of policyholders' interest (as discussed in chapter 14).

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To regulate, promote and ensure the orderly growth of the insurance industry (as discussed in chapter 13).

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To ensure that insurance business is conducted by all stakeholders in the most ethical manner. To ensure this objective is met, the IRDA has issued a Code of Conduct that must be followed by all insurance agents (we willl discuss the Code of Conduct in section H of this chapter).

F2 Objectives of the Life Insurance Council

The main objective of the Life Insurance Council is to play a significant and complementary role in transforming India's life insurance industry into a vibrant, trustworthy and profitable service, helping people in their journey to prosperity. The other objectives of the Life Insurance Council include the following:

Figure 15.3

To function as an active forum to aid, advise and assist insurers in maintaining high standards of conduct and service to policyholders.

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To interact with the Government and other bodies on policy matters.

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To actively participate in spreading insurance awareness in India.

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To take steps to develop education and research in insurance.

The Life Insurance Council also has a responsibility to establish, enforce and monitor the highest standards of ethical responsibility among insurers and their agents.

Suggested activity

Select any three advertisements from leading insurers. Analyse the information being communicated in each promotion. Do you find any of the information being provided misleading in any way? If the information is misleading, how would you amend it?

G Evaluation, monitoring and discipline

It is not an easy task to monitor and evaluate the ethical practices followed by insurers and insurance agents. Data can be collected regarding the number of complaints registered against the company's products and services such as premium collection, claims settlement etc. which can provide an insight into a company's practices.

G1 Evaluation and monitoring

G1A Lapses/cancellations/free look-in period

Lapsed and cancelled policies can be either the result of a client's inability to pay premiums or a sign of dissatisfaction with the company's services. Both of these situations can be as a result of unethical practices followed by agents in selling policies to meet sales targets. If a policy has lapsed or been cancelled due to the client's inability to pay the premium, then this can be an indicator that the financial assets and liabilities of the client were not assessed properly. This is a failure on the part of the agent which can result in financial losses to the client as well as to the insurance company itself.

To protect the policyholder against unethical agents, the IRDA allows policyholders a free look-in period of 15 days after receiving the policy. During this period the policyholder can review their decision with respect to the policy purchased.

If the policyholder feels that:

- the policy does not meet their requirement; or
- the terms and conditions of the policy are not in accordance with what the agent has told them at the time of selling the policy; or
- they are dissatisfied with the service of the insurance company; then

they can return the insurance policy within 15 days and ask for a refund of the premium they have paid.

If the policy has lapsed or has been surrendered due to dissatisfaction with the service provided by the insurance company (for example, lack of effective and timely after-sale service provided by the agent), this raises doubts about the efficiency of the company in discharging its responsibilities in a timely and efficient manner.

Therefore, the higher the number of policy lapses, surrenders and returns of policies during the free look-in period, the higher will be the doubts raised about the ethical practices followed by an insurance company and its agents.

G1B Complaint volumes

Repeated complaints regarding a certain product or service provided by an insurer are a good indicator that persistent problems exist. An analysis of the issues raised in the complaints will in turn lead to the insurance company being able to decide on appropriate action to address the issue(s). If a company is receiving a high level of complaints across many of its products and services, then this is likely to suggest that there are serious underlying issues which may well include problems with the ethical standards and the behaviour of its staff during the sales, premium collection and claims settlement processes.

G1C Analysis of products being offered

Insurance companies and their agents must sell products suitable to their clients' needs. Therefore products should be analysed in the context of whether the benefits being offered to clients are actually being delivered, and if not, then the reasons for why this might be. Based on these reasons, products may need to be redesigned to meet clients' needs.

G2 Discipline

Insurance companies may have internal guidelines in place for agents with regards to ethical conduct and the disciplinary procedures to be followed, in addition to the IRDA Code of Conduct which all agents are expected to adhere to. They may have an internal process in place where corrective action is taken against any erring insurance agent. An insurance agent who breaches internal company guidelines or is held for any misconduct in a manner that can be detrimental for the insurance company can be penalised. Once the insurance company has analysed the complaint or issue of misconduct by an insurance agent then, if appropriate, disciplinary action should be taken.

In certain cases further enquiries on the matter and remedial action may be required. In these situations an insurance company may take following the steps:

Revamping internal systems and procedures	Insurers need to create a framework which promotes ethics within their organisation and generally have a checklist of 'do's and don'ts' for the ethical conduct of insurance agents. To improve future standards of ethical behaviour, remedial action should include reviewing and rewriting ethical behaviour guidelines and checklists and amending internal systems and procedures.
Disciplinary action against the offenders	Withholding incentives either permanently or for a specific period, demotion, suspension or permanent dismissal are some of the disciplinary actions that can be taken by a company against an unethical or erring insurance agent.

Question 15.2 ?

List some typical examples of good ethical behaviour.

H Code of Conduct prescribed by the IRDA

The IRDA (Licensing of Insurance Agents) Regulations, 2000 prescribes a Code of Conduct for insurance agents. Every person holding a licence shall adhere to the Code of Conduct as mentioned in the regulations.

Chapter 15

The Code of Conduct is specified below:

(i) Every insurance agent shall:
- (a) identify himself and the insurance company of whom he is an insurance agent;
- (b) disclose his licence to the prospect on demand;
- (c) disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;
- (d) disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;
- (e) indicate the premium to be charged by the insurer for the insurance product offered for sale;
- (f) explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;
- (g) bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called 'Insurance Agent's Confidential Report') along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;
- (h) inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;
- (i) obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;
- (j) render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;
- (k) advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary;

(ii) No insurance agent shall:
- (a) solicit or procure insurance business without holding a valid licence;
- (b) induce the prospect to omit any material information in the proposal form;
- (c) induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;
- (d) behave in a discourteous manner with the prospect;
- (e) interfere with any proposal introduced by any other insurance agent;
- (f) offer different rates, advantages, terms and conditions other than those offered by his insurer;
- (g) demand or receive a share of proceeds from the beneficiary under an insurance contract;
- (h) force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;
- (i) have, in case of a corporate agent, a portfolio of insurance business under which the premium is in excess of fifty percent of total premium procured, in any year, from one person (who is not an individual) or one organisation or one group of organisations;
- (j) apply for fresh licence to act as an insurance agent, if his licence was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation;
- (k) become or remain a director of any insurance company;

(iii) Every insurance agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing.

H1 Non-adherence to the Code of Conduct

Every person holding an insurance agent licence shall adhere to the Code of Conduct as mentioned in the Regulations. Section 42 (4) (g) of the Insurance Act 1938 states that any violation of the Code of Conduct as may be specified by the Regulations made by the Authority, may lead to the disqualification of the agent.

Section 42 (4) (c) states that if an agent has been found guilty of criminal misappropriation, criminal breach of trust, cheating, forgery or an abetment of or attempt to commit any such offence by a court of competent jurisdiction, then it may lead to disqualification.

Apart from the above causes that may lead to disqualification of the agent by the Authority, if an insurance company finds any agent guilty of any wrongdoing or misconduct which is detrimental to the interests of the insurance company or its policyholders, then the company may initiate internal proceedings against the insurance agent (as discussed earlier in section G2 of this chapter).

Key points

The main ideas covered by this chapter can be summarised as follows:

What do we mean by ethics?

Ethics can be defined as:

- those values we commonly hold to be 'good' and 'right;
- behaviour that is based upon the moral judgements of an individual; and
- a study of what makes one's actions right or wrong.

The dangers of unethical behaviour

- Unethical practices result in creating a negative image for an insurance agent and also the company which he represents.

The business benefits of ethics

- Good ethical practices followed by a company help to create goodwill and a positive image for the company.
- An insurance company that follows a high standard of ethical practices can lead by example for other companies to follow.

Typical ethical behaviours

Typical ethical behaviours include the following:

- Recommending a suitable needs-based insurance policy to the client.
- Fully explaining the product benefits, including the conditions that have to be met for the policy benefits to be received, as well as any exclusions that may apply.
- Recommending an adequate sum insured amount.
- Recommending an appropriate method of payment based on the client's needs.
- Explaining the terms and conditions as per the client's needs.

Ethical frameworks including ethical codes

- Ethical codes are defined to establish standards of conduct and accountability among employees and board members with regards to their conduct.
- Insurance companies can define their own standard ethical code which is unique to their company, or they can borrow industry-specific codes.
- Ethics need to be embedded within the company, which means that ethics are practised at all levels of a business coherently and consistently between situations.

The underpinning professional responsibilities

The IRDA and LIC objectives are to:

- protect the interest of policyholders;
- promote the growth of the insurance industry;
- establish, enforce and monitor the highest standards of ethical responsibility among insurers and their agents; and
- regulate the insurance industry and ensure that all the transactions in the insurance sector are fair towards policyholders.

Evaluation, monitoring and discipline

- The process of evaluation and monitoring of ethical practices of insurers can be done by analysing data regarding the number of complaints registered against a company's products and services such as premium collection and claims settlement.
- To improve adherence to ethical standards and the Code of Conduct an insurance company may revamp internal systems and procedures and also take penal action against offenders.

IRDA Code of conduct

- The IRDA prescribes a Code of Conduct for insurance agents which every person holding a life insurance licence must adhere to. Failure to do so can lead to disqualification.