

# Ethical Issues in Insurance Marketing in India: The Policy Holders' View

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## Abstract

Ethics is a central problem in financial services industry, especially in life insurance where customers are uncertain about the long-term benefits of the product. The life insurance industry in India is currently facing an image problem. The number of complaints pertaining to Unfair Business Practices is increasing rapidly year on year basis. Keeping this in mind, this study was carried out with the broad objective of examining the policyholders' view regarding ethical issues in insurance marketing in India. The specific objectives aimed at identifying major ethical issues in insurance marketing corresponding to 7Ps of service marketing, finding out which "Ps" of service marketing are contributing the most to unethical behavior of life insurance companies in India and comparing public life insurer i.e. LIC with private insurers on ethical standards. A questionnaire based survey was carried out on a total number of 95 customers within Delhi region. A non-probabilistic convenience sampling method was used. The customers were asked to rate 38 ethical issues on a 5 point Likert Scale. The study found out that life insurance companies are not fair and transparent while marketing their policies to customers. According to 7Ps of marketing, Product, People and Promotion issues are the key ethical issues portrayed by policyholders of both LIC and private sector. Further, the study also identified nine unethical factors as perceived by policyholders using factor analysis. These factors mainly focus on company's fairness and transparency, professionalism, promotion and marketing policies. The results of the data from the study infer that there are serious ethical lapses on part of life insurers and customers are not satisfied on the ethical standards of life insurance companies.

**Keywords:** Ethics, Insurance Marketing, Unfair Business Practices

## 1. Introduction

Life insurance cover is considered as a welfare instrument that protects a man from unforeseeable difficult times. It is one of the most important social security tools which reduces or eliminates risk of life. It further enables a common man in taking care of his obligations e.g. spending on higher education, marriage of his children and similar contingencies. It thus ensures desired peace of mind to the insured. Life insurance is a contract based on mutual trust between the two parties and is primarily built on principle of 'utmost good faith' wherein both the insured and the insurer are required to disclose all the relevant information to each other honestly.

The life insurance industry in India has undergone significant changes since liberalization and privatization. LIC was the only national player for almost four decades. Presently, there are 23 private life insurance companies operating in India along with the public sector giant LIC offering variety of products like insurance, annuity, pension and health care to the Indian masses. The opening up of life insurance sector for private players has changed the nature of competition and has led to increased customer awareness. Moreover, the life insurance business has grown from 2000 onwards in terms of new business policies, premium income, number of agents, number of offices etc. Various innovative products have been launched for the first time like ULIPS, pension plans etc., to cater to

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different requirements of Indian customers. New business channels of marketing have also been introduced like bancassurance as against the traditional channel of agents being widely used by LIC for marketing their products and services. The increased consumer awareness has made today's buyers more demanding about insurance products and services. Therefore, it becomes utmost significant for life insurance companies and their sales personnel to provide the right product to the customer after careful assessment of his needs and future contingencies. Besides being technically qualified and knowledgeable, it is important that they display ethical standards and behavior to protect the interests of their policyholders.

## 2. Research Objectives

### 2.1 Broad Objective

To examine the policyholders' view regarding ethical issues in insurance marketing in India.

### 2.2 Specific Objectives

- To identify major ethical issues in insurance marketing corresponding to 7Ps of service marketing.
- To find out which "Ps" of service marketing are contributing the most to unethical behavior of life insurance companies in India.
- To compare public life insurer i.e. LIC with private insurers on ethical standards.

## 3. Literature Review

### 3.1 Ethics in Insurance Marketing

Ethics as a study is primarily based on the philosophy of human conduct and is concerned with morality. The word "ethics" is derived from the Greek word "ethos" which means "custom". It also refers to an academic discipline, which studies and examines the customs, attitudes, values and rules by which people live. For marketers, ethics in the workplace refers to rules (standards, principles) governing the conduct of organizational members and the consequences of marketing decisions<sup>10,11</sup>. The term Marketing Ethics has been defined as 'the systematic study of how moral standards are applied to marketing decisions, behaviors and institutions'<sup>19</sup>.

Marketing Ethics is considered as a sub-specialization of business ethics. Marketing Ethics examines systematically marketing and marketing morality related to 4P issues such as unsafe products, deceptive pricing, deceptive advertising and discrimination in distribution<sup>25</sup>.

Marketing Ethics sets the guidelines for good marketing practices. For ethical and effective marketing, it is important that all marketing decisions and efforts are directed towards meeting the needs of customers, suppliers, business partners and all the stakeholders. Marketers need to understand the significance of ethics while conducting business activities and how to incorporate good ethics in various Ps of marketing so as to gain trust from the customers.

Customers while buying complex financial services such as insurance, often rely on information provided by sales persons. Moreover, they also lack the technical knowledge required for evaluating the quality of service provided. Insurance is regarded as a high credence service which is abstract, complex and is concerned about future benefits which are difficult to prove<sup>28</sup>. This is one of the primary reasons why insurance consumers would never understand what they have purchased. Ultimately, the consumers are at the mercy of ethical behavior portrayed by sales personnel<sup>21</sup>.

Moreover, customer loyalty is often considered as an important source of competitive edge, particularly in financial services industry. Financial service providers use relationship marketing strategy to maintain close customer relationships and retain them in long term, instead of having short-term goals<sup>18</sup>. It is important to have customer trust for building strong customer relationships, having a sustainable market share and securing customer loyalty. Since financial services are characterized as highly intangible, many consumers find it difficult to understand; even salespersons find it difficult to portray the future benefits of such services<sup>14</sup>. Therefore, the consumers often rely on advice and information provided by salesperson while buying financial services<sup>23</sup>. The salesperson has the opportunity to take advantage of customer's situation and thus, opportunity is one of the key influencers of ethical behavior than one's own personal beliefs<sup>12</sup>.

Customer trust in a salesperson occurs only when the customer 'has confidence in the salesperson's future performance because the level of past performance has been consistently satisfactory'<sup>27</sup>. It implies that trust is cumulative in nature that develops over a period of time with continuous and satisfactory interactions with the salesperson.

Although every organization lays down a code of conduct for salespersons and sets clear rules for them, yet there are multiple opportunities where ethics gets compromised by them. Firstly, salespersons usually work in unsupervised settings where the chances of ignoring the ethical norms of the organization are high<sup>8</sup>. Secondly, salespersons level of stress is quite high as they are primarily responsible for generating the firm's revenues, which influences them to engage in unethical behavior<sup>2</sup>. Moreover, salespersons usually get evaluated on the basis of short-term objectives, which further set the stage for dishonesty or exaggeration<sup>2</sup>. Both these situations imply the opportunity for salesperson to violate corporate ethics policies<sup>13</sup>.

Past research studies indicate that in selling of intangible services like insurance, it is difficult to distinguish between salesperson and the company from the perspective of the customer<sup>7</sup>. According to Holdon<sup>22</sup>, "salesperson's ethical behavior is positively related to both customer trusts in the salesperson and customer trust in the company" and any unethical behavior on the part of salesperson inhibits development of customer trust in both the company and salesperson. On the other hand, if salesperson's behavior is ethical, then it has an impact on the customer perceptions of the company and the company is also likely to be perceived as ethical by the customers.

Ethical behavior is often considered as situation specific and there is no universal accepted definition of business ethics. According to Chen and Mau<sup>3</sup>, there is no uniform standard measure that evaluates an individual or event as ethical or unethical. Defining ethical behavior against unethical behavior is based upon the extent to which an act is considered as right or wrong, fair or unfair, just or unjust<sup>24</sup>. Few examples of unethical behaviors include exaggerating the benefits of a product, lying about competition, selling products without the need analysis, giving answers when the answer is not known and using high-pressure selling techniques<sup>1,3</sup>.

### 3.2 Ethical Issues in Life Insurance Companies in India

Ethics is a central problem in financial services industry, especially in life insurance where customers are uncertain about the long-term benefits of the product. The insurance industry in India is currently facing an image problem. Hence, it is important for life insurers to understand the fact that ethics in marketing of insurance products is not

only a moral obligation but also important for long-term business sense.

The chart below shows classification of complaints against life insurers during the last three years 2011-12, 2012-13 and 2013-14. The number of complaints pertaining to Unfair Business Practices is increasing rapidly year on year basis.

Further, the proportion of complaints relating to unfair trade practices to total life complaints has increased from 32.56% in the year 2011-12 to 56.49% in the year 2013-14.

Some of the top Unfair Business Practice Complaints are Malpractices in the industry, Product differs from what was requested or disclosed, Tampering, forgery of proposal or related papers, Single premium policy issued as Annual premium policy, Misappropriations of premiums, Proposed insurance not in the interest of proposer etc.

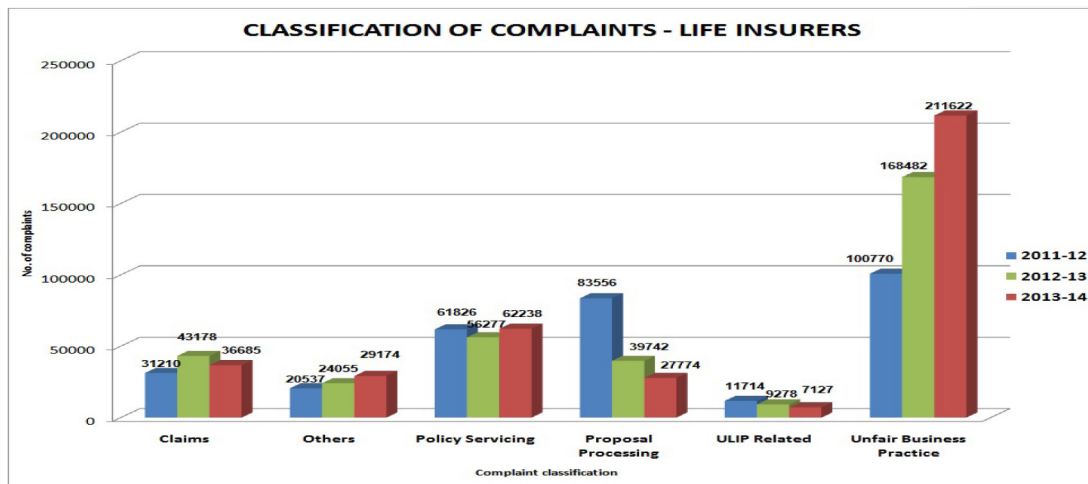
The biggest problem for any life insurance company is mis-selling of policies to the customers resulting in high lapsation of policies and high agent turnover. Being ethical might lead to a loss for the insurers in the short run, but ultimately helps them to win over customers, resulting in new business.

Halan, Sane and Thomas<sup>20</sup> conducted a study on estimating losses to customers due to mis-sold life insurance policies in India. They calculated losses with the help of two methods – first through value of lapsed policies and second through using the persistence of premium payments. Both these methods revealed estimated losses of around USD 28 billion during the period 2004-2011 which is quite alarming.

The recession in Indian economy has also manifested the issue of unfair business practices in life insurance sector as competitive pressures for salespersons to achieve their targets and responding ethically to challenges at work has increased drastically.

## 4. Methodology

The research involved both primary and secondary data along with use of pertinent literature<sup>6,14,19,24</sup> etc. The primary sources of information include policy holders of life insurance companies. A questionnaire based survey was carried out on a sample of 95 customers within Delhi region out of which 68 customers had purchased a life insurance policy from LIC and 27 customers had purchased policy from private life insurers. A non-probabilistic convenience sampling method was used. The



Source: IRDA website [www.irda.gov.in](http://www.irda.gov.in)

**Figure 1** Classification of complaints against life insurers during the years 2011-2014.  
**Source:** IRDA website [www.irda.gov.in](http://www.irda.gov.in)

customers were asked to rate 38 ethical issues on a 5 point Likert scale where 5 implied that they strongly agree it being a major ethical issue in the life insurance industry and 1 meant that it was not a major ethical issue. The secondary sources of information include books, research journals, and annual reports of IRDA, annual financial reports of life insurance companies, latest literature on Internet, newspaper articles and other relevant reports.

The questionnaire was designed keeping in mind 7Ps of service marketing i.e. Product, Price, Place, Promotion, People, Physical Evidence and Process and took 7 dimensions of ethical conduct against which data was collected. The 7 dimensions were further divided into 38 simple variables.

Cronbach Alpha was used to test the reliability of the questionnaire and the score was found to be reliable (Cronbach's Alpha 0.887>0.70). Statistical tools like mean, standard deviation, factor analysis were used in the research. After conducting factor analysis, 6 items (variables) were deleted which further improved the overall reliability (Cronbach's Alpha 0.910>0.70).

## 5. Findings and Analysis

### 5.1 Major Ethical Issues in Insurance Marketing

Table 1 shows the mean ratings of respondents on each of the 38 ethical issues in life insurance marketing in India.

As indicated in Table 1, eight issues received mean ratings greater than 3.50. These 8 issues were rated 4 or 5 by 60% or more of the respondents which implies that these are the key “Marketing Ethical Issues” portrayed by life insurance policyholders in India. In ascending order, the key ethical issues are:

- Issue 4 - Salesperson lies about competition in order to make a sale (People issue).
- Issue 6 - Salesperson overstates potential benefits of the insurance product (People issue).
- Issue 7 - The language regarding the policy, terms and conditions used in the documents is difficult to understand (Product issue).
- Issue 3 - Company intentionally keeps penalty clauses vague (Product issue).
- Issue 29 - Salesperson paints rosy pictures of the products to make them sound as good as possible. (People issue).
- Issue 18 - Company uses small print clauses to camouflage (hide) the truth (Product issue).
- Issue 1 - The insurance salesperson lies in order to make a sale (People issue).
- Issue 5 - Company does not inform customers about Insurance ombudsman (Insurance Regulatory Authority of India i.e. IRDA) (Product issue).

Out of these 8 Key Issues, 4 are characterized as “People Issues” and the other 4 being “Product Issues”.

**Table 1.** Ethical issues in life insurance marketing - mean indices of simple variables

| Scale/Item   | Mean | Std. Deviation |
|--|------|----------------|
| Issue 1 (p1) Salesperson lies in order to make a sale (People)   | 3.56 | 0.997          |
| Issue 2 (p2) Company's website exaggerates potential benefits (Promotion)  | 3.46 | 0.836          |
| Issue 3 (p3) Company intentionally keeps penalty clauses vague (Product)   | 3.67 | 0.893          |
| Issue 4 (p4) Salesperson lies about competition (People)   | 3.81 | 0.903          |
| Issue 5 (p5) Company does not inform customers about Insurance ombudsman (Insurance Regulatory Authority of India i.e. IRDA) (Product)                 | 3.54 | 1.06           |
| Issue 6 (p6) Salesperson overstates potential benefits of the insurance product (People)   | 3.74 | 0.925          |
| Issue 7 (p7) The language regarding the policy, terms and conditions is difficult to understand (Product)  | 3.68 | 1.055          |
| Issue 8 (p8) Salesperson tried to offer unauthorized gifts (Place)   | 2.63 | 1.092          |
| Issue 9 (p9) Salesperson uses false allegations against the competitors (People)   | 2.86 | 0.941          |
| Issue 10 (p10) Company regularly updates me with the necessary information (Process)   | 3.14 | 1.058          |
| Issue 11 (p11) Company's offerings are overemphasized in its prospectus/ brochure (Promotion)  | 3.42 | 0.766          |
| Issue 12 (p12) Company does not have branches or grievance redressal cell at multiple locations in case of any complaint (Physical Evidence)           | 2.95 | 1.066          |
| Issue 13 (p13) Salesperson applies sales pressure when he/she knows the product is not good for me (People)  | 3.17 | 0.907          |
| Issue 14 (p14) Salesperson misrepresents penalty clauses to influence buying decision (Product)  | 3.22 | 0.901          |
| Issue 15 (p15) Salesperson sells ULIP regular premium policy as savings account, home loans, single premium plans or mutual funds (Process)            | 3.27 | 0.961          |
| Issue 16 (p16) Salesperson has a clear understanding of specific insurance needs of their customers (People)   | 2.98 | 1.062          |
| Issue 17 (p17) Staff at the branch are co-operative in solving the customer queries/complaints for immediate resolution (Physical Evidence)            | 2.71 | 0.861          |
| Issue 18 (p18) Company uses small print clauses to camouflage (hide) the truth (Product)   | 3.58 | 0.974          |
| Issue 19 (p19) Company/salesperson does not disclose the correct combination of insurance and investment in life insurance policy (Process)            | 3.44 | 0.986          |
| Issue 20 (p20) Salesperson offers incentives to buy a new policy in return of cancelling the existing policy of the same insurance company (Process)   | 3.17 | 1.007          |
| Issue 21 (p21) Salesperson is knowledgeable about the product to be marketed and process involved (People)   | 2.84 | 0.903          |
| Issue 22 (p22) Company understates the policy withdrawal information (Product)   | 3.41 | 0.844          |
| Issue 23 (p23) Salesperson makes sure that the terms and conditions specified in the policy are clear and transparent at the time of issuance (People) | 3.18 | 0.989          |
| Issue 24 (p24) Salesperson quotes higher premiums than necessary to meet targets (Pricing)   | 3.23 | 0.844          |
| Issue 25 (p25) Company uses deceptive marketing by camouflaging the truth and using ambiguous language (Promotion)                                     | 3.39 | 0.854          |
| Issue 26 (p26) Company uses misleading information about competitors or makes negative publicity about them (Promotion)                                | 3.12 | 0.849          |
| Issue 27 (p27) Salesperson sells long term policies as short to medium term policies by misinforming customers to make short term gains (Process)      | 3.17 | 0.907          |
| Issue 28 (p28) Company does not update information about any modifications in policy terms and conditions (Product)                                    | 3.23 | 1.015          |
| Issue 29 (p29) Salesperson paints rosy pictures of the products to make them sound as good as possible (People)  | 3.59 | 0.973          |
| Issue 30 (p30) The product offered to me is different from what I requested or differs from my needs and expectations (Process)                        | 2.75 | 0.967          |

|                |  |            |              |
|----------------|--|------------|--------------|
| Issue 31 (p31) | Company extensively uses jargons in the policy documents (Product)   | 3.34       | 0.846        |
| Issue 32 (p32) | The premium paying term for my policy is same as what I requested for at the time of buying policy (Process)   | 2.35       | 0.92         |
| Issue 33 (p33) | The staff at the branch are knowledgeable enough about the products, features and solve the customer queries/complaints for immediate resolution (Physical Evidence) | 2.72       | 0.907        |
| Issue 34 (p34) | Company/salesperson makes offensive remarks about other companies' reputation (Promotion)  | 2.91       | 0.864        |
| Issue 35 (p35) | The premiums that I pay for my policy have never been misapplied (Process)   | 2.52       | 0.886        |
| Issue 36 (p36) | Company overstates potential benefits in Newspaper/magazine/TV ads (Promotion)   | 3.34       | 0.883        |
| Issue 37 (p37) | Company/salesperson promotes inappropriate and supplementary products (Promotion)  | 3.19       | 0.829        |
| Issue 38 (p38) | Company/salesperson provide misleading data about customer base of other companies (Promotion)   | 3.17       | 0.895        |
| <b>Average</b> |  | <b>3.2</b> | <b>0.932</b> |

## 5.2 Comparison of Public Insurer i.e. LIC with Private Life Insurers

Table 2 shows mean ratings of respondents of LIC and private life insurance sector separately on each of the 38 ethical issues on insurance marketing in India.

If we compare the survey findings of policyholders of LIC with private life insurance companies as given above in Table 2, the following ethical issues also emerged as key ethical issues in private life insurance sector in addition to the ones mentioned above (with mean ratings greater than 3.5):

- Issue 2 - Company's website exaggerates potential benefits (Promotion issue).
- Issue 11 - Company's offerings are overemphasized in its prospectus/brochure (Promotion issue).
- Issue 24 - Salesperson quotes higher premiums than necessary to meet targets (Pricing issue).
- Issue 25 - Company uses deceptive marketing by camouflaging the truth and using ambiguous language (Promotion issue).

## 5.3 Which "Ps" of Marketing Contributing the Most to Unethical Practices

According to 7Ps of marketing, Product, People and Promotion are the key ethical issues portrayed by policyholders of both LIC and private sector as shown below in Table 3.

However, policyholders of private insurance companies viewed 'Pricing' as major ethical issue followed by People, Product and Promotion.

## 5.4 Factor Analysis

Factor analysis is performed to identify factors i.e. unobserved variables that explain most of the variance within a set of observed variables. A Principal Component Analysis was performed on the survey data to identify and separate factors using SPSS statistical package. The initial analysis categorized the variables into 11 factors that explained 68.77% of the variance embedded in 38 variables. The Kaiser-Meyer-Olkin (KMO) statistic was 0.709 (>0.70) which is middling but still considered satisfactory. Variable specific MSA values on the diagonal of anti-image correlation matrix are above threshold value of 0.50 excluding variables p10, p16, p17, p32, p33 and p35. If these 6 items are excluded, the overall reliability of data improves from 0.887(38 items) to 0.910 (32 items). The Kaiser-Meyer-Olkin statistic also improves to 0.771 and variable specific MSA values on the diagonal of anti-image correlation matrix are above threshold value of 0.50 for all variables. Thus, factor analysis, after excluding six items, found 9 factors that explained 67.46% of the variance embedded in 32 variables (Table 4). Also the communalities of the variables that constituted factors are found to be comparatively high (Table 5).

The details of the factors identified are as below:

### 5.4.1 Factor 1: Fairness and Transparency

The first factor appeared to be the most critical factor that explained 14.00% of the variability. This factor contains 8 variables and most of them are related to fairness and transparency on the part of salesperson and company. The variables included in this factor are given below (the

**Table 2.** Mean Indices of Simple Variables of LIC and private life insurance sector

|                | Item Statistics Private Life Insurance |                |    | Item Statistics LIC |                |             |    |
|----------------|--|----------------|----|---------------------|----------------|-------------|----|
|                | Mean                                   | Std. Deviation | N  | Mean                | Std. Deviation | N           |    |
| p1             | 3.93                                   | .829           | 27 | p1                  | 3.41           | 1.026       | 68 |
| p2             | 3.63                                   | .884           | 27 | p2                  | 3.40           | .813        | 68 |
| p3             | 3.67                                   | .961           | 27 | p3                  | 3.68           | .871        | 68 |
| p4             | 3.89                                   | .847           | 27 | p4                  | 3.78           | .928        | 68 |
| p5             | 3.44                                   | 1.251          | 27 | p5                  | 3.57           | .982        | 68 |
| p6             | 3.78                                   | 1.013          | 27 | p6                  | 3.72           | .895        | 68 |
| p7             | 3.85                                   | 1.134          | 27 | p7                  | 3.62           | 1.023       | 68 |
| p8             | 2.19                                   | .921           | 27 | p8                  | 2.81           | 1.110       | 68 |
| p9             | 2.74                                   | .944           | 27 | p9                  | 2.91           | .942        | 68 |
| p10            | 2.89                                   | 1.121          | 27 | p10                 | 3.24           | 1.024       | 68 |
| p11            | 3.59                                   | .694           | 27 | p11                 | 3.35           | .787        | 68 |
| p12            | 2.96                                   | 1.255          | 27 | p12                 | 2.94           | .991        | 68 |
| p13            | 3.26                                   | .984           | 27 | p13                 | 3.13           | .879        | 68 |
| p14            | 3.37                                   | .967           | 27 | p14                 | 3.16           | .874        | 68 |
| p15            | 3.22                                   | 1.086          | 27 | p15                 | 3.29           | .915        | 68 |
| p16            | 3.26                                   | 1.095          | 27 | p16                 | 2.87           | 1.035       | 68 |
| p17            | 2.81                                   | 1.001          | 27 | p17                 | 2.66           | .803        | 68 |
| p18            | 3.67                                   | .920           | 27 | p18                 | 3.54           | .999        | 68 |
| p19            | 3.44                                   | 1.121          | 27 | p19                 | 3.44           | .937        | 68 |
| p20            | 3.11                                   | 1.086          | 27 | p20                 | 3.19           | .981        | 68 |
| p21            | 3.15                                   | .949           | 27 | p21                 | 2.72           | .861        | 68 |
| p22            | 3.22                                   | .974           | 27 | p22                 | 3.49           | .782        | 68 |
| p23            | 3.48                                   | .893           | 27 | p23                 | 3.06           | 1.006       | 68 |
| p24            | 3.52                                   | .893           | 27 | p24                 | 3.12           | .802        | 68 |
| p25            | 3.74                                   | .903           | 27 | p25                 | 3.25           | .799        | 68 |
| p26            | 3.37                                   | .792           | 27 | p26                 | 3.01           | .855        | 68 |
| p27            | 3.48                                   | 1.051          | 27 | p27                 | 3.04           | .818        | 68 |
| p28            | 3.00                                   | 1.109          | 27 | p28                 | 3.32           | .969        | 68 |
| p29            | 3.56                                   | 1.188          | 27 | p29                 | 3.60           | .883        | 68 |
| p30            | 2.89                                   | 1.155          | 27 | p30                 | 2.69           | .885        | 68 |
| p31            | 3.26                                   | 1.023          | 27 | p31                 | 3.37           | .771        | 68 |
| p32            | 2.30                                   | 1.068          | 27 | p32                 | 2.37           | .862        | 68 |
| p33            | 3.04                                   | 1.018          | 27 | p33                 | 2.59           | .833        | 68 |
| p34            | 2.74                                   | .859           | 27 | p34                 | 2.97           | .863        | 68 |
| p35            | 2.67                                   | 1.074          | 27 | p35                 | 2.46           | .800        | 68 |
| p36            | 3.48                                   | .893           | 27 | p36                 | 3.28           | .878        | 68 |
| p37            | 3.26                                   | .903           | 27 | p37                 | 3.16           | .803        | 68 |
| p38            | 3.33                                   | .961           | 27 | p38                 | 3.10           | .866        | 68 |
| <b>Average</b> | <b>3.27</b>                            | <b>.995</b>    |    |                     | <b>3.17</b>    | <b>.899</b> |    |

**Table 3.** Mean indices of complex variables (7Ps)

|                           | LIC (N = 68) |       | Private (N = 27) |       | Overall (N = 95) |       |
|---------------------------|--------------|-------|------------------|-------|------------------|-------|
|                           | Mean         | S D   | Mean             | S D   | Mean             | SD    |
| <b>Product (N = 8)</b>    | 3.47         | .909  | 3.435            | 1.097 | 3.46             | 0.948 |
| Price (N = 1)             | 3.12         | 0.802 | 3.52             | .893  | 3.23             | 0.844 |
| Place (N = 1)             | 2.81         | 1.11  | 2.19             | .921  | 2.63             | 1.092 |
| <b>Promotion (N = 8)</b>  | 3.19         | .833  | 3.394            | 0.747 | 3.25             | 0.847 |
| <b>People (N = 9)</b>     | 3.25         | 0.940 | 3.449            | 0.955 | 3.30             | 0.955 |
| Physical Evidence (N = 3) | 2.73         | .876  | 2.938            | 1.205 | 2.79             | 0.945 |
| Process (N = 8)           | 2.97         | .903  | 3                | 1.2   | 2.98             | 0.962 |

**Table 4.** Factor analysis

| Reliability Statistics |  |            |
|------------------------|--|------------|
| Cronbach's Alpha       | Cronbach's Alpha Based on Standardized Items | N of Items |
| .910                   | .911   | 32         |

| KMO and Bartlett's Test                          |                    |          |
|--|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | .771     |
|  | Approx. Chi-Square | 1430.231 |
| Bartlett's Test of Sphericity                    | Df                 | 496      |
|  | Sig.               | .000     |

| Component | Total Variance Explained |               |              |                                     |               |              |                                   |               |              |
|-----------|--------------------------|---------------|--------------|-------------------------------------|---------------|--------------|-----------------------------------|---------------|--------------|
|           | Initial Eigenvalues      |               |              | Extraction Sums of Squared Loadings |               |              | Rotation Sums of Squared Loadings |               |              |
|           | Total                    | % of Variance | Cumulative % | Total                               | % of Variance | Cumulative % | Total                             | % of Variance | Cumulative % |
| 1         | 8.990                    | 28.095        | 28.095       | 8.990                               | 28.095        | 28.095       | 4.482                             | 14.007        | 14.007       |
| 2         | 2.531                    | 7.910         | 36.004       | 2.531                               | 7.910         | 36.004       | 3.697                             | 11.552        | 25.558       |
| 3         | 2.131                    | 6.661         | 42.665       | 2.131                               | 6.661         | 42.665       | 2.649                             | 8.279         | 33.837       |
| 4         | 1.803                    | 5.633         | 48.298       | 1.803                               | 5.633         | 48.298       | 2.116                             | 6.612         | 40.448       |
| 5         | 1.446                    | 4.520         | 52.818       | 1.446                               | 4.520         | 52.818       | 2.114                             | 6.607         | 47.055       |
| 6         | 1.333                    | 4.164         | 56.982       | 1.333                               | 4.164         | 56.982       | 1.971                             | 6.158         | 53.213       |
| 7         | 1.209                    | 3.778         | 60.760       | 1.209                               | 3.778         | 60.760       | 1.897                             | 5.928         | 59.142       |
| 8         | 1.076                    | 3.362         | 64.122       | 1.076                               | 3.362         | 64.122       | 1.347                             | 4.210         | 63.352       |
| 9         | 1.068                    | 3.337         | 67.459       | 1.068                               | 3.337         | 67.459       | 1.314                             | 4.108         | 67.459       |
| 10        | .939                     | 2.935         | 70.395       |                                     |               |              |                                   |               |              |
| 11        | .935                     | 2.921         | 73.316       |                                     |               |              |                                   |               |              |
| 12        | .865                     | 2.702         | 76.018       |                                     |               |              |                                   |               |              |
| 13        | .755                     | 2.358         | 78.376       |                                     |               |              |                                   |               |              |
| 14        | .696                     | 2.174         | 80.549       |                                     |               |              |                                   |               |              |
| 15        | .673                     | 2.102         | 82.651       |                                     |               |              |                                   |               |              |
| 16        | .607                     | 1.896         | 84.547       |                                     |               |              |                                   |               |              |
| 17        | .596                     | 1.861         | 86.408       |                                     |               |              |                                   |               |              |
| 18        | .539                     | 1.685         | 88.094       |                                     |               |              |                                   |               |              |
| 19        | .522                     | 1.631         | 89.725       |                                     |               |              |                                   |               |              |
| 20        | .450                     | 1.407         | 91.132       |                                     |               |              |                                   |               |              |
| 21        | .405                     | 1.265         | 92.397       |                                     |               |              |                                   |               |              |
| 22        | .353                     | 1.104         | 93.501       |                                     |               |              |                                   |               |              |
| 23        | .336                     | 1.051         | 94.552       |                                     |               |              |                                   |               |              |



|    |      |      |         |
|----|------|------|---------|
| 24 | .311 | .973 | 95.525  |
| 25 | .270 | .842 | 96.367  |
| 26 | .232 | .725 | 97.093  |
| 27 | .209 | .654 | 97.747  |
| 28 | .185 | .579 | 98.326  |
| 29 | .168 | .525 | 98.851  |
| 30 | .164 | .514 | 99.365  |
| 31 | .110 | .344 | 99.709  |
| 32 | .093 | .291 | 100.000 |

Extraction Method: Principal Component Analysis.

**Table 5.** Communalities of the variables that constituted factors

|     | Communalities |            |
|-----|---------------|------------|
|     | Initial       | Extraction |
| p1  | 1.000         | .663       |
| p2  | 1.000         | .626       |
| p3  | 1.000         | .704       |
| p4  | 1.000         | .666       |
| p5  | 1.000         | .651       |
| p6  | 1.000         | .782       |
| p7  | 1.000         | .738       |
| p8  | 1.000         | .738       |
| p9  | 1.000         | .632       |
| p11 | 1.000         | .728       |
| p12 | 1.000         | .701       |
| p13 | 1.000         | .543       |
| p14 | 1.000         | .638       |
| p15 | 1.000         | .811       |
| p18 | 1.000         | .692       |
| p19 | 1.000         | .534       |
| p20 | 1.000         | .639       |
| p21 | 1.000         | .623       |
| p22 | 1.000         | .681       |
| p23 | 1.000         | .644       |
| p24 | 1.000         | .691       |
| p25 | 1.000         | .596       |
| p26 | 1.000         | .736       |
| p27 | 1.000         | .749       |
| p28 | 1.000         | .770       |
| p29 | 1.000         | .757       |
| p30 | 1.000         | .679       |
| p31 | 1.000         | .405       |
| p34 | 1.000         | .557       |
| p36 | 1.000         | .706       |
| p37 | 1.000         | .788       |
| p38 | 1.000         | .720       |

Extraction Method: Principal Component Analysis.

factor loadings are also mentioned which shows correlation of the variables with the factor):

- Salesperson overstates potential benefits (0.813).
- Company intentionally keeps penalty clauses vague (0.758).
- The language regarding the policy, terms and conditions used in the documents is difficult to understand (0.716).
- Salesperson lies about competition in order to make a sale (0.703).
- The insurance company's website exaggerates potential benefits (0.650).
- Company's offerings are overemphasized in its prospectus/brochure (0.598).
- The insurance salesperson lies in order to make a sale (0.556).
- Company does not inform customers about Insurance ombudsman (Insurance Regulatory Authority of India i.e. IRDA) (0.395).

#### 5.4.2 Factor 2: Professionalism – Influence and People Behavior

This factor explained 11.552% of the variability. 8 variables are included in this factor with high factor loadings and variables are related to professionalism.

- Company/salesperson promotes inappropriate and supplementary products (0.808).
- Company/salesperson provide misleading data about customer base of other companies (0.788).
- Salesperson uses false allegations against the competitors (0.651).
- Company/salesperson makes offensive remarks about other companies' reputation (0.599).

- Salesperson tried to offer unauthorized gifts to influence purchasing policy (0.510).
- Salesperson applies sales pressure when he/she knows the product is not good for me (0.423).
- Salesperson offers incentives to buy a new policy in return of canceling the existing policy of the same insurance company (0.417).
- Salesperson misrepresents penalty clauses to influence buying decision (0.384).

### 5.4.3 Factor 3: Promotion and Marketing

The third factor is mainly concerned with promotional and marketing issues of company and salesperson and explains 8.279% of the variance. This factor includes 5 variables:

- Salesperson quotes higher premiums than necessary to meet targets (0.779).
- Company uses deceptive marketing by camouflaging the truth and using ambiguous language (0.685).
- Company overstates potential benefits in Newspaper/magazine/TV ads (0.591).
- Salesperson sells long term policies as short to medium term policies by misinforming customers to make short term gains (0.462).
- Company/salesperson does not disclose the correct combination of insurance and investment in life insurance policy (0.400).

### 5.4.4 Factor 4: Articulateness

This factor explains 6.612% of variability and focus on expressiveness and clarity. The variables included in this factor are:

- Salesperson makes sure that the terms and conditions specified in the policy are clear and transparent at the time of issuance (0.755).
- Salesperson is knowledgeable about the product to be marketed and process involved (0.743).

### 5.4.5 Factor 5: Lack of Information about Product (Product Related Issues)

This factor explains 6.607% of variability and includes 3 variables that focus on product related issues are:

- Company does not update information about any modifications in policy terms and conditions (0.775).

- Company understates the policy withdrawal information (0.613).
- Salesperson paints rosy pictures of the products to make them sound as good as possible (0.593).

### 5.4.6 Factor 6: Undue Influence

This factor contains two variables that explain 6.158% of the variability. This factor focuses on undue influence.

- Company uses misleading information about competitors or makes negative publicity about them (0.799).
- Company extensively uses jargons in the policy documents (0.391).

### 5.4.7 Factor 7: Compliance

This factor is concerned with compliance to laws and regulations and explains 5.928% of the variability.

- Salesperson sells ULIP regular premium policy as savings account, home loans, single premium plans or mutual funds (0.848).

### 5.4.8 Factor 8: Consistency

The eighth factor contains only one variable that explains 4.210% of variability and focus mainly on consistency in offering the right plan or product according to needs.

- The product offered to me is different from what I requested or differs from my needs and expectations (0.732).

### 5.4.9 Factor 9: Service Gap

The last factor explains 4.108% of variability and focus on service gaps.

- Company does not have branches or grievance redressal cell at multiple locations in case of any complaint (0.692).
- Company uses small print clauses to camouflage (hide) the truth (0.604).

## 6. Summary, Conclusion and Recommendations

Life insurance is an unsought product especially in India. It makes all the more important for life insurers to sell

the right product to the customers according to their needs and be ethical in their marketing. There has been an increased competition in this industry from the year 2000 when private life insurers were allowed to enter this industry. The number of players increased gradually and so is the number of unfair business practices. Keeping this in mind, this study was carried out to find out the policyholders view regarding ethical issues in insurance marketing in India. To conduct the research, 38 parameters were categorized into 7Ps of service marketing to identify which Ps are causing major problems in life insurance industry today and thus, need immediate attention by life insurers.

The study found out 8 key Marketing issues which were rated 4 (agree) or 5 (strongly agree) by 60% or more of the respondents - all of them being either People related Issue or Product related issue. The policyholders are highly concerned regarding salesperson's behavior and professionalism. According to them, the people who are the face of the insurance company (salesperson) lies in order to sell a product, overstates potential benefits of the product from reality and uses undue influence on customers to make a sale. Moreover, policyholders also consider language regarding the policy terms and conditions difficult and expect the life insurers to keep the language simple and easy to understand. According to them, the penalty clauses charged from customers are vague. They are also of the opinion that company uses small print clauses to hide the truth. This is a critical finding which implies that life insurers must work on being fair and transparent to their customers else customers will lose trust and faith in the product itself. Life insurance contract is based on the most important principle of "utmost good faith" and life insurers must remember this principle if they want to sustain in the long run.

The above findings are applicable to both LIC and private life insurers. However, policyholders of private life insurance companies are also dissatisfied with their promotional policies. According to them, companies use deceptive marketing by camouflaging the truth and using ambiguous language and salesperson quotes higher premiums than necessary to meet the targets.

A factor analysis was also conducted on the data which identified 9 factors and explained 67.46% of variance embedded in 32 variables. The first factor appeared to be the most critical factor that explained 14.00% of the variability. This factor contains 8 variables and most of them are related to fairness and transparency on the part

of salesperson and company. The second factor explained 11.552% of the variability. 8 variables are included in this factor with high factor loadings and variables are related to professionalism. The third factor is mainly concerned with promotional and marketing issues of company and salesperson and explains 8.279% of the variance. The fourth factor explains 6.612% of variability and focus on expressiveness and clarity. The fifth factor explains 6.607% of variability and includes 3 variables that focus on product related issues. The sixth factor contains two variables that explain 6.158% of the variability. This factor focuses on undue influence. The seventh factor is concerned with compliance to laws and regulations and explains 5.928% of the variability. The eighth factor contains only one variable that explains 4.210% of variability and focus mainly on consistency in offering the right plan or product according to needs. The ninth and the last factor explain 4.108% of variability and focus on service gaps.

The results of the data from the study infer that there are serious ethical lapses on part of life insurers and customers are not satisfied on the ethical standards of life insurance companies. Hence, it is important for life insurers to focus on these issues to ensure long-term sustainability. Life insurance is a sensitive product based on emotional selling and therefore, requires complete fairness and transparency from the part of life insurer. If the customer loses faith and confidence due to unethical business practices or mis-selling by life insurers, it completely destroys the essence of this product. Rather than giving peace of mind to the customer, it then takes away his peace of mind. Though the industry has a huge potential to grow, it is important for life insurers to re-examine their strategies and display ethical behavior while selling and marketing their products for their enduring stay in the business.

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