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   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

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AN EVALUATION OF ETHICS IN INSURANCE SECTOR

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ABSTRACT

The financial services sector has an increasingly difficult task balancing the demands of a lengthening list of 'stakeholders' – shareholders, the community, investors and pressure groups. So, it is not surprising that the sector is subjected to so much public scrutiny. A firm that demonstrates a good standard of ethical behavior can generate loyalty internally. Furthermore, promulgation of that stance throughout its business dealings can significantly raise staff awareness of ethical issues, which in turn can lead to early identification of problems and have cost and reputation savings for the firm.

KEYWORDS

Ethics, Loyalty, Stakeholders, Pressure group, Promulgations.

INTRODUCTION

Financial services are the economic services provided by the finance industry, which encompasses a broad range of organizations that manage money, including credit unions, banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

The term "financial services" in a broad sense means " mobilizing and allocating savings". Thus, it includes all activities involved in transformation of savings into investment.

The financial service can also be called financial intermediation. It is a process by which funds are mobilized from a large number of savers and make them available to all those who are in need of it and particularly to corporate customers. Thus financial sector is the key area and it is very vital for industrial developments. A well developed financial service industry is absolutely necessary to mobilize the savings and to allocate them to various investable channels and thereby promoting the national industrial development. Financial service industry can be traditionally divided into Capital market and money Market Intermediaries.

The term "financial services" became more prevalent in the United States partly as a result of the Gramm-Leach-Bliley Act of the late 1990s, which enabled different types of companies operating in the U.S. financial services industry at that time to merge. Companies usually have two distinct approaches to this new type of business. One approach would be a bank which simply buys an insurance company or an investment bank, keeps the original brands of the acquired firm, and adds the acquisition to its holding company simply to diversify its earnings. In the other style, a bank would simply create its own brokerage division or insurance division and attempt to sell those products to its own existing customers, with incentives for combining all things with one company.

The primary operations of banks include: Keeping money safe while also allowing withdrawals when needed, Issuance of checkbooks, payments, Provide personal loans, commercial loans, and mortgage loans, Issuance of credit cards, processing of credit card transactions and billing, debit cards, Automatic Teller Machines (ATMs), Electronic fund transfers, Standing orders and direct debits, overdraft, Provide internet banking system, Deposits of customer and the credit facilities to them. Other types of bank services that includes Private banking, high net worth individuals. Capital market bank - for underwrite debt and equity, assist company deals (advisory services, underwriting and advisory fees), and restructure debt into structured finance products. Bank cards - include both credit cards and debit cards. Credit card machine services and networks - Companies which provide credit card machine and payment networks call themselves "merchant card providers". Foreign exchange services including Currency exchange, Foreign Currency Banking, Wire transfer, Investment services.

Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the case of a financial or personal loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated. Other financial services Intermediation or advisory services - These services involve stock brokers or private client services and discount brokers. Stock brokers assist investors in buying or selling shares. Primarily internet-based companies are often referred to as discount brokerages, although many now have branch offices to assist clients.

Debt resolution is a consumer service that assists individuals that have too much debt to pay off as requested, but do not want to file bankruptcy and wish to pay off their debts owed. This debt can be accrued in various ways including but not limited to personal loans, credit cards or in some cases merchant accounts. There are many services/companies that can assist with this.

FINANCIAL SERVICES OPPORTUNITIES

Franchise Opportunity: From business ideas to inception, entrepreneurs need a financial management advisor to help get their business in financial order. With these financial service opportunities for sale, One can make money servicing small business loans, grants, cash flow statements, and other services to small business owners and start own financial service business today.

Growth Opportunity: Emerging markets around the world offer considerable opportunities for banks, insurance companies, and fund managers to increase their global market share. According to International Monetary Fund estimates, the economies of such countries "… are expected to grow two to three times faster than developed nations like the U.S.

While many emerging markets are still addressing poverty, their higher-than-average economic growth rates are fueling the emergence of an educated middle class that aspires to achieve a more affluent lifestyle in which traditional depository, credit, insurance, and investment products play an important role. The expansion of this middle class is expanding global demand for financial services from established providers and could represent a new opportunity for financial services companies looking for growth.

To help financial services companies around the world better understand and assess the opportunities, challenges, and risks that emerging markets present, the Deloitte Center for Financial Services presented a global research project that focuses on six countries in the Asia-Pacific region: China, India, Indonesia, Malaysia, Thailand, and Vietnam.

Post Retail Distribution Review Opportunity: Commission payments to financial advisers will be abolished under new rules that came into effect at the end of 2012. The rules also require financial advisers to hold qualifications equivalent to the first year of a degree course rather than A' level equivalents. They are part of the Financial Services Authority (FSA) Retail Distribution Review (RDR) reforms, which could be an opportunity for financial service providers to build more direct relationships with their customers and prospects.

The FSA hopes that the RDR will promote openness in a part of the financial services sector that for some consumers is shrouded in mystery. This is all the more important given the pivotal role it will have in ensuring that UK adults responsibly provide for themselves in later life through pension and savings investments products – products often sold via an independent financial adviser (IFA).

Impact of RDR reforms in brief: Under the RDR reforms, the consumer will pay the IFA's fee, not the investment product provider – around a quarter of IFAs were still being paid commission this year. Peers in the House of Lords are among the critics of this particular reform, arguing that it will lead to a wider advice gap that could leave poorer consumers without access to financial advice.

It is thought that the level of fees chargeable for many investment requirements (circa £500 for an initial fee) will discourage IFAs to service some of their less affluent investors and/or for these investors to feel that the advice is not worthwhile if they can invest in different ways, for example online.

The RDR requirement for IFAs to have higher qualifications could see an estimated 15-20% of IFAs exit the industry as they lose a revenue stream and/or decide not to sit additional exams in return for reduced commissions. While this may not be great news for either IFAs or 'lower level' investors who are quite possibly going to become 'orphaned', there is an opportunity for investment firms to build direct relationships with their customers of all levels; both current and future.

RDR is of course not something which has appeared as a surprise; in June 2006 the FSA created the program. . As a result, financial institutions have been planning for life in the RDR world. Predicting the effect of this change and how to deal with it though has been difficult, particularly at a time of great change in the financial services sector.

The investor/IFA relationship will not disappear completely, and new technology solutions such as web-based aggregator platform swill support both investors and advisers.

Opportunities for direct relationships with consumers: Then there is 'direct'. What is the case for building direct relationships between consumers and financial providers, even though those same consumers have not previously needed to engage with what has been seen by some as an 'intimidating' sector?

In short, it is growing. Building on both the requirement to communicate as is legally required (with for example statements), but also to help build trust and understanding around what is available from these organizations and how they can help 'look after' their investors – be they now 'orphaned' or still have the luxury of access to an IFA.

A partnership opportunity for the DMA: This is where the DMA can support those investment firms who either already uses 'direct' or are considering doing so, in order to build a supportive, direct relationship with their customers and prospects.

The resources available to an organization through DMA membership mean that there is a huge amount of experience available to help support brands in building direct relationships using a multitude of approaches, communications channels and creative messages; all designed to engender loyalty and proactive, ongoing relationships that show a return on their cost of implementation and management.

In hand with the networking opportunities that are available with peers and the extremely important work that the DMA drives to support the direct marketing sector in government, the opportunities that the DMA offers to support a 'direct' strategy are many.

With some research showing that as few as 12% of investors even know that RDR is here, there is an opportunity to build a direct relationship with investors and so help support and educate consumers on the benefits of investing responsibly for their own futures.

CHALLENGE FACING THE FINANCIAL SERVICE SECTOR

The finance service sector has to face many challenges in its attempt to fulfill the growing financial demands of the economy. Some are listed below

1. Lack of Qualified Personnel: Te Financial service sector is fully geared to the task of financial creativity. However this sector this sector has to face many challenges. The qualified and trained personnel is an important impediment in its growth.

2. Lack of Investors awareness: The introduction of new financial products and instruments will be of no use unless the investors are aware of advantage and uses of use and innovative products and instruments.

3. Lack of transparency: The whole finance system is undergoing a phenomenal change in accordance with required national and global environments. It is high time that the sector should give their orthodox attitude of keeping in a highly secret manner

4. Lack of specialization: In Indian sense each intermediary seems to deal in different financial service lines without specializing in one or two areas. In other words, each intermediary is acting as a financial supermarket delivering so many financial products and intermediaries like Newton, Solomon Brothers etc.

5. Lack of recent data: Most of the intermediaries do not spend more on research. It is very vital that one should build up a proper database on the basis of which one could embark upon financial creativity.

6. Lack of efficient risk management system: With the opening of the economy to multinationals and the exposure of Indian companies to International competition, much importance is given to foreign portfolio flows. It involves the utilization of multi currency transaction which exposes the client exchange rate risk, interest rate risk and economic and political risk.

The above challenges are likely to increase in number with the growing requirements of the customers. Te financial services sector should rise up to the occasion to meet the challenges by adopting new instruments and innovative means of financing so that it could play a very dynamic role in the economy.

ETHICAL ISSUES IN THE FINANCIAL SERVICES SECTOR

Ethical issues in the financial services industry affect everyone, because even if you don't work in the field, you're a consumer of the services. Duska discussed five reasons why these misdeeds may happen.

1) Self-interest sometimes morphs into greed and selfishness, which is unchecked self-interest at the expense of someone else. This greed becomes a kind of accumulation fever.

2) Some people suffer from stunted moral development:

3) Some people equate moral behavior with legal behavior disregarding the fact that even though an action may not be illegal, it still may not be moral.

4) Professional duty can conflict with company demands.

5) Individual responsibility can wither under the demands of the client.

ETHICAL ISSUES IN INSURANCE

The central ethical issue in the insurance industry centers around money over customer support. Several facets differentiate those who see insurance as a vocation and those who view the profession as a means to a financial end. If an insurance agent enters into the profession without a strong ethical foundation he may quickly discover that people would rather not do business with him.

- **Issues of Honesty**

Honesty in the insurance industry plays a central role in continued success and growth. According to the Insurance Journal, a single dishonest act by an insurance agent can spell doom for his business career and taint his reputation for years to come. Insurance agents and agencies must look at the value of selling clients effective policies that may not net as large a return over selling them unnecessary coverage for short-term financial gains. An insurance agent must decide whether he wants to dishonestly chase the dollar or treat his clients with honesty and respect.

- **Personal Property**

An insurance agent must understand that he works to protect the assets and even the health of his clients. The health and well being of a client and the protection of his assets should play a central role in his thinking. An insurance agent who ignores the needs of his clients in favor of his own financial gain enters into an ethical conflict with the demands of his profession. Ignoring the needs of clients can manifest in the casual manner in which the agent deals with emergencies or the lack of timely processing of claims when the client suffers adverse effects to his livelihood.

- **Customer Versus Client**

An insurance agent in the business solely for monetary gain is nothing more than a mercenary according to the Insurance Journal. These individuals often look at those who purchase policies with them as customers--mere purchasers of goods and services. An ethical, professional insurance agent views policy purchasers as clients--someone who has entered into a support pact with them. Professional insurance agents have an ethical obligation to support clients in the client's time of need in accordance with the client's policy.

OTHER ETHICAL ISSUES ARE

- Insufficient legal authority to perform professional services in an ethical manner
- Failure to get adequate ethics training program
- Ignorance of code of ethics
- Complaints or disputes arising out of failure to provide correct and adequate information on insurance contracts
- Tendency of management to disregard actuarial judgment in making managerial decision
- Churning or inducing a policy owner to replace an existing policy with a new one with lower assumed interest rate
- Lack of internal ethics policy and/or effective compliance Officer
- Failure to do socially responsible investment
- Failure to provide products and services of the highest quality in the eyes of the consumer
- Failure to improve transparency of accounting by actuaries
- Misrepresenting or concealing limitations in sales force's abilities to provide services
- Failure to recommend products and services that meet consumers needs
- Lack of transparency of governance structure of insurance companies
- Failure to provide prompt, honest responses to customer inquiries and requests
- Being passive to socially responsible activities
- Offering rebate or soliciting incomplete sale by sales force
- Lack of necessary knowledge or skills by sales force
- Making disparaging remarks about competitors, their products, or their employees
- Unjust asset management such as preferential loan to the affiliated company, insider trading
- Excessive uses of business expenses
- Failure to provide products and services of the highest quality in the eyes of the customer Issue
- Failure to provide prompt, honest responses to customer inquiries and requests
- Making disparaging remarks about competitors, their products, or their employees or agent
- Misuse of proprietary information
- Misuse of sensitive information belonging to others
- Improper methods of gathering competitors' information
- False or misleading representation of products or services in marketing, advertising or sales efforts
- Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities
- Conflicts of interest involving business or financial relationships with customers, suppliers or competitors that influence, or appear to influence, one's ability to carry out his or her responsibilities
- Conflicts of interest involving the marketing of products and services competing with those of one's own company
- Conflicts of interest that involve working for a competitor, customer or supplier without approval
- Misuse of company assets/property
- Insider trading/other security trading problems
- Giving excessive gifts or entertainment
- Receiving excessive gifts or entertainment
- Offering or soliciting payments or contributions for the purpose of influencing customers or suppliers
- Offering or soliciting payments or contributions for the purpose of influencing government officials
- Offering or soliciting payments or contributions for the purpose of obtaining, giving or keeping business
- Offering or soliciting payments or contributions for the purpose of persuading employees of another company to fail to perform, or improperly perform, their duties
- Offering or soliciting payments or contributions for the purpose of influencing legislation or regulations.
- Inaccuracy of books, records or reports Issue 22 Abuse of expense accounts **
- Antitrust issues
- Relations with local communities
- Office/agency closings and layoffs
- Discrimination
- Drug and alcohol abuse
- Employee theft
- Lack of knowledge or skills to competently perform one's duties
- Failure to identify the customer's needs and recommend products and services that meet those needs
- Failure to be objective with others in one's business dealings
- Misrepresenting or concealing limitations in one's abilities to provide services

CONCLUSION

The competitors are likely to have engaged in illegal or unethical activity in order to be successful. In order to meet the smooth claims by the claimants, transparency must be maintained in such a manner that, there will be no unethical or illegal activity. IRDA must evolve such a mechanism which can regulate the insurance services more ethical and lawful in its operations. Insured must also be honest enough and should disclosed the matters in a crystal clear manner which helps the insurer to follow ethics in the matters of Insurance.

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