

Insurance Marketing: Waxing and Waning of Values

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This is a paper based on empirical investigation conducted in Western India at a time when the Indian economy is in a stage of transition from state capitalism to free market capitalism during the period 2004-2007. It takes the 7 Ps of services marketing and cross verifies responses against seven dimensions of ethical conduct. The target respondents were life insurance employees of bancassurance involved in marketing life insurance policies to customers in the urban sector. The commissions were more important than telling the truth while selling policies. Ethical considerations were lost. To protect the interest of the unsuspecting clients, governance machinery making the insurance marketing personnel accountable for marketing is required. In such circumstances ethical norms on the part of the insurer are essential. In Indian life insurance industry, in order to sustain its social image in a highly competitive market where even foreign players are steadily entering the domestic scene, people management expertise is inevitable.

In a developing country like India which is making a gradual and often spasmodic transition from being a state capitalist economy to a free market economy albeit

both of retarded variety, the absence of a social security network is glaring. Rising unemployment rates and the disintegration of the joint family system have made working people even more vulnerable to the ravages of economic exploitation. The poor quality of living conditions and health support systems prevailing in the lower order of civil society makes insurance a highly desirable option for the well-being of the dependent members of the urban family.



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It is clear that whoever is dealing in insurance sector must realize that people of India have strong fascination for savings. The Savings Function has traditionally been stronger than the Investment Function demonstrating the feudal-mercantilist mindset of people in rural India. Without a state security cover, people would like savings to be linked with risk coverage and therefore insurance has a very important and a powerful attraction for the people. This is the point which we would like to emphasize that public sector insurance companies and, specially the LIC, have proved that doing business in rural India is profitable business,

and therefore, do not confine their activities to the urban India only.

Under such conditions it is almost vituperative to find that a life insurance policy is being sold on the basis of half truths and the insurer is often at sea about what vicissitudes of nature he can be protected against and what he cannot. The absence a proper countervailing tendency that can act as a governance mechanism to prevent the life insurance marketing agents from taking the unsuspecting client up the garden path only to be dumped when the need arises is also visible.

However, in this paper we have concentrated only on bankassurance channels for life insurance since the executives in this channel are paid staff and not commissioned based operatives. So the need for them to be at least more ethical than the commission based part time agents is accentuated. From an initial survey prior to this study, we found that it becomes more important for the sales team to get their bonus than it is for them to play fair. The brand name of the company can go to blazes for all they care as long as their coffers are well lined. This was the general impression of the two authors who independently worked on this problem from 2004 onwards only to get together in 2007, compare their notes and produce this paper. A literature survey was undertaken and the principal works are cited at the end of the paper.

Methodology and Sample

Data after pilot study was collected in three stages. Firstly we examined responses from middle management. Then we validated this through interviews with senior management personnel in the life insurance industry. Finally we administered another questionnaire and sought senior management response regarding attitudes towards ethical dimensions. We took the 7 Ps of services marketing and took 7 dimensions of ethical conduct against which data was collected.

The ensuing discussion has focussed on the plight of the not adequately informed client and thereby to highlight some of the more significant ethical issues in the financial services marketing mix. In particular, it is generally argued that the combination of certain structural features in the

market for savings and investments products and gaps in the regulatory regime suggest that there is potential for ethical abuses in the marketing of savings and investment products. Public interest is sacrificed at the altar of personal gain. While there is a considerable amount of anecdotal evidence on the nature of this problem from a consumer perspective, little is known about industry views on the extent to which ethical problems arise in marketing of life insurance policies. The life insurance industry, which constitutes one of the major suppliers of savings and investments products, was selected as an appropriate environment for an examination of managerial perceptions of the extent to which ethically questionable practices are employed in marketing. Data for the study was collected by means of a postal questionnaire distributed on strict conditions of anonymity to *middle management* in Indian insurance companies in September 2006. The names and addresses of respondents were drawn from the database generated with the help of management students who undertook their summer projects in these companies during the academic year 2004-05. The questionnaire sought to collect factual information on the importance attached to ethics within the respondent's immediate company along with attitudinal data concerning perceptions of the ethical behaviour of insurance companies. In particular, respondents were asked how frequently they thought their company engaged in a series of marketing activities which have a significant ethical dimension.

A first draft of the questionnaire was pilot tested on 30 insurance industry specialists and the final form of the questionnaire was distributed to 500 named individuals, who are middle management employees of the leading life insurance companies in western India. Managerial functional categories were those given in the table below. A total of 118 useable responses were received representing a response rate of 23.6 percent. A breakdown of the personal characteristics of respondents has been provided in Table 1.

As any research scholar knows every questionnaire needs to be tested for reliability before being administered. This was done and continuously monitored as depicted in the table given below. Accordingly, Table 2 details the descriptive statistics of the responses gathered from 118

Table 1: Occupation and Characteristic of Respondents

Occupation	Number	Characteristic	No. of Respondents
1. Marketing/sales	40	Male (n)	101
2. Accounting/finance	16	Female (n)	17
3. Planning/strategy	8	Insurance Qualification	92
4. Actuarial	13	Average Age	29.7 years
5. Operational Staff	26	Average years in Insurance	4.3 years
6. General management	15	Average time with company	0.8333 years

Table 2: Descriptive Statistics and Extraction of Principal Component

Scale/Item	Measurement	Principal Component	Mean	Std. Dev.	Alpha
PRODUCT RELATED ISSUES	Mean of items		2.930	3.476	0.891
Delay in making payment of valid claims	1 = Always Do ...	0.840	3.008	1.146	n.a.
Not complying with codes of practice	5 = Never Do ...	0.794	2.771	0.960	n.a.
Use small print clauses to camouflage the truth	1 ... 5	0.666	3.127	1.005	n.a.
Not inform customers about insurance ombudsman	1 ... 5	0.732	2.813	0.873	n.a.
PRICING RELATED ISSUES	Mean of items		2.890	1.927	0.796
Quote higher premiums than necessary to meet targets	1 ... 5	0.836	3.008	1.146	n.a.
Do not interpret commission structures to agents to avoid product bias	1 ... 5	0.836	2.771	0.960	n.a.
PROMOTION RELATED ISSUES	Mean of items		3.486	1.382	0.702
Promote inappropriate and supplementary products	1 ... 5	0.644	3.678	0.662	n.a.
Not inform public fully about privacy or security problems	1 ... 5	0.795	3.551	0.497	n.a.
Use misleading information about competitors or make negative publicity about them.	1 ... 5	0.493	3.229	0.574	n.a.
PLACE RELATED ISSUES	Mean of items		2.085	0.816	0.742
Use deceptive marketing by camouflaging the truth and using ambiguous language.	1 ... 5	0.805	1.975	0.512	n.a.
Offer unauthorized gifts to prospective customers and other people who you feel can influence decisions.	1 ... 5	0.805	2.195	0.396	n.a.
PEOPLE RELATED ISSUES	Mean of items		2.008	1.782	0.708
The Insurance Company does not take adequate pains to train the field sales executives about the product and the process.	1 ... 5	0.872	1.992	0.529	n.a.
The field sales executives are not knowledgeable about the product to be marketed and process involved.	1 ... 5	0.738	2.220	0.414	n.a.
Not provide adequate training for sales staff	1 ... 5	0.880	1.805	0.556	n.a.
Not being transparent in rewards and recognitions	1 ... 5	0.872	1.992	0.529	n.a.
Company policies not clearly communicated to those on the field.	1 ... 5	0.463	2.034	0.581	n.a.

PHYSICAL PRESENCE ISSUES	Mean of items		2.106	0.852	0.757
Branches are opened not for customer service convenience but for penetrating the market.	1 ... 5	0.814	1.992	0.529	n.a.
Overlook the serviceable locations criteria for want of high premiums	1 ... 5	0.814	2.220	0.414	n.a.
PROCESS RELATED ISSUES	Mean of items		1.959	2.128	0.670
You always blame the bureaucracy and/or systems for late deliverables.	1 ... 5	0.820	1.814	0.552	n.a.
The process flow is either not communicated to those operating down the line or there is a lot of ambiguity in it.	1 ... 5	0.507	2.017	0.520	n.a.
Long term policies are sold as short to medium term policies by misinforming potential customers	1 ... 5	0.766	1.924	0.507	n.a.
Customers are kept in the dark about charges related to disclosures when physically selling these policies.	1 ... 5	0.839	2.008	0.529	n.a.
The correct combination of insurance and investment in life insurance policy is never disclosed to customers.	1 ... 5	0.377	2.076	0.435	n.a.
The correct combination of fund allocation with respect to investor's age is not discussed in order to lure customers.	1 ... 5	<u>0.966</u>	1.932	0.578	n.a.
ULIP regular premium plans are sold as savings account, home loans, single premium plans and mutual funds.	1 ... 5	<u>0.966</u>	1.941	0.541	n.a.

respondents. It is generally understood that the value of Cronbach Alpha above 0.65 makes the questionnaire reliable for the survey of such type. Since, the authors were interested in studying the correlation between principal components of items/scale with the occupation of the respondents, the extraction of such principal components has been presented in the Table 2.

Next we took up principal component analysis against the findings of the 7 Ps of services marketing enumerated in the table above. The descriptive statistics merely reveals that ethical violations are the norm. We then extracted the principal components to study the correlation with respect to occupations of the respondents which are being

detailed below. Accordingly, for the study of correlation following components were considered:

Having taken into consideration the most prevalent ethical violations we correlated them with respect to occupation. We found that the correlation between item D and item E of Table 3 was highly and positively correlated. That means correct combination of fund allocation with respect to investor's age is not discussed in order to lure customers much the same way in which as ULIP regular premium plans are sold as savings account, home loans, single premium plans and mutual funds, simply to fulfil the targets of the company. This essentially highlights the fact that unethical practices are plentifully involved in marketing of life insurance in India.

Table 3: Principal Components Item-wise

A	Delay in making payment of valid claims
B	Not inform public fully about privacy or security problems
C	Not provide adequate training for sales staff
D	The correct combination of fund allocation with respect to investor's age is not discussed in order to lure customers.
E	ULIP regular premium plans are sold as savings account, home loans, single premium plans and mutual funds.

Table 4: Correlations

		A	B	C	D	E	Occupation
A	Pearson Correlation	1	.051	.003	.103	.083	-.016
	Sig. (2-tailed)	.	.581	.978	.266	.373	.864
	N	118	118	118	118	118	118
B	Pearson Correlation	.051	1	-.010	.041	.058	-.059
	Sig. (2-tailed)	.581	.	.913	.656	.530	.525
	N	118	118	118	118	118	118
C	Pearson Correlation	.003	-.010	1	-.173	-.123	-.053
	Sig. (2-tailed)	.978	.913	.	.061	.185	.567
	N	118	118	118	118	118	118
D	Pearson Correlation	.103	.041	-.173	1	.935(**)	-.094
	Sig. (2-tailed)	.266	.656	.061	.	.000	.313
	N	118	118	118	118	118	118
E	Pearson Correlation	.083	.058	-.123	.935(**)	1	-.084
	Sig. (2-tailed)	.373	.530	.185	.000	.	.363
	N	118	118	118	118	118	118
Occupation	Pearson Correlation	-.016	-.059	-.053	-.094	-.084	1
	Sig. (2-tailed)	.864	.525	.567	.313	.363	.
	N	118	118	118	118	118	118

** Correlation is significant at the 0.01 level (2-tailed).

Also, 89 percent of respondents indicated that their company had a formal statement of its ethical stance and over half (52 percent) indicated that the company's mission statement included reference to ethical practices and behaviour. However, we were surprised that not a single respondent could tell us what the ethical stance was! This goes to indicate that at the point of sale, in the life insurance industry, ethics does not feature high in the individual's preferential calculus. We followed an analysis of the questionnaire with a one-to-one interaction with 20 respondents from senior management cadres, who were *not* the strategic decision makers. This statistic works out to 16.67 percent of the total questionnaire responses. Care was taken to choose these 20 respondents (albeit randomly) but from those not included in filing the questionnaire. This was to enable us to reinforce our findings which we did.

In the process, we continued to unravel the reason for such unethical marketing practices prevalent in life insurance segment in western India. When we asked how was it that they could not tell us the ethical stance or policy, we did not get a satisfactorily reply. The following table indicates the means or methods of communicating ethical practices employed by life insurance companies towards their employees who go and sell their products. This data was deduced directly from the administered questionnaire.

Insights gleaned from examining middle management and senior management responses confirmed two things: (a) The respondents were involved in gross ethical violations in their day to day working and (b) they were either unaware of or did not bother to remember what the company's stance on ethics was.

Table 5: Percolation of Policies

Method of Communication	Number Citing
Short training courses	39
Company newsletters	11
Staff briefings	9
Via line managers	13
Not at all	46
Total in Sample	118

Table 6: Descriptive Statistics of Strategic Decision Makers

	Mean	Std. Deviation	N
1. Honesty	1.9746	.51411	118
2. Carefulness	3.0085	1.15096	118
3. Openness	3.5508	.49953	118
4. Freedom	1.9915	.53102	118
5. Education	1.9322	.58073	118
6. Opportunity	3.2288	.57603	118
7. Respect for Subjects	2.2203	.41624	118

Coming to the question of nailing down the precise ethical norms set by these companies we interviewed the HR Managers of these companies and in the process the following generalised definitions emerged. These give us some insight on how the strategic decision maker thinks and what (subjective) values he attaches to these norms.

- (1) Honesty – Employees must not fabricate, falsify, or misrepresent data, or results of past or expected future performance benchmarks. They should be objective, unbiased, and truthful in passing the information to the stakeholders and customers.
- (2) Carefulness – It means avoiding errors, especially while presenting result or projections.
- (3) Openness – It means sharing data, results, methods, ideas, techniques, and tools to allow the review of analysis and be ready for criticism and new ideas.
- (4) Freedom – Free to conduct the research on any

problem or hypothesis so that new ideas may freely flow to criticise the older ones.

- (5) Education – Employees orientation must be customer minded so that they may educate the customer and train their subordinates about the science of insurance.
- (6) Opportunity – Employees must not unfairly deny to themselves the opportunity to use resources or advances in the profession of insurance.
- (7) Respect for Subjects – When in the business of insurance, the employees must respect the concept of insurance in *so far as* the customer should fairly benefit.

The scale of the investigation was again kept Likert [1 = Always Do ... 5 = Never Do]. High values of standard deviation for Carefulness was undesirable, however, the remarks on account of Honesty, Freedom, and Education were not seen in line with the responses from the middle managers as found to be claimed by the HR Manager

representing strategic decision makers. Also, the mean on account of Openness was not found to be satisfactory.

Conclusion

Based on this investigative study it is found that the Indian customer is being short changed by the life insurance executives (paid employees). This is because for them incentives and bonuses have a higher value premium than ethical conduct of business. What is worse is that senior management in the industry seems oblivious of this fact. This paints a bleak picture of the industry and exposes the underbelly of peripheral capitalism of a retarded variety.

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