LIFE ASSURANCE POLICY LAPSATION: AN EMPIRICAL INVESTIGATION OF THE SRI LANKAN INSURANCE MARKET

[1]S.D.D. Sandanayake and [2]D.A.M Perera

[1]SeniUnion Assurance PLC, Kurunegala Branch, Kurunegala
[2]Department of Accountancy, Faculty of Business Studies & Finance, Wayamba University of Sri Lanka, Kuliyapitiya,

Keywords: *Insurance Industry,Life Assurance, Policy Lapsation*

Introduction

The insurance sector in Sri Lanka has displayed sturdy growth in recent years. Currently there are 20 insurance companies play in Sri Lanka and the total insurance premiums represent about 1.5 percent of GDP of the country (CBSL, 2011). By the end of 2010 there were more than 2.24 millions of life assurance policies in force, which penetrate only 10.9 percent of the total population. While the industry issue 350,000 to 550,000 new life policies in each year, the number of life policies in force and the life policy penetration percentage are found to be insignificant (see table 01). The one of the main reasons for this problem is the high life assurance policy lapsation prevail in Sri Lanka.

Table 01: Life Assurance Penetration

	2005	2006	2007	2008	2009	2010
No. of new policies issued	366,132	409,933	527,385	555,886	464,249	503,543
Change %		11.96	28.65	5.40	(16.48)	8.46
No. of life policies in force	1,629,061	1,740,648	1,923,550	2,103,809	2,131,809	2,244,245
Penetration as						
% of the total population	8.3	8.8	9.6	10.4	10.4	10.9
% of the labour force	22.3	22.9	25.7	26.0	26.4	27.7

Source: Central Bank of Sri Lanka 2011

Life assurance products offered to consumers over the years have become increasingly complex. Moreover, some of these products violate the basic principles of insurance. These factors, coupled with a population that generally has a fairly limited understanding of financial products, the lapsation ratio of life assurance policy is considerably high in Sri Lanka (IBSL, 2010).

Insurance policies have premiums which must be paid in order to keep the policy in effect. The failure to pay insurance premiums usually results in a policy lapse (Lawyers.com, 2012). *Hanley (2012) defines lapse in insurance as the termination of an insurance policy because a renewal premium is not paid by the end of the grace period. When policy is lapsed,* the insurance policy is no longer in effect. Some scholars, such as Singh (2012) and Hanley (2012), have attempted to empirically identify the key reasons for insurance policy lapse. The purpose of this study was to analyze the factors affecting the high lapse ratio of life assurance policies in Sri Lanka.

Methodology

A self-administered survey consisting of 15 statements was administered to 50 respondents, who had already lapsed their life assurance policies. The sample was selected using convenience sampling technique. Individuals who have lapsed their life assurance policies within last three years were eligible for this survey. Two experiments were undertaken to examine respondent's views on life assurance policies and reasons for life assurance policy lapsation. Experiment 1 interviewed both senior and junior insurers in order to obtain their views on life assurance product selling and policy retentions. Based on their comments researchers identified some influential factors on life assurance policy lapsation. These factors were further streamlined at the second-round discussion with a team of experienced life assurance policy marketers. Accordingly, changes in clients' economic status, agents' wrong selling, poor service of the company, and perceived other optional investments were taken as predictors of life assurance policy lapsation ratio. Experiment 2 investigates the factors pursued them to buy a life assurance product and explore the reasons why they stop continuing their policies.

Researchers used structured questionnaire to obtain the views of the respondents. The questionnaire was divided into three sections: the first part of the questionnaire was designed to obtain the demographic data of the respondents, while the second section was focused on gathering the factual reasons for buying life assurance policy. The reasons for the policy lapsation were questioned by the third section of the questionnaire. Researchers measured the influence of the independent variables using five point Likertscales.

Researchers measured the correlations in between policy lapsation and four predictors identified. A multiple regression also used to determine the impact of those four variables on life assurance policy lapsation. Gathered data was analyzed using the SPSS (version 17).

Discussion and Conclusion

The sample was dominated by the male respondents (72%) and the majority (48%) of them was belonged to 26-35 years age group. The respondents' average monthly income was approximately Rs. 31,000. Almost 50% of the respondents accepted that their monthly income is in-between Rs. 27,000 to Rs. 46,000. When consider the reasons for buying a life assurance policy, 34% stated that their buying intention was protecting their life from potential future risks. 8% of respondents stated that they purchased their life assurance policy to protect their family from unexpected risks. Remarkable percentage (46%) accepted that they supposed to secure their future investment and financial status from their life assurance policy.

Most of the respondents (42%) have purchased their life assurance product as they were persuaded by the insurance agents. Peer influences also found to be significant (28%). Only 24% of respondents have purchased their life assurance product after understanding the impertinence of such a protection for their life. However, after purchasing, only 24 percent felt that their life assurance policy is suitable for cater their needs. It implies that almost 76% of the sample was not happy about their life assurance products. This bad feeling might influenced them to lapse their insurance policies.

When consider the influence of changes in clients' economic status, wrong selling of the agents, poor service of the company and other perceived investment options on insurance policy lapsation, the agents wrong selling found to be the most influential ($\beta = 0.398$, $p<0.01$) and it follows by the changes in economic status of the respondents ($\beta = 0.237$, $p<0.11$) and perceived other investment options ($\beta = 0.213$, $p<0.01$).

Still the life assurance policy penetration in Sri Lanka seems to be very low. Therefore, insurance marketers should attend to accelerate this penetration percentage. This can be done in two ways; one is increasing the new policy issues by the industry players and persuades people to buy them, the second option is to reduce the policy lapsation ratio prevailing in the industry. The findings of this paper can use by the marketers for these purposes. According to literature, to date, few, if any, academic studies have been done in finding the reasons for life assurance policy lapsation in Sri Lanka. The research paper utilizes both insurance marketers' and insurance buyers' views. Moreover, paper present the reasons for buying and lapsing life assurance policy which provide balance views on predictors of policy lapsation. However, one major limitation of this study is selecting the total sample from Kurunegala district. Therefore, the results cannot be generalized for the total industry. The second limitation was the researchers faced difficulties in finding previous empirical studies on life assurance policy lapsation in Sri Lanka. Therefore, this study does not compare the findings with previous findings in Sri Lanka.

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