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A CRITICAL STUDY ON RISK IN LIFE INSURANCE

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ABSTRACT: Insurance Industry is one of the cornerstones of any economy which plays an important role in mitigating life's uncertainties. It has not only been playing a leading role within the financial system in India but also has a significant socio-economic function, making inroads into the interior of the economy. Since, nationalization it has registered a significant growth and has gradually increased its share in household financial savings. Hence it is considered as one of the fast-developing areas in the Indian financial system.

Life Insurance facilities long term savings through easy instalments, new housing loans and ordinary loans for meeting urgent financial commitments. Policyholders are also desirous for their old age requirements. The life insurance corporation also offers pension linked life insurance policies to persons nearing retirement from employment. In a large number of cases, the policyholders take life insurance policies for the benefit of the dependants and some people adopt life insurance for the purpose of tax planning. Every person takes up life insurance policies providing adequate insurance cover for dependents.

CONCEPT OF RISK

The dictionary meaning of the word risk means "A chance of encountering harm or loss, hazard, danger". In insurance hazard of loss as of a ship or cargo or of cargo or goods or other property also degrees of exposure to loss or injury. An obligation or contract of insurance on the part of the insurer, to take a risk on cargo. An applicant for an insurance policy considered with regard to the advisability of placing insurance upon him2. In the Webster's Dictionary of English Language, the meaning of risk is given as 'the chance of injury, damage or loss, a dangerous chance or the amount of possible loss to the insurance company or the type of loss policy covers as life, fire etc. to run (or take) a risk.

RISK IN LIFE

The object of insurance contract is to cover the risk associated with the subject matter of the contract. In business, as in the private life, there are risks of every kind. Certain obvious risk such as fire or burglary or premature death, suggest themselves at once. The aim of all insurance is to transfer such risks and dangers to the shoulders of the persons who are willing to accept the burden for monetary consideration. A person called the insured or assured, who wishes to secure safety, pays a certain sum, called the premium, to the underwriter or in insurance company called the insurer, who, in consideration of this premium takes upon himself the risk insured against and undertakes to indemnify the insured against the consequences of any loss he may sustain by reason of the named peril. Thus, peril can be insured by a valid insurance contract. A contract of insurance can be valid if it satisfies all the essential requirements of a contract under the Indian Contract Act. An insurance contract is regarded as a contract uberrimae fidei or a contract of utmost good faith.

COMPONENT FACTORS OF RISKS

Risk involves numerous hazards. It denotes objective uncertainty. It is also used with reference to the object to which the uncertainty attaches. In order to understand it fully we have to study its component factors. The various factors which each contribute to the uncertainty are terms hazards. Ordinarily, there are many separate hazards that contribute to the uncertainty that attaches to any particular object or person. The sum total of hazards constitutes the risk. Life insurance is the arrangement through which a man can plan for the continuation of income if death, disability of old age destroys his ability to earn a living. Life insurance is used in its generic meaning to include all forms of insurance designed to protect against loss of income arising from liability to work, whether this be caused by death, accident, injury, sickness or old age.

REVIEW OF LITERATURE

Babbel, D. F., & Santomero, A. M. (2010) reviewed and evaluated risk management systems. In the insurance sector, this evaluation covered a number of prominent life/health and property/casualty insurers, both in the U.S. and abroad. The information obtained on the philosophy and practice of financial risk management comes primarily through intensive interviews and analysis of the reports and procedures that are in place at these insurance firms. **Makkar and Kumar (2004)** examined in detail the changing scenario of insurance sector in the wake of privatisation and its impact on Indian economy. The article explored in detail the impact of privatisation over insurance industries. The article also speculated the benefits that would with the success of insurance viz., infrastructure, housing, safe drinking water, electricity and primary education. The article also investigated the helm affairs of insurance industry in the post liberalisation scenario.

Tillinghast Towers (2005) demanded more transparency and disclosure of key business risks for the insurance industry to prevent inappropriate accounting and bitter costs to the customers.

STATEMENT OF THE PROBLEM

Insurance fraud is one of the most serious problems facing insurers, insurance consumers and regulators. Its existence not only increases the cost of insurance, but also threatens the financial strength of insurers and negatively affects the availability of insurance. Insurance fraud encompasses a wide range of illicit practices and illegal acts involving intentional deception or misrepresentation. The industry has witnessed an increase in the number of fraud cases in the last couple of years. Organizations are realizing that frauds are driving up the overall costs of insurers and premiums for policyholders, which may threaten their viability and also have a bearing on their profitability. Hence, companies need a more vigorous fraud management framework. Larger insurers, which spend more on the investigation and settlement of claims and on medical exam and inspection fees, are better at detecting fraud. (Bali et al., 2010)

REASONS FOR LIFE INSURANCE FRAUD

S.No.	REASONS FOR LIFE INSURANCE FRAUD	SCORE
1	Fraudsters think they can get away with insurance fraud	3.204
2	Fraudsters need money	3.308
3	Fraudsters think they are paying excessively for insurance	3.020
4	Fraudsters want to compensate for the deductible expenses they would have to pay	2.636
5	Their insurance agents, friends, family or doctor(s) influence them	2.508
6	Insurers make undue profits	2.704
7	Everybody lies on applications or everybody is not honest with their applications	2.668

SOURCE:COMPUTED DATA

The respondents have shown a higher amount of disagreement for the last four reasons. Last four reasons are ranging from 40 to 50% of disagreement. Also, the averages of all these reasons are less than 3. So we can conclude that first three are the major reasons which would compel one to commit life insurance fraud. The last reason i.e. fraudsters think they can get away with life insurance fraud is a serious point to be taken into consideration. It indicates that there are loopholes in the fraud detection technique of life insurance and it also indicates lack of internal control system of the insurance companies. That is why the fraudsters think that they can easily get away with life insurance fraud.

Findings related to insurance fraud complaints respondents were asked whether there are significant differences in the means of complaints received for insurer fraud and insurance fraud and it was found that there are significant differences. Insurer fraud complaints are received from within the organization and insurance fraud complaints are received from external sources. If a proper risk assessment framework is adopted within the organization and stringent action is taken against the perpetrator then it will at least help in curtailing insurer fraud. Therefore, the control and reduction of insurer fraud is within the control of the insurance company.Findings related to insurance fraud scheme A Pearson product-moment correlation was run to determine the relationship between characteristics for committing insurer fraud and insurance fraud. There was a strong, positive correlation for exploitation due to lack of separation of duties for insurer and insurance fraud ($r = 0.662$, $n = 50$, $p < .0005$). Thus it can be concluded that out of seven different characteristics for committing insurer fraud and insurance fraud there is significant positive correlation in three characteristics as stated above in the table. This also confers that different characteristics are adopted for committing insurer and insurance fraud. Taking advantage of organizational attitude, exploitation due to lack of separation of duties and failure to conduct periodic checks all this leads to lack of internal control system. Findings allied with reasons to commit fraud Respondents were asked to rate on a Likert scale the possible reasons for a perpetrator to commit life insurance fraud. The respondents have shown a higher amount of disagreement for the first four reasons. First four reasons are ranging from 40 to 50% of disagreement. Therefore we can conclude that the major reasons as per customer's perception for life insurance fraud are paying excessively for premiums, perpetrators need money and fraudsters think they can get away with fraud. The last reason i.e. fraudsters think they can get away with life insurance fraud is a serious point to be taken into consideration. It indicates that there are loopholes in the fraud detection technique of life insurance. That is why the fraudsters think that they can easily get away with life insurance fraud.

RESUME

A very essential challenge for the life insurance industry is due to the 'fraud risk'. Insurers are aware of the need to deal with this risk, but the problem is lack of an integrated approach to fraud risk management. The increasing cases of frauds and the growing level of risk insist that insurers regularly evaluate their policies, conduct checks and adopt advanced techniques to curtail such issues. However, no system can clean out such frauds, but a proactive approach can make a company ready to oppose fraudsters and gain a frame over its competitors. As India's insurance industry matures, fraud risk management is going to be a major concern for insurers and business leaders. Insurers will need to constantly reassess their processes and guidelines to manage and alleviate the risk of fraud. Fraud risk in the insurance can originate from internal and external factors. Internal risk means the risk of employees' misappropriating confidential information and conspire with fraudsters is on the rise and therefore they need to put in place internal checks. External fraud risk can occur at various stages, e.g., registration of clients, reinsurance, underwriting, and the claims process. India is one of the fastest growing economies and so is the case with the country's insurance sector. Insurance Fraud Survey is conducted to assess the fraud scenario, the probable risk exposure and the industry practices to counter fraud risk. The significant role that life insurance fraud plays is negatively affecting the insurance industry is often under-reported or discounted. Fraud risk in life insurance is a complex matter, which influence both the parties — insurers as well as policyholders. Life insurance frauds increase the cost of insurance, resulting in policyholders paying higher amount of premiums and at the same time insurers losing to their competitors.

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