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## An Analytical Study of Unethical (Unfair) Business Practices in Indian Life Insurance Industry

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**Abstract:** This research paper focuses on the unethical (Unfair) business practice in Indian life insurance industry, ignorance of ethical business compliances and regulation of “Insurance Regulatory and Authority of India” (IRDAI). Business ethics are backbone of any industry, to keep the ethical business environment in life insurance businesses in India, is regulated by the “Insurance Act 1938”, “Indian Contract Act 1872” and “IRDAI Act 1999” plays vital role. Despite of these Acts and regulations, there are thousands of complaints like mis-selling/mis-representation, tampering records/forging signature, Free-Look refund not paid etc., which is also known as unfair business practices in Indian Life Insurance industry.

**Keywords:** Mis-selling, Free-lock period, Unfair Business Practices (UFBP) etc.

### Introduction

Unethical/Unfair business practices in life insurance businesses means that life insurance products sold by the insurance intermediaries including agents to the potential buyers by mis-representing the basic features of life insurance products along with available benefits from the life insurance products. Insurance intermediaries also hide or manipulate the original terms regarding the life insurance products. IRDAI provides a free-lock period of two weeks or 15 days to the proposer or policy holders to review the terms of life insurance product after receiving the policy bond from the insurance companies. If the proposer is not satisfied with the mentioned terms and conditions of the life insurance product, the policy holder can have denied the contract between him (policy Holder) and insurance companies, and also rejects the insurance contract between them. The Insurance companies have to refund the whole premium amount to the proposer.

According to IRDAI, regulation 2017 U/s 4 (4) has defined Grievance/Complaint as, any type of electronic communication whether email or other electronic script by complainant to insurance companies against company itself, various distribution channels like agents, corporate agents, and other intermediaries including web aggregators etc. of dissatisfaction or deficiency of services.

**Unfair Business Practices:** Complaints categorized under unfair trade practices include misrepresentation of terms, conditions and benefits available under the life insurance products, false advertising or representation of a product, bundled with other products free prize or gift offers, deceptive pricing etc.

According to the IRDAI the following business practices can be include under Unfair business practices

1. **Mis-selling/Mis-representation:** Mis-selling is one of the largest unethical practices in the life insurance business in insurance market. It occurs when life insurance products are sold to the proposer which is not as per their requirement, due to misleading information, pressure sales, or incentives tied to agent commissions
2. **Tampering Records/Forging Signature:** It is one of the serious unethical and illegal business practice observed in the life insurance businesses. It involves the deliberate alteration, falsification, or fabrication of documents and signatures to misrepresent facts for personal or institutional gain. This practice violates principles of transparency, trust, and legality, and directly harms policyholders
3. **Free-Look refund not paid:** The free-look period is a consumer protection provision mandated by the “Insurance Regulatory and Development Authority of India”, which allows proposer to review the terms of agreement of a newly issued life insurance policy. If the policyholder is disagreeing with the terms and conditions for any reason, they have the right to return the policy and receive a refund within a specified period 15 days. The unfair business practice of non-payment or delayed payment of free-look refunds occurs when insurers or intermediaries fail to return the premium amount after a policyholder has exercised the free-look option within the stipulated time.

## Literature Review

**Kaur & Bansal (2016)** conducted a descriptive study on the mis-selling of Unit Linked Insurance Policies (ULIPs) in India. They argue that although ULIPs were introduced as innovative products, mis-selling has emerged as a serious problem, driven in dearth of transparency and sales-oriented behaviour by agents. The study examines the regulatory changes by IRDA to curb mis-selling and highlights the need for stronger oversight and better consumer education to address unethical practices in ULIPs sales.

**Talwar & Ali (2016)** examined ethical issues in insurance marketing from the policyholders' perspective. After analyzing primary data, they identified major ethical lapses in product presentation, sales promotion, and professionalism. The study reports that customers perceive life insurers as lacking fairness and transparency in marketing practices especially in product explanations and promotional messages. The authors found and suggest that ethical deficiencies in marketing contribute significantly to unfair business practices.

**Seth & Bansal (2016)** examined the consumer protection framework in the Indian insurance sector and noted that despite the presence of comprehensive regulations, unethical practices persist due to weak enforcement and lack of consumer awareness. The authors suggested strengthening market conduct regulations and enhancing policyholder education to curb unfair practices in the life insurance industry.

**Anagol, Cole, & Sarkar (2017)** examined the role of commission-based incentives in shaping the advice provided by life insurance agents in India. Using a field experiment, the study revealed that a majority of agents recommended high-commission products irrespective of customer needs. The authors concluded that commission-driven sales practices significantly contribute to mis-selling and unfair business conduct, thereby undermining consumer welfare and trust in the life insurance industry.

**Renny Thomas (2023)** in a theoretical paper explores factors responsible for mis-selling of financial products like insurance products. The study identifies lack of financial literacy, aggressive sales targets, and incentive structures as key drivers of unethical sales practices. Thomas argues that consumer vulnerability and informational asymmetry are central to why mis-selling persists in insurance markets.

### Research Gap

After review of available literature regarding mis-selling, ethical issues, and consumer grievances in the life insurance businesses in India. All the above mentioned studies throw light on valuable

insights, they are largely issue-specific and do not present a comprehensive analysis of unfair business practices as a whole.

## Research Methodology

**Research Design:** The present study is descriptive and analytical in nature. It aims to analyze various forms of unethical and unfair business practices such as mis-selling, forging of documents, non-payment of free-look refunds, and unfair claim settlement practices in the life insurance sector.

### Research Objective

- To examine the nature and extent of unethical (unfair) business practices prevailing in the life insurance industry.

**Sources of Data:** This study is exclusively based on secondary data published in various reliable and authentic sources, including annual reports of IRDAI, publications and circulars issued by the "Insurance Regulatory and Development Authority of India".

**Period of Study:** The study covers recent financial years from 2020-21 to 2023-24 with a focus on trends observed in the Indian life insurance sector, the annual report of financial year 2024-25 is not yet published or uploaded by IRDAI on its website till date.

### Tools and Techniques of Analysis

- Content analysis of regulatory reports and published studies
- Comparative analysis of unfair business practices across public sector life insurer and private sector life insurers
- Use of tables and percentages wherever necessary for better interpretation

**Scope of the Study:** The study is limited to unethical business practices in the life insurance industry and does not include general or health insurance sectors.

### Limitations of the Study

- This study relies solely on published or secondary data, which has its limitation for in-depth analysis
- Findings depend on the accuracy and completeness of published sources
- Some unethical practices may remain underreported

**Significance of the Study:** The study helps policymakers, regulators, insurers, and consumers understand the extent of unethical practices and emphasizes on ethical conduct and stronger regulatory mechanisms in the life insurance industry.

### Analysis and Discussion

The study covers recent financial years from 2020-21 to 2023-24 with a focus on trends observed in the Indian life insurance

Table No. 1. Shows the Grievances registered against Life Insurance Companies

Particular		2020-21	2021-22	2022-23	2023-24
Total No. of grievances	Public Sector (LIC)	1,09,631	1,14,202	81,494	81,021
	Private sector	41,415	40,624	45,884	39,705
	<b>Total</b>	<b>1,51,046</b>	<b>1,54,826</b>	<b>1,27,378</b>	<b>1,20,726</b>
Number of grievances under UFBP	Public Sector (LIC)	3,928 (3.58%)	3,509 (3.07%)	2,978 (3.65%)	
	Private sector	26,746 (64.58%)	22,207 (54.66%)	23,129 (50.41%)	
	<b>Total</b>	<b>30,674</b>	<b>25,716</b>	<b>26,107</b>	<b>23,335</b>
Share of UFBP grievance to total grievances (%)		20.31	16.61	20.50	19.33

Source: IRDAI Annual reports of 2021-22, 2022-23, 2023-24

Note: IRDAI Annual report 2024-25 is not yet published therefore not includes in the study. Some data for the year 2023-24 is also not includes due to unavailability on IRDAI Annual report of 2023-24.

The total number of grievances reported against life insurance companies reduced from 1.51,140 in financial year 2020-21 to 1,20,726 in financial year 2023-24, during financial year 2021-22 the number grievances marginally increased to the previous year 2020-21, that is 1,54,826 from 1,51,046 respectively.

During the study period from FY 2020-21 to FY 2023-24, Total No. of UFBP complaint reported against Life Insurers. 20.31 % of total complaints in FY 2020-21, under unfair business practices means approximately 80 % complaints are of different nature like claim settlement, policy servicing and other disputes between policy holder and insurance companies. The share of UFBP complaints to total complaints (%) remains more or less same during the period of the study which was approximately 20.31 % to 19.33% from FY 2020-21 to 2023-24 respectively, except during the FY 2021-22 which was 16.61% of total complaint reported against life insurers.

The share of private sector life insurance companies under UFBP grievances to total grievances registered against life insurers is

industry. Grievance/compliant has been specifically defined in “Regulation 4(4) of the IRDAI (Protection of Policyholders’ Interests) Regulations, 2017”. On the other hand, IRDAI also categorized unfair trade practices and its parameters. Below table no. 1. Shows the recent trend and extent of unfair business practices in Indian Life Insurance industry.

more than 50% during the study years, while in the FY 2020-21 it was 64.58 % of total grievances against private sector insurance companies, that 26,746 out of 41,415 grievances. On the other hand, the share of LIC of India a sole public sector life insurer has less than 4% of UFBP grievances to total grievances against it during the study period.

### Conclusion

The analysis of grievances reported against life insurance companies during the period from FY 2020–21 to FY 2023–24 indicates a gradual improvement in grievance management within the sector. The total number of grievances declined from 1,51,046 in FY 2020–21 to 1,20,726 in FY 2023–24, reflecting enhanced regulatory oversight, improved internal grievance redressal mechanisms, and greater awareness among insurers regarding customer protection. Although there was a marginal increase in

grievances during FY 2021–22, the overall trend remains downward.

Unfair Business Practices (UFBP) complaints constituted a relatively stable share of total grievances, ranging between approximately 20.31% in FY 2020–21 and 19.33% in FY 2023–24, with a notable dip to 16.61% in FY 2021–22. The data suggests that the UFBP continues to be a significant concern, in the majority of complaints are still related to other operational issues such as claim settlement, policy servicing, and contractual disputes. Hence, unfair business practices form only about one-fifth of total grievances, indicating that insurers face broader service-related challenges beyond ethical concerns.

A sector-wise comparison reveals a significant disparity between private life insurance companies and LIC of India a sole public sector insurer. Private sector insurers account for more than 50% of UFBP related grievances throughout the study period, with a particularly high share of 64.58% in FY 2020–21. In contrast, LIC of India reported less than 4% of UFBP grievances relative to its total grievances during the same period. This highlights relatively better compliance, standardized processes, and stronger control mechanisms in the public sector insurer, whereas private insurers need to strengthen ethical sales practices, disclosure standards, and monitoring of intermediaries.

Overall, the findings suggest that although the life insurance industry has made progress in reducing overall grievances, unfair business practices especially in the private sector remains an area of concern. Strengthening regulatory supervision, improving agent training, and enforcing stricter compliance norms are essential to further reduce UFBP related complaints and enhance policyholder trust in the life insurance sector.

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