Ethical Issues in Short-Term Insurance Industry

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Abstract
The aim of this paper is to assess whether the allegations of unethical practices within the short term insurance industry exist and determine whether or not they are the major hindrance of growth of the sector and provide recommendations for the sector. The researcher used primary and secondary sources. The secondary data sources comprised of journal articles, books, newspaper articles, financial reports and internet. The research instrument used was in the form of a closed questionnaire with a five point Likert scale. The sample size consisted of 23 insurers and 50 individuals. The data was analyzed using SPSS 16.0. From the research findings, it can be concluded that even though there are unethical practices in the industry, they are not the major hindrance of growth of the short-term insurance industry.

Introduction

In governance, corporate ethics are fundamental as it underpins the structures and systems used to ensure good governance and without it governance will fail. The insurance sector has in recent years had scandals emanating from unethical practices with the American International Group, Inc (AIG) 2005 scandal being top of the list (Flanagan et al, 2007). AIG is the world's largest commercial insurance company. Practicing good ethics is the key to unlocking the opportunities for the insurance sector. The economic challenges experienced in the country resulted in the downfall of the insurance industry as hyperinflation eroded into the insured's contribution. This resulted in the insurance industry facing a plethora of problems with serious battles with their clients who could not accept the issue of under insurance which then came into play at claim time. This development left the image of the industry battered. The general public did not understand the whole insurance process because of its complexity and as a result they concluded that they were being robbed of their hard earned cash.

The industry to some extent played a part in tarnishing its image. With a very low capital requirement level in place there was simply no barrier to entry and as such there was an influx of new players into the industry. Since insurance is provided upon payment of premium only it meant the industry was a source of cash and as such some players made their entrance for the wrong reasons such as cashing in on the unsuspecting clients as the industry provided the much sought for cash. At moment the majority of the populace is very well convinced that insurers are dishonest and they are there to collect money and give them promises which they never fulfil. The inception of the unity government culminated in the introduction of the multi-currency regime in 2009 which breathe in a new lease of life to the Zimbabwean industries which were almost none existent the insurance industry included. In 2008 the insurance industry had begun applying for licences to transact in foreign currency. The move meant to provide real value compensation to policy holders, who have failed to replace lost or damaged properties due to the erosion of policy values by inflation, currently officially estimated at over 2,000,000% year-on-year (Ndlela, 2008). Some companies and individuals had resorted to monthly top-ups of their policies on high value properties like motor vehicles and office equipment and machinery, but the pace of price increases in recent months had made it impossible to catch up with rising inflation, even with those top-ups (Ndlela, 2008). In as much as the multi-currency system brought its advantages it also brought in some of its associated problems like the liquidity crunch which is currently being felt across all sectors of the economy. Currently the economy is faced with serious shortages of cash which impacts negatively on the insurance which is mainly dependent on cash availability for transactions. The introduction of the multi-currency system led to more disaster in both the short-term and long-term insurance sector where the clients were informed that their policies which were issued in Zimbabwean dollars were no longer enforceable and as such they were required to make new contributions in currencies which were now in use. It further strained relations between the insurers and the insured who could not come to terms with being told from nowhere that they didn't have cover anymore yet they had paid for cover.

Following introduction of the multi-currency regime and the confusion that was to follow, the Insurance and Pensions Commission (IPEC) which is the insurance regulatory board, came down hard on the players who failed to comply with the minimum capital requirements. This culminated in the closure of a number of short term insurance companies, life assurances, and reinsurers who failed to raise the amount at due date. The move was an effort to bring sanity to the insurance industry and resultantly regain consumer confidence. The minimum capital was pegged at $300,000.00 for short-term insurance as of February 2009 (IPEC, 2009). To date there are only about 23 operational short term insurers, 20 insurance brokers and 9 reinsurance companies (IPEC, 2012). According to Independent (2012), the number of short term direct insurers recently reduced from 26 following voluntary surrender of operating licence by Suremed Insurance Company and IPEC's directive for Jupiter Insurance Company to stop writing new business.

IPEC (2012) also reports that short term insurance market has of late experienced some bit of growth as the premium written previously released by the responsible authority (IPEC). Short-term insurers reported a 30,27% increase to US$109,54 million in Gross Premium Written (GPW) in the six months to June, on the back of growth in motor and engineering insurance, according to the Insurance and Pensions Commission report for the second quarter. According to Independent (2012) gross premium written was US$84,09 million in the same period in 2011. The IPEC report attributes the significantly higher gross premium written this year to gains of 43.25% and 144.21% respectively in motor and engineering insurance. This is all despite the fact that there is serious rates undercutting which is occurring in the industry as a result of serious competition amongst the players who are fighting for a very small cake. Various stakeholders have made calls for the industry to practice high ethical standards so as to regain the much needed consumer confidence. Given the liquidity constraints and stiff competition on the market, there is urgent need to come up with diversified products as well as realistic premiums and desist from premium undercutting. This would boost the industry from the current approximation of 3% market penetration and achieve the 6% level it once reached during its peak period in 2007 (Hakutangwi, 2012).

The economic meltdown experienced in recent years saw a significant shift in the in the insurance industry. The general populace developed a strong mentality that insurers are crooks and they felt short changed as a result of the situations where insured would realise that they was underinsurance at claim time owing to the hyperinflationary condition which eroded the value they were insured for. The general public has lost confidence in the insurance industry and no longer see the importance of buying insurance cover instead they have become comfortable living with their risk rather than transferring it to the insurers. In this ever changing business environment, there is need for growth of the insurance industry through restoration of consumer confidence and creation of a stable insurance sector which the economy can rely on. The research therefore seeks to find ways of upholding good ethical standards as a way of restoring consumer confidence and hence facilitate growth and stability of the industry.

Literature review

Ethics

Pappas (2008) defined ethics as a system of moral standards or values. Ethical versus unethical behavior can be adjusted by the extent to which stress is given to the values of right versus wrong, good versus evil, fair versus unfair, or just versus unjust (Lin, 2012). Ethical behavior is the conformance to social norms, such as fair play, honesty, and full disclosure. Ethical behavior abides by the spirit of the law (Lin, 2012). Ethical behavior enhances consumer confidence in the products on offer and the company offering them. Positive ethical sales behavior may diminish transaction cost and raise the confidence benefits, and help to form a sustained customer-firm relationship. Therefore, the role of customer-perceived confidence benefits on customer-firm relationship should be examined. But most previous studies on confidence benefits have focused mainly on the outcome of confidence benefits (Hennig- Thurau et al, 2002, Yen and Gwinner, 2003), and little empirical evidence for the antecedents of confidence benefits has been found (Lin, 2012). For the insurance industry once clients do not see the benefit accrued from the product they simply decide to retain the risks themselves and as such the industry shrinks. Ethics are laid down in a code of ethics. A code of ethics is a document that articulates the values, norms, beliefs and principles of a particular organization which members are expected to adhere to. Its primary purpose is to define the culture of an organization and also set standards for acceptable behavior. A code of ethics should incorporate the interests of different parties including employees, customers, stockholders, creditors, suppliers and the general public.

Ethics and Insurance

The accent for a good business should be on ethics. For insurance companies, ethics are an essential element in generating relations and maintaining them, on the long run, with clients, associated insurance companies or with all the various stakeholders. The insurance industry over the decades has responded to unique and challenging situations, offering creative products, fit for the demand. According to Gavriletea (2008) from the clients' point of view, ethics refers to punctuality during the meeting (time is extremely valuable and limited for all risk managers), presentation in front of the client, the first impression, behavior and posture can be factors in the future decision making process, a clear and concise presentation of the offer to the client, saving as much time as possible (if the client travels to the insurance company's headquarter), the insurer's prompt action in the case of an insured event, and the way it is solve and a permanent contact with the clients, regarding payments and contract evolution. The majority of clients does not follow the payment dates, and appreciate being informed about them. Gavriletea (2008) points are in line with the characteristics of a service and insurance itself is a service. A service is something which can be bought but one cannot see it, neither can it be dropped at one's feet.

The growth of the insurance industry

The growth of the industry at the moment is minimal and a lot needs to be done to improve the penetration ratio. The phrase penetration ratio has various uses by different users from marketers, mobile phone services providers, engineers and many more. The insurance penetration ratio is a reflection of the gross premium as a percentage of the GDP. Similarly, insurance density measures the gross premium per capita. The higher the ratios the more contribution the insurance industry makes to the GDP and overall economic performance, (Chikundura, 2010)

In Zimbabwe the penetration ratio is assumed to be slightly above 3%. Current industry statistical data is not readily available (Chikundura, 2010). At its best in 2007, the penetration ratio hovered around 6%. Factors that led to a drop in the ratio include the increased underinsurance, policy lapses, insurance cover reductions and policy cancellations in the backdrop of a hyperinflationary environment as well as a decline in Foreign Direct Investment. Other factors include reversal of private capital flows, reduction of revenues from tourism and reduced access to credit and trade financing.

The ratio can be compared with previous ratios by the same industry to check movement in the insurance sector's contribution to the overall economy or to establish insurance industry trends. The ratio can be used by investors in combination and/or in addition to other assessment criteria to check the viability of the insurance industry of a specific country intended for their capital destination. That means it permits investors to compare different countries as potential destinations for their investments. Policy makers can also use the ratio to compare with global, regional and industry trends to influence policy. Where the ratio is relatively high, insurance will cease to be recognised only as an instrument of risk coverage but also as a means through which domestic savings can be harnessed. Besides providing risk transfer services to individuals and corporations, insurance facilitates trade and commerce, mobilises savings for investment and ensures efficient allocation of capital. Insurance companies and pension funds play a pivotal role in the mobilisation of domestic savings and capital formation. Households and firms with excess funds will invest through insurance funds products and in turn the funds are channelled towards deficit units in the productive sector.

It is worth mentioning that insurance companies and pension funds were major players on the Zimbawes Stock Exchange in the last decade. Their investments were in excess of 70% of funds invested through the stock exchange. Short term insurers are also popular with their role in the money market where they finance Government short term borrowings as well as providing short term bank deposits. Long term government securities also find a market in insurance companies. In summary both the private sector and government (central and local) borrow from insurance and pensions industry. Besides, the sector is also a relatively major employer. The sector therefore gives impetus to economic growth. Policy makers should therefore target policies that influence the growth of the penetration ratio and consequently the insurance industry.

Factors influencing low insurance penetration ratio in Africa

Despite various strategies put in place by governments in Africa and an earlier assertion that South Africa, recorded the highest insurance penetration ratio in the world as at 2006, it is an irony that we will continue to mourn the continent's relatively low insurance penetration ratio compared to other continents in the world. The causes are not exhaustive but the low ratio can be attributable to some of the following possible causes;

Lack of trust and market confidence

Consumer resistance comes from lack of trust and confidence in the market. It further emanates from lack of public confidence on how insurance mechanism operates. The incorporation of corporate governance issues, high ethical standards by insurance practitioners (a disciplined and orderly market), a robust regulatory environment that creates an enabling environment, efficient use of IT systems, learning organizations, quality service delivery and adequate capitalisation levels are the building blocks to a transparent, efficient and safe insurance market environment. Insurance companies should not be used as conduits for white collar financial crimes.

Weak industrial performance

Most formal products for insurance companies are designed to accommodate industry and employers' and employees' needs. Insurance comes as a service wherever there is an economic activity. The low production capacity in the Zimbabwean economy contributes to the low insurance penetration ratio. There is a direct relationship between economic activities and the demand for insurance products. Policies that stimulate economic growth will automatically spur growth of the insurance penetration rate.

Apart from the two afore mentioned factors which are more to do with the issues of ethics other issues where put forward. These include:

Lack of awareness and marketing

Low level of awareness has been advanced against the low penetration ratio. It was observed that despite the high penetration ratio and density, the majority of South Africans are currently without any insurance cover whatsoever. Just like GDP and per capita income do not show the distribution of wealth, the penetration ratio does not show the spread of the consumption of insurance products. One writer contends that education and marketing are viewed as the tools to overcome the uneven spread of insurance consumption. Indeed, in Zimbabwe and most African countries, it is the short-term sector, in particular motor insurance, that is very popularity although its asset base is lower than that of life companies. Poverty and structural problems- have been identified as factors for this trend**.** In Zimbabwe it is estimated that more than 80% of the economic labour force is operating in the informal sector with only less than 20% in the formal sector. This means the majority have no regular income which permits them to have access to regular financial products. A significant contribution of national income comes from the informal sector. This can be said of most African countries. However there are no suitable products to service this sector implying that a huge chunk of the population is not serviced as far as financial products are concerned.

Addressing business ethics

Goosen and Vuuren (2005) states that to address business ethics on the strategic level only, and only in the boardroom, is not sufficient. A business consists of various sub-systems. To implement ethics on one sub-system while ignoring others, will limit the impact of the institutionalisation in the organisation and create tension at the interface between the systems. This means that addressing issues that concern ethics takes an inclusive approach where strategic plans are made to incorporate all business units. The board has the responsibility to decide on an appropriate strategy to manage the ethical performance of the organisation. The chosen strategy will be largely determined by whether the organisation wants to merely protect itself from ethical failure, or wants to benefit from good ethical performance (Jeurissen, 2004).

Research methodology

The researcher targeted the direct insurers as they fall at the centre of the allegations. Questionnaires were sent to all the 23 operating short-term insurance companies Investigation also targeted a number of individuals some of whom are insured and some are not. The researcher only managed to reach out to a few individuals some of which responded to the investigation and others were not so keen on it. Fifty (50) questionnaires were distributed to individuals. The researcher used SPSS 16.0 to analyse the data collected.

Empirical findings
Descriptive data analysis

Table 1: Clients' data table for mean and standard deviation analysis

Descriptive Statistics			
	N	Mean	Std. Deviation
Products expensive	35	3.2571	0.98048
Products suit needs	35	3.3429	0.90563
Technicalities are satisfactorily explained	35	2.4857	0.98134
Claim process done satisfactorily	35	2.4857	0.85307
Insurers undercut rates	35	3.5143	0.88688
Implications of undercutting are explained	34	2.7647	1.01679
Discriminatory manner of claims handling	34	3.2647	0.99419
Prompt, honest responses	35	2.5714	0.88403
Products match promises made	35	3.3429	0.93755
Insurers are hospitable when taking policy	35	4.0857	0.81787
Insurers intimidate at claim	34	2.7647	0.95533
Insurers ask for favours	34	2.4118	0.74336
Employees inflate loss for enrichment	34	2.6765	1.06517
Insurers are people of integrity	34	3.3824	0.92162
Your opinion on service rendering	34	2.4706	0.92884

A mean of 3.2571 indicates that from the data collected the clients consider the products to be fairly priced. Products offered by the insurers are fair in terms of suiting customer need as shown by a mean of 3.3429. Clients are not satisfied with the way technicalities of the policies are explained to them. It is these technicalities that play a part when a claim arises and as such clients are supposed to have a clear understanding of what is in the contracts they sign. A mean of 2.4857 is an indication that clients are in disagreement with the motion that the technicalities are well explained to them. A mean of 2.4857 on the analysed responses concerning the manner in which claims are handled, it shows that clients feel there is no satisfaction on their part. The responses also showed that there is some element of discrimination which exists on claims processing though it's fair with a mean of 3.2647. On the issue of intimidation a mean of 2.7647 was attained which indicates a fair (clients are indifferent) level of intimidation takes place. On the issue of insurers asking for personal favours from claiming the respondents disagreed. A mean of 2.4118 shows that clients feel that insurers do not ask for favours. Clients feel that the responses given are not always prompt and honest. This is represented by the mean attained of

2.5714. It is the duty of the insurer to provide the clients with they need information on request. The clients feel that the level of rates undercutting is fair not as serious as alleged. The responses show a mean of 3.5143. While there a fair level, the clients think that the implications of undercutting are not explained well to them in instances where there is undercutting. This is indicated by a mean of 2.7647. Clients feel that the insurers are not into the inflating of losses for their personal financial gains. This is indicated by a mean of 2.6765. Respondents are of the opinion that the insurance service provision is generally good despite the several issues which they are not satisfied with on the way the service is delivered. From Table 1, the data being discussed above most of the standard deviations of the items are less than one, which indicates that the responses for each item do not differ greatly from each other. For items with standard deviations of more than 1 the responses are scattered.

Table 2: Insurers' data table for mean and standard deviation analysis

Item Statistics			
	Mean	Std. Deviation	N
Policies best designed to meet customer needs	3.6667	1.17514	15
Time taken to explain policy technicalities	3.6667	0.8165	15
Prompt, honest responses always given	3.9333	0.79881	15
Claims always promptly processed	3.4	0.50709	15
Clients clearly advised of the claiming process	3.8667	0.63994	15
Implications are explained to clients clearly	2.8667	0.91548	15
Products in line with representations	3.3333	0.8165	15
Aiding client fill in claim forms to avoid repudiation	2.9333	1.43759	15
Claims paid to retain business	2.8667	0.83381	15
Repairers are influenced to inflate quotations	2.2667	1.0328	15
Loss adjusters influence reports for personal financial gains	2.6	0.73679	15
Offering or soliciting payments for purpose of influencing government officials	2.8667	0.74322	15
Offering payments for purpose of obtaining, giving or keeping business	3.5333	0.91548	15
Offering payments for the purpose of persuading employees of another company	1.9333	1.09978	15
Offering payment for the purpose of influencing legislation or regulation	2	1	15
Undercutting brings about implications	3.4	1.0556	15
Conflict between personal financial gains and performance	2.5333	0.83381	15
Ever received excessive gifts in return of business	1.8	0.56061	15

Product design

The designing of insurance product must be done in such a way that they meet the needs of the clients. As such insurers say the policies are fairly designed to meet these needs. As an investigation on whether the products offered are in line with the presentations made to the clients, the insurers are indifferent on the notion. There is a feeling that the products are fairly in line with the presentations made to clients. The insurers also maintained neutrality concerning the issue of whether time is taken to explain the technicalities of the policies to the clients at inception. The policy technicalities can lead to negative challenges when claims arise.

Claims processing

Claims processing is the face of any insurance company. It is the point at which the company is rated and it can cause serious client dissatisfaction. The respondents maintained that claims are fairly processed. The analysis also concluded a fair level of advice on the claims process is given to the clients when they are claiming on their policies. The respondents disagreed with the allegations that claims were being paid in order to retain business even where they were supposed to be repudiated. The question on whether repairers are influenced to inflate quotations for financial was also presented to the respondents who disagreed that this exists in the industry. Finally on the issue of claims processing, the respondents also disagreed to the notion that loss adjusters were influencing reports for financial benefits.

Rates undercutting

On the issues of rates undercutting the respondents said there were a fair level of whether rates undercutting in the market brought about implications on the policy holder such as reduced benefits and increased excesses. They were negative on whether the implications which arose as a result of undercutting were explained to the clients.

Conclusions

From the theoretical and empirical evidence gathered the author feels there is reasonable evidence in support of the following:

The industry is fairly managing to provide products which are in line with promises made during marketing efforts. This is consistent with Corbin (2006) who is against assuring a client that you will protect them against all or specified risks of loss which means the company would have expanded the ordinary legal duty of a producer and made themselves vulnerable to lawsuits. Unless intending to incur greater liability in exchange for competitive differentiation, one should maintain a working ethic to treat all policy holders as clients, without actually communicating too much promise to the client.

The policy technicalities are not fully and satisfactorily explained to clients at policy inception. This creates a problem of information asymmetry especially considering that the insurance contract has many legal aspects. These aspects cannot be easily understood by people with no technical knowhow of the insurance operations yet they are essential to the contract. It is such issues which bring about problems at claims stage as they may lead to claim repudiation. There is a tendency of intimidation at claim stage. Despite the commendable high levels of hospitality which insurers give clients when they take policies, the clients feel that the insurers try to intimidate them at claims stage. This is mainly attributed to the efforts by companies to avoid paying claims yet they are so keen on getting the clients' money at inception. This is a major cause for concern as the claims department is actually the face of an insurance firm. The firm's ability to process claims effectively enhances their ability to attract and retain more clients as the clients only receive the service they would have paid for when they claim on their policies. Clients are of the opinion that claims processing is not satisfactorily done. As already articulated, the claims department is very important to the success of any insurance company. There is high need to ensure that the clients are given the same amount of hospitality when they are claiming just like when they are taking the insurance policies.

The sources of dissatisfaction are mainly the application of clauses which were not explained at inception and efforts to intimidate the clients. There is an element of rates undercutting within the industry. This issue of rates undercutting is mainly attributed to the fact that the insurance industry is a soft market and there are price wars within it. This undercutting of rates resultantly brings about some implications on the policy. The implications of undercutting not fully explained when they are given the policy. Clients haven't always given prompt honest responses when they make enquiries. This impact negatively on the clients' confidence on the way the insurers operate. It is essential to make sure that the clients are responded to in an honest and prompt manner. Employees do not seek personal enrichment through by inflating loss and asking for personal favours from claiming clients. There is a general acceptance that the service being provided is good. The study showed that although there are issues which need to be addressed the service provision is generally good. Having noted the existence of the above mentioned unethical practices the author concludes that the major source of unethical practices was company's efforts to avoid claims and increase profits which is shown by the clients' dissatisfaction with the claims processing. The other source is the need to fight competition which is high in the industry where business is low and resultantly rates undercutting. None explanation of technicalities to clients can be attributed to the individual underwriters who may just decide to overlook such issues. The author concludes that the existence of unethical practices in the industry is not the major hindrance of the growth of insurance industry although it is a contributor.

Policy recommendations

Whilst the underlying recommendation is for firms to devise a framework and strategy to enhance understanding of the importance of practicing high ethical standards to their employees, the student makes the following, more granular recommendations, all of which seek to enhance growth of the industry:

Regulatory authorities and insureds

It is important for regulatory authorities to make sure that they put in place clear channels that dissatisfied clients can follow in order for them to make sure that they receive the treatment they dully deserve. It is important that authorities start doing educational programs through various forms of media available so that the general populace gets to understand more about the industry. This can lead to an increase in confidence levels within the clients and resultantly more people buy insurance.

Regulatory authorities and ethical practices by insurers

Through various stakeholders mostly its affiliates of regulatory body can organize seminars for the employees to be kept to date with the various developments on the insurance market pertaining mainly to the effects of ethical practices of the industry. This can help the employees to see why it is important for them to act ethically even on issues they may deem insignificant. Apart from the issues of ethics there are other factors which are impacting on the growth of the industry which need to be addressed as well.

Insurers need to have an understanding of current economic situation and provide suitable products

Just as good as marketing is a critical factor in the success of any short term insurance industry participant, the effects of the economic environment affect different companies to different degrees since they have different sizes, knowledge bases and mechanisms to curb risk upon its coming hence it is critical to devise different retaliation strategies when pressure comes. It is thus important for the insurers to work more on such affordable products as micro-insurance so as to counter on the current economic situation to enhance growth.

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