International Journal of Science Academic Research
Vol. 03, Issue 07, pp.4093-4095, July, 2022
Available online at http://www.scienceijsar.com
ISSN: 2582-6425

Research Article

FINANCIAL MISSELLING OF INSURANCE PRODUCTS IN INDIA: A STUDY

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Received 14th May 2022; **Accepted** 20th June 2022; **Published online** 27th July 2022

Abstract

Are you completely satisfied with the financial products you have bought or investments sold to you? If your answer is No, is it because of misselling or misbuying? Broadly we are trying to find answer for this question in this paper, by discussing about What is Misselling and Misbuying?, what are the different tricks used by agents for misspelling, What is IRDA doing to prevent mis-selling? How can you stop yourself from being a victim of misselling? How to clear funds for EMIs, Can you tell who is who here? Either buyer is misbuyer or the seller is misseller? And finally let us find the way out for this misspelling and misbuying. The researcher has tried to find out a solution for this problems with the help of model called MMS, that is Misselling, Mis buying and solution for all of us to understand the concept well.

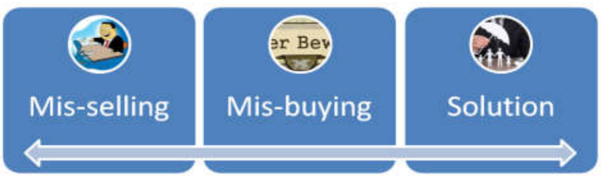
Keywords: Misselling, Misbuying, IRDA, financial products, EMI.MMS model.

INTRODUCTION

First of all let us try to understand what is and misbuying. Misselling occurs when you are given unsuitable advice, the risks are not explained to you, or you are not given the information you require, and you end up with a product that is not right for you, whereas misbuying occurs when buyers are completely unaware of the financial product's details and complexities.

Policy misselling is on the rise; for more information, visit this link: Policyholder complaints about misselling.

Author model: MMS



Now let's see a few examples of Misselling

- Selling life insurance to a person who has no dependents.
- Selling child plan or long-term plan to an elderly or retired person.
- Selling a policy telling it is only a single premium policy but it turns out to be a regular premium.
- Selling endowment plans without telling about the charges and the commissions earned.
- Selling ULIPs telling there are high returns.
- Telling there is only limited time available for the policy.
- Telling there is a lot of tax benefits.

Inviting investors to surrender an existing policy (while claiming fraudulent grounds for non-performance) and replace it with a new high-commission policy.

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One couple went to a financial advisor to have their investment portfolio reviewed. They had endowment plans, Ulips, and a pension plan, which the planner was disappointed to learn about. They owned 32 mutual funds, the majority of which were NFOs introduced in the last 3-4 years, and a huge list of equity shares. It's unlikely that the retired petroleum engineer and his housewife wife were aware of the varied costs and loads for these items before purchasing them. In this scenario, who is to blame? Five relationship managers from three different banks sold everything or Never fall prey on:

1. Misselling
2. Misbuying
3. And the above two categories

Now let's see the tricks used by agents for misspelling
Tricks used by agents for misselling

ULIPs have guaranteed returns

But this is not true. No ULIP comes with guaranteed returns. Agents tell this to attract investors. Anything beyond bank FDs have risks. For that matter even bank FDs have risk.

10% of cashback on premiums paid

Endowment plans and ULIPs have a high commission in the first year. So agents lure customers by giving part of their commission. This way they get a lot of clients. Many also offer to pay your premiums for the 1st year but do not fall into this trap.

Last chance

If you miss this last date you will not be able to get this product. This is a very commonly used trick to missell.

Selling you products stirring your Emotions

Don't make an emotional decision while buying insurance or any other financial product. It could be a child education plan, insurance, retirement planning, etc.

You can stop paying the premium after the first 3 years

This statement is catchy as no investor wants to be trapped in an investment product. As you only have to pay for 3 years and the (ULIP) insurance will still be covered makes everyone fall for it. Asking to pay premiums just for 3 years is wrong as ULIPs are long term products.

The performance of XYZ fund has been so great

The single fact that the agents tell about their ULIPs and Mutual Funds is the performance of their funds has been great. What has to be checked is that, if that fund has outperformed its benchmark or its peers.

For eg: If NIFTY has 50% returns and a mutual fund with NIFTY as its benchmark has 50% returns. It's not great. You are also required to ask the agent about its performance during the bad times and not just the good times.

Guaranteed Return Plan

Nowadays products give some portion of their returns as guaranteed returns. portray as if all the returns are guaranteed returns. But when you ask them for the IRR, they don't know it. They just trick the customers into the products with the word "Guaranteed". They use these kinds of words while promoting the product.

Now let's see all about preventing misselling.

What is IRDA doing to prevent Misselling?

IRDA has taken many steps to increase transparency. They have made strict laws against misselling and they also take action against fraud cases.

How can you stop yourself from being a victim of Mis-selling?

Never buy a product aggressively sold by agents: It is very obvious he does that for commission. So better not be carried away by what he tells. You have to know what you need and buy products based on that. Even if your agent is a family friend, you should ask questions.

Don't buy a product if you don't understand it: New products keep arriving at the market. The main reason for misselling is the lack of understanding of financial products by investors. Lack of transparency also makes it easy to missell. If you are financially illiterate, you can acquire the skills to understand the product or approach a financial advisor. If you chose to understand the product, keep a checklist ready: you need to know the risk and return aspects of the product. For any product, you can check the following details: Are there fixed returns or subject to market risk?, If the return is promised, then ask for it in writing, Is there a lock-in period and what are the exit options?, Is the product approved by a regulator?, What are the charges?, If there is any fancy return, ask for its working., Don't trust projections.

Keep your greed away: People invest when they hear of huge returns all because of greed and not even understanding the product. Never invest without understanding the product.

Know the track record of your agent and also ask your questions: Usually, agents push plans which give them huge commissions. They hold on to regular customers who lack knowledge of these products or are ignorant customers and sell them these plans which may not be of use to them. They disappear once the product is sold and do not help in the claim processing. To avoid this go to a reliable agent with a good track record. If he fails to answer your doubts, might be he is misselling you.

Here are a few ways to help you from misselling by Health insurance agents

Understand all policy exclusions: Do not miss the limits, the hospitals covered, diseases covered, and the sub-clauses. Understand all the policy exclusions before you buy the product.

Avoid under-investing or over-investing: If you are in your 20s with no liabilities you can go for a lower insurance cover in health insurance.

Find co-pays or limits if any: Many health insurance companies have room rent capping which means you are only eligible to claim an amount which is within this capping.For eg: Your room capping is Rs.5000 per day and you opt for a room worth Rs. 7000 per day. You will have to bear that additional amount.There are policies that come with clauses of co-pay for some parts of the claim (especially as you age). For eg: If your policy has a co-pay of 50% for a surgical procedure. You will have to bear half the expense. Find if there are words like co-pay, limits, deductible in the policy, especially in the terms and conditions.

Don't have any unrealistic prediction of returns: Many are misguided on the terms and conditions of the policy. They are given unrealistic predictions of returns. When you decide to buy a policy, check their claim settlement ratio and the reviews given by other users.

Ask for a standard illustration or calculation: While purchasing an insurance policy ask for standard calculation. If you doubt the calculation, compare it with the example given in the insurance company's website.

Read the product document yourself: Go through all the terms and conditions and benefits thoroughly before you buy it. Fill the form yourself. Do not let the agent do it for you also check the form before you sign it.

Clear Funds for EMIs: Ensure that your income increases or remains stable for the duration of your loan's EMI payments. Insurance ranks first among all of these financial goods. Misselling is still so rampant in India that our honorable finance minister once observed, "Insurance is stuttering in India because of this misselling." In reality, insurance should be purchased to safeguard your financial life from unexpected events and to provide for your family's needs while you are away. However, it is frequently purchased to avoid paying taxes. Furthermore, facts such as: Which type of cover does it provide? Have been overlooked. Regular payments or a lump sum payment after retirement or in the event of death. Is this policy effective?

Last but not least, what are the exclusions that prevent your claims from being paid?

Because of your ignorance or lack of knowledge, you are a misbuyer, and your vendor is already a misseller. In general, the boundary between misselling and fraud is razor thin, and mutual funds are no exception. I can recall one instance where a retired individual was persuaded to invest a significant sum in an equity-linked savings scheme. He couldn't even cut his losses when the market plummeted because his money was locked in for three years. A retired person, on the other hand, requires liquidity. Can you tell who's who in this group? Either the buyer or the vendor made a mistake? Because Investors did not make enough.

Solution: In general, financial product producers have a variety of options that suit the company, the distributor, or the client. Given the complexity of financial products and the large array of options available, a consumer may find it difficult to determine which product best meets his needs. To do so, he'll need a skilled financial counsellor by his side who can understand the information offered by agents and help you choose the best solution. Furthermore, it is critical that the buyer realizes that he requires the services of a financial advisor.

Conclusion

To avoid these kinds of financial mistakes and money mistakes in the future, creating a comprehensive financial plan is essential. If you are really interested in creating a personalized comprehensive financial plan for yourself and your family, I strongly recommend you to take advantage of our paper and the concept of “caveat emptor” which means “let the buyer beware”.

References

https://www.holisticinvestment.in/misselling-misbuying/

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