



ETHICAL ISSUES IN INSURANCE COMPANIES: PROBLEMS AND CHALLENGES FOR THE INSURANCE SECTOR IN INDIA

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ABSTRACT

The Indian economy is growing at a fast rate, and there are over a billion people living in the country. Researchers have been focusing on the insurance industry's ethical problems over the past decade. In today's society, ethics seems to have taken a back seat due to an increase in scams in public life. In this regard, the importance of this paper is even greater in the insurance industry, especially when huge financial transactions are involved. To emphasize the ethical issues in the insurance business. The problems and challenges were measured by SWOT analysis. In conclusion, this study provides how to overcome the problems and challenges faced by Insurance Industries in India.

Keywords: Problems, Challenges, Financial Transaction, Ethical, Insurance, SWOT.

INTRODUCTION

In India, insurance covers both public and private companies. The Constitution of India lists it in the Seventh Schedule as a Union List subject, which means that only the Central Government can legislate on it. Through private companies soliciting insurance and foreign direct investment, the insurance sector has undergone several phases. A 26% FDI limit was set on the insurance sector in 2000, which increased to 49% in 2014 and 74% in May 2021. The largest life insurance company in India, Life Insurance Corporation of India, has been monopolized since 2001. However, its market share is slowly slipping to private giants like HDFC Life, ICICI Prudential Life Insurance, General Insurance Corporation of India, and Exide Life Insurance.

OBJECTIVES OF THE STUDY

1. To examine ethical issues in Indian insurance companies
2. To discover the role of ethics in the insurance business

RESEARCH METHODOLOGY

The research methodology encompasses the secondary data. The data were collected from various magazines, Journals, Websites etc. SWOT analysis were applied in this study.

REVIEW OF LITERATURE

Oyo Sukarya (2018) The objectives of this research was to examine the factors that affect the financial performance of insurance companies in Indonesia, which was viewed for the profitability. Finding and contribution in this paper showed that leverage, equity and management competence index proved to have a significant positive influence on size, ownership and age and they proved to have a significant negative effect on retention ratio and underwriting risk negatively influenced insignificantly into financial performance (ROA).

Andres Cudiamat and Jay Stephen Siy (2017) The authors highlighted that the sustainability of the life insurance business is crucial for developing economies. The paper examined the influence of selected firm level, industry level and macro level factors on ROA (a measure of profitability) of Life Insurance Companies. The results show that most of the firm level factors affected ROA while industry level and macroeconomic factors have not much effect on it.

ETHICS

There is a great deal of importance to ethics in business. It examines what should be done in terms of morally appropriate behaviour and decisions. Human behaviour is shaped and moulded by ethics. According to Manuel G. Velasquez - 'Ethics' is the discipline that examines one's moral standard or moral standards of society. It asks how those standards apply to our life and whether these standards are reasonable or unreasonable — that is, whether these are supported by sound reason or poor one."

ETHICS IN BUSINESS

It is the responsibility of business ethics to determine social, cultural, legal, and other economic limitations, as well as to protect the interests of parties involved. In addition, it emphasizes social and moral values such as consumer protection, welfare, ethical business practices, and service to society. Fairness and honesty are expected in all business dealings. It is imperative that businesses follow these guidelines in order to avoid serious consequences. Businesses must conduct regular internal audits and quality control checks in order to maintain ethics. It is also important to note that ethics vary from company to company.

ETHICAL ISSUE IN INSURANCE BUSINESS

Business ethics can be divided into four categories: equity, rights, honesty, and corporate power. There are conflicting responsibilities between businesses and their employees, shareholders, customers, and society at large. The insurance business is currently experiencing a high level of market indiscipline. To increase their share of the market, operators in this market engage in a variety of unethical practices such as rate cutting and

thrashing basic facts policy holders should know. Instead of carrying risk, which is the primary objective, they are more concerned with getting a premium from the insured.

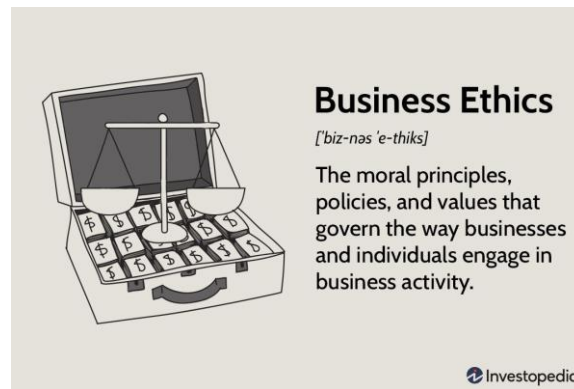


FIGURE – 1
Business Ethics

A study found that life insurance companies do not market their policies fairly and transparently. A key ethical issue portrayed by policyholders of both LIC and private sector is Product, People, and Promotion.

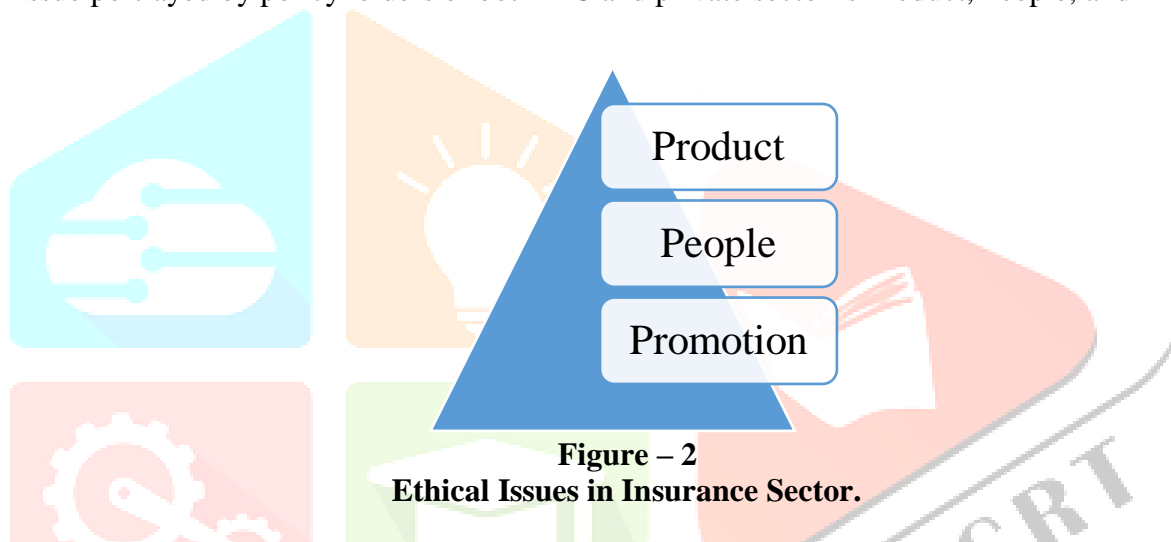


Figure – 2
Ethical Issues in Insurance Sector.

INSURANCE INDUSTRY SWOT ANALYSIS

An insurance industry SWOT analysis identifies strengths, weaknesses, opportunities, and threats within the external environment. In order to avoid threats, the insurance industry needs to capitalize on its strengths and work on its weaknesses. In the event of fraud, accident, loss, or death, the insurance industry provides financial protection to property, assets, business ventures, and lives of individuals. Money, wealth, and assets are the most important and essential elements for survival. In order to protect themselves from dangers and unexpected events, people are always looking for ways to protect themselves.

STRENGTHS OF INSURANCE INDUSTRIES OR SECTOR

The internal strengths of the insurance sector are New products, International Trade, Business Property and Financial Protection. The strengths are very vital part of every business.

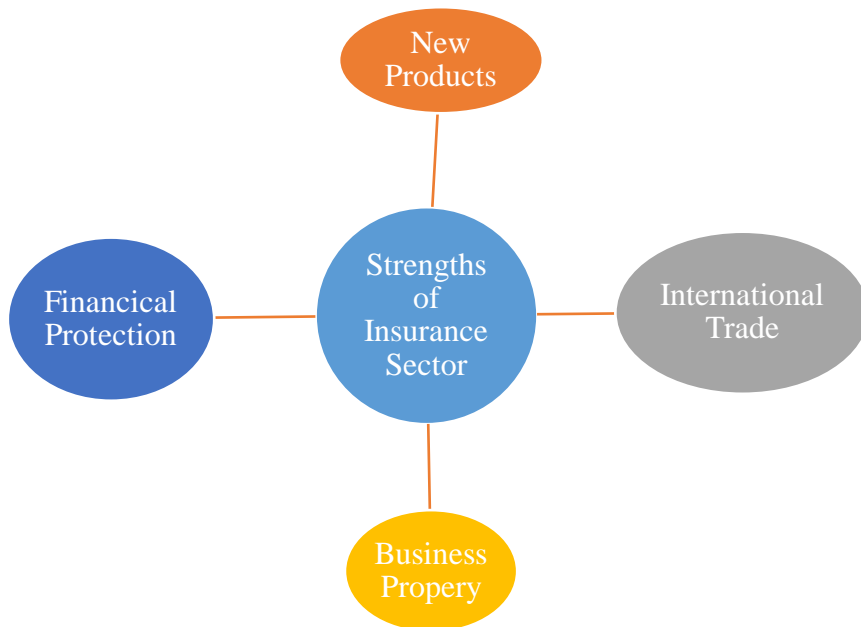


Figure – 3

Strengths of Insurance Sector

❖ NEW PRODUCTS

Every year, technology and industrialization collaborate and introduce new products or models. We know that new and expensive products require insurance for security and protection. As an example, Tesla's new electric vehicles also require insurance.

❖ INTERNATIONAL TRADE

If international trade stops for any reason like it did during the pandemic months, then the global economy would be in great jeopardy. People will have to start living a life without their favourite international products/services if the US government decides not to trade with other countries.

❖ BUSINESS PROPERTY

When you insure your business, then you are able to engage in all kinds of transactions and deals regardless of their size since the insurance will cover them in the event of an incident.

❖ FINANCIAL PROTECTION

In the uncertain world we live in, both good and horrible things can happen at any time to anyone, including people. People purchase insurance in order to protect their own interests as well as those of their families, businesses, and health. For instance, if a person dies in an accident and leaves behind his children, his business would fail due to poor management. A safe way to handle your financial obligations and concerns is through insurance.

INSURANCE INDUSTRY WEAKNESS

The insurance industry weakness as follows,



FIGURE – 5
INSURANCE INDUSTRY WEAKNESS

❖ Not Inclusive

The insurance industry's goal and ambition, like any other business, is to turn a profit. Insurance firms don't include sick people, the elderly, or fragile businesses in their plans. However, their insurance plan is highly expensive if they do offer services to such individuals.

❖ Threatening

Insurance policies might be risky, exactly as you may have seen in Hollywood movies where numerous lives are lost in order to obtain the insurance proceeds. Real-life events are dramatised by movies and television by exaggerating them. To obtain insurance money, people do in fact conduct crimes and perpetrate fraud.

As is well known, a large number of people have their financial interests protected by the insurance industry. Numerous criminal groups target the act of hiding out behind an insurance policy.

❖ Expensive

Different insurance providers provide various pricing. Typically, corporate and personal asset insurance products are highly expensive. The issue about businesses and enterprises is that as they develop over time, so does the need for an upgrade to their insurance coverage. Businesses and corporations eventually stop funding insurance companies.

❖ Fraud Cases

There is always someone smarter and a step ahead of you, no matter how safe and protective your insurance company is. The insurance sector is the one that is most vulnerable to fraud. However, insurance companies with little resources and little experience give regular individuals who purchase insurance plans a lot of troubles. Such dishonest activities generate a climate of mistrust in the marketplace. The general consensus is that having less money is preferable to having none at all.

INSURANCE INDUSTRY OPPORTUNITIES

The following are just a few of the outside opportunities that business has access to:



FIGURE – 6
INSURANCE INDUSTRY OPPORTUNITIES

❖ Digital Insurance

The elders were not technologically advanced. However, young individuals and factors of an organization are extremely concerned about encryption and data security. The great majority of enterprises today run their operations entirely digitally. Offering protection insurance for digital data is a fantastic potential for insurance companies.

❖ Targeting Individuals

Historically, a family's requirements were met by a single earner who also served as the head of the household. People are now confined to their homes and have limited mobility due of the pandemic. Now they conduct their online work from home. In order to secure and defend their tech and digital products, insurance companies might provide them with micro-insurance plans.

❖ DEVELOPING ECONOMIES

Many goods and enterprises in wealthy and industrialised nations have auto insurance. People purchase insurance policies as a result of the steady economic climate. However, in developing nations, insurance is a pricey luxury. People appreciate the idea of protecting their possessions, so it has a lot of growth potential there.

INSURANCE INDUSTRY THREATS

There are four vital threats in Insurance sector or Industry. The Insurance industry threats are

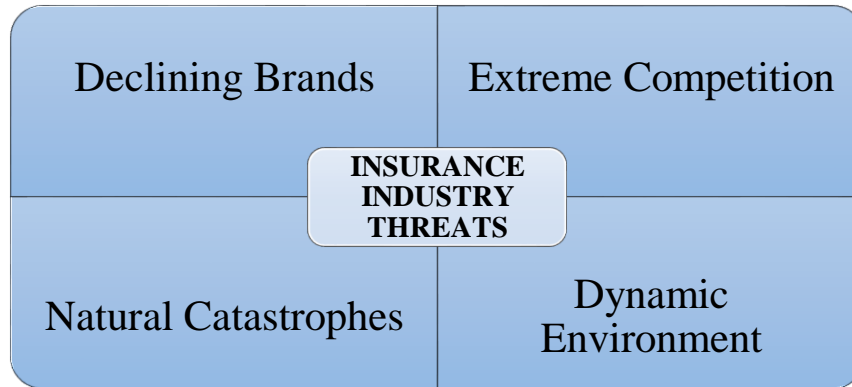


FIGURE – 7
INSURANCE INDUSTRY THREATS

❖ Declining Brands

Many new brands are arising in today's technologically advanced world, while more established brands and companies are becoming less relevant. It seriously puts at risk the reputation of insurance businesses, particularly if they are associated with products or services that are no longer available.

❖ Extreme Competition

Due to the abundance of insurance providers in the market today, the insurance sector has grown significantly in importance. It's challenging for them to set themselves apart from their rivals because they all essentially offer the same kinds of insurance coverage. First of all, it's challenging for them to draw in clients. Second, because customers would get insurance from another provider if they had a better deal, it is increasingly harder to keep them over time.

❖ Natural Catastrophes

Insurance firms are greatly threatened and in peril by natural catastrophes. Simply put, no one was prepared for the pandemic in 2020, yet it did occur and shut down every business in the entire planet. However, natural disasters cause damage that is significantly greater than what the business's insurance coverage covers. The insurance company's very existence can end as a result.

❖ Dynamic Environment

We currently occupy a rapidly developing technological environment. A new generation of business and lifestyle trends are emerging as a result of the technology sector's rapid development. As a result, insurance companies must adapt their policies and strategies to keep up with the rapid pace of technology and emerging trends. Customers are leaving them because they are struggling to keep up with the current pace.

CONCLUSION

This essay evaluated the development and expansion of India's insurance industry and identified the challenges that have impeded it. It has significantly changed and grown, going from being a public monopoly and a closed market to one that is open and competitive. The Indian insurance industry still needs to make significant improvements before it can be compared to the insurance sectors of other advanced economies, despite having implemented a wide range of reform measures. India's market share in terms of insurance is pathetically little. The fundamental issues must be resolved in order to increase its share globally.

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