Curbing mis-selling

The way companies pay commission to agents needs to change for a complete overhaul of how they impart advice

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I have been associated with the insurance industry for over three decades and have witnessed both the pre- and post-liberalisation phase of the industry. Yes, the opening of the sector about 15 years ago was a welcome step, but inadvertently it also opened the doors to practices by insurance companies that have left a rather poor image of all insurers. The issue of mis-selling policies tops the list. It is common for people to complain on how they were sold a policy, which either does not match their needs or better still, does not suit their needs.

Broadly, the problem they face can be categorised into three areas—policies that they do not understand, policies that they feel are not doing what they want them to and lastly, polices where they feel the cost is higher than what they had envisaged. The answer to ensuring that you buy the right policy rests within these three buckets—look for a policy that you need, understand what it does and figure what it would cost you and for how long.

The buyer-beware has always been the case when it comes to financial instruments, which is slowly changing towards a seller-beware format thanks to changing regulations. Given the fact that insurance is sold and not bought, the tendency of the seller is to push the product at all costs. Add to it, the incentive that is there for taking on sale of insurance policies is a significant reason to push a policy. For instance, the first year commission on policies varies from 10 per cent to 40 per cent. This alone is a big driver for agents to complete a sale. Moreover, there are intermediaries at banks and other institutions who have ample details on people and their finance to smartly suggest policies, where the incentive on sale is to their advantage.

Every insurer knows that there is a huge loss if a policy is not continued through its tenure and I disagree that they intentionally encourage sales knowing very well that the policy will not continue beyond the lock-in or in many cases before it reaches the lock-in. The best way to check on such mis-selling is to make sure that the incentives are paid only towards the end of the policy tenure or after the mandatory lock-in. This way, the onus will be equally on the agent to ensure that not only does he sell right, he should also ensure that the policy is serviced in such a manner that the policyholder will continue the policy till maturity.

As for the regulator, they can introduce surrender charges, however small it may be on policies that are discontinued after a year. This way, the first year commission will automatically go down as well. Such an approach will also benefit the agents as they will be well-rewarded in the future for a good deed done today.

Instead of focusing on impractical ways to curb on mis-selling, here is a model which works in favour of the policyholder, agent as well as the insurer. Wonder why the regulator is not looking for simple ways to curb mis-selling.