A STUDY ON CAUSES OF LAPSATION FROM THE INSURANCE POLICYHOLDER PERSPECTIVE OF VIJAYAWADA CITY

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Abstract: The human experience is replete with many hazards and uncertainties. One effective approach to mitigating the impact of these risks and losses is to get insurance coverage. Insurance plays a significant role within the financial sector of the Indian economy. Life insurance has emerged as an essential component of the human existence. As it is the essential all the earning people are approached to buy the policy, but as life transforms so many factors are influencing them to not to pay the premium and that leads to lapsation. If the rate of lapsation is huge its impact on financial health of the company. The present study is aimed at causes of lapsation from the policy holder perspective and collected data from the selected sample of policy holders in the Vijayawada city, Andhra Pradesh. The collected sample is analysed with statistical tools for drafting the conclusions and meaningful suggestions.

Keywords: Insurance, Lapsation, Policy, Policyholder, and Premium

1. Introduction

In the fast-paced and unpredictable world we live in, life is full of risks. Whether it's the risk of an accident, illness, or even death, these uncertainties can have a significant impact on our lives and finances. That's where insurance comes in. Insurance provides us with a safety net, a way to protect ourselves and our loved ones from the financial burden that these risks can bring. In the Indian economy, insurance plays a vital role, contributing to the overall economic development of the country.

Human life is full of risks and uncertainties. To mitigate the burden of these risks and potential losses, insurance provides an effective solution. In the Indian economy, insurance occupies a significant position in the financial sector and plays a vital role in the country's economic development. However, despite rapid progress, the Indian life insurance industry faces challenges, particularly in terms of high lapsation rates of policies. This article aims to explore the reasons for policy lapsation from the perspective of policyholders and shed light on the issues of mis-selling, financial burden, and high premium rates.

1.1 Low Penetration and Density of Life Insurance in India

When compared to other Asian countries, the penetration and density of life insurance in India is relatively low. Penetration refers to the percentage of the population covered by insurance policies, while density measures the average amount of insurance coverage per person. Despite the rapid progress of the insurance sector in India, there are still challenges to overcome, such as the high rate of lapsation of policies.

1.2 Key Elements of Life Insurance:

Death Benefit:	The primary purpose of life insurance is to provide a death benefit to the beneficiaries designated by the policyholder. This lump-sum payment can be used to replace lost income, cover outstanding debts, fund education, or meet other financial needs in the event of the

	policyholder's death.
Premiums:	Policyholders pay premiums, either on a regular basis (monthly, quarterly, or annually), to keep the life insurance policy in force. The amount of the premium is determined by factors such as the policyholder's age, health, coverage amount, and the type of policy.

1.3 Types of Life Insurance Policies

There are several types of life insurance policies, each designed to meet different financial needs and objectives. Here are the main types of life insurance policies:

Type of life insurance and key characteristics:

I. Term Life Insurance:
• Provides coverage for a specified term (e.g., 10, 20, or 30 years) • Pure death benefit protection with no cash value component. • Generally, more affordable than permanent policies. • Coverage expires at the end of the term unless renewed or converted.
II. Whole Life Insurance:
• Provides coverage for the entire lifetime of the policyholder. • Premiums remain level throughout the policy's existence. • Accumulates cash value over time that can be accessed through loans or withdrawals. • Offers death benefit protection and a savings/investment component
III. Universal Life Insurance:
• Offers flexibility in premium payments and death benefit amounts. • Accumulates cash value with potential interest earnings. • Policyholders can adjust premium payments and death benefits within certain limits. • Provides a death benefit and a savings/investment component.
IV. Variable Life Insurance:
• Combines death benefit protection with an investment component. • Policyholders can allocate premiums to various investment options. • Cash value and death benefit may fluctuate based on the performance of the selected investments. • Offers potential for higher returns but also involves investment risk.
V. Variable Universal Life Insurance:
• Combines features of universal life and variable life insurance. • Allows flexibility in premium payments and death benefit amounts. • Policyholders can allocatepremiums to a range of investment options. • Offers potential for cash value growth based on investment performance.
VI. Survivorship (Second-to-Die) Life Insurance:
• Covers two individuals, typically spouses, under a single policy. • Pays the death benefit upon the death of the second insured. • Often used for estate planning, providing liquidity for estate taxes. • Can be more cost-effective than insuring everyone separately.
VII. Final Expense Insurance:
• Designed to cover end-of-life expenses such as funeral costs, medical bills, and other debts. • Typically offers lower coverage amounts than other types of life insurance. • Simplified underwriting process with fewer medical requirements. • Provides a cost-effective option for individuals seeking small coverage amounts.
VIII. Guaranteed Issue Life Insurance:
• Provides coverage without requiring a medical exam or health questions. • Guaranteed acceptance, regardless of health conditions.

• Generally, offers limited coverage amounts. • Premiums are often higher compared to policies with underwriting.
IX. Group Life Insurance:
• Provided by employers to their employees as a workplace benefit. • Offers a death benefit, often a multiple of the employee's salary. • Typically, more affordable than individual policies. • Coverage may cease upon leaving the employer unless convertible to an individual policy.
X. Key Person Insurance:
• Purchased by a business to insure the life of a key employee. • Designed to provide financial protection in the event of the key employee's death. • Aims to mitigate the financial impact of losing a crucial contributor to the business. • Death benefit can be used to cover recruitment costs, training, and business continuity.

Understanding the features, benefits, and limitations of each type of life insurance policy is essential for individuals to choose the policy that aligns with their financial goals and circumstances. The selection often depends on factors such as coverage needs, budget, investment preferences, and long-term objectives.

1.4 Policyholders' Rights and Responsibilities1.4.1. Policyholders' Rights:

Right to Information: Policyholders have the right to receive clear and detailed information about their insurance policy, including its terms, conditions, coverage limits, and any associated riders or options.

Right to Privacy: Insurance companies must adhere to privacy regulations and safeguard the personal information of policyholders. Policyholders have the right to privacy regarding their sensitive information.

Right to Fair Treatment: Policyholders have the right to fair and equitable treatment by the insurance company. This includes fair claims processing, transparent communication, and adherence to the terms outlined in the policy.

Right to Policy Review: Policyholders can review the terms and conditions of their insurance policy at any time. They have the right to understand the coverage, exclusions, and any changes made to the policy.

Right to Choose Beneficiaries: Policyholders have the right to designate beneficiaries who will receive the death benefit. This choice allows them to control the distribution of the insurance proceeds.

Right to Contest Denied Claims: If a claim is denied, policyholders have the right to contest the decision and seek a review of the denial. They can present additional information or appeal the decision through the insurer's established processes.

Right to Cancel the Policy: Policyholders generally have the right to cancel their insurance policy at any time. However, the terms for cancellation, including any associated fees or surrender charges, will be outlined in the policy.

Right to Grace Period: In the case of late premium payments, policyholders often have a grace period during which the policy remains in force. This provides a window for catching up on overdue payments without losing coverage.

Right to Non-Discrimination: Policyholders have the right to be treated fairly and without discrimination based on factors such as race, gender, religion, or other protected characteristics.

1.4.2 Policyholders' Responsibilities:

Payment of Premiums: Policyholders are responsible for paying premiums in a timely manner. Failure to do so may result in a lapse of coverage or other consequences outlined in the policy.

Accurate Information: It is the responsibility of the policyholder to provide accurate and truthful information during the application process. Misrepresentation of information could lead to coverage issues or claim denials.

Policy Review: Policyholders should review their insurance policy regularly to ensure they understand the terms, coverage, and any changes that may have occurred. This helps maintain awareness of their insurance protection.

Beneficiary Designation: Policyholders are responsible for designating beneficiaries and keeping this information up to date. Changes to beneficiaries should be communicated to the insurance company as needed.

Compliance with Policy Conditions: Policyholders must comply with the conditions outlined in the insurance policy. This includes adhering to any exclusions, limitations, or requirements specified in the policy document.

Notification of Changes: Policyholders are responsible for notifying the insurance company of any changes in personal information, such as address, contact details, or marital status, that may impact the policy.

Understanding Policy Terms: It is the responsibility of the policyholder to understand the terms and conditions of their insurance policy. Seeking clarification from the insurance company or an advisor is recommended if any aspects are unclear.

Claim Notification: In the event of a claim, policyholders are responsible for promptly notifying the insurance company and providing all necessary documentation and information to support the claim.

Safety and Risk Management: Policyholders are encouraged to take measures to mitigate risks and maintain safety. This may include implementing safety measures at home or in business operations to reduce the likelihood of claims.

By understanding both their rights and responsibilities, policyholders can engage with their insurance coverage effectively, making informed decisions and ensuring a positive relationship with the insurance company. Communication and transparency between policyholders and insurers contribute to a smoother insurance experience.

1.5 Lapsation of Life Insurance Policies

'Lapsation' in the context of insurance refers to the termination or surrender of an insurance policy due to the policyholder's failure to pay the premium within the stipulated timeframe. When a policy lapses, it means that the coverage provided by the insurance policy is no longer in force.

1.5.1 Effect of Lapsation:

Once a policy lapses, the insurance coverage is no longer active, and the policyholder loses the associated benefits and protection. If an insured event occurs after the lapse, there will be no payout or coverage.

Grace Period: Insurance companies often provide a grace period during which the policyholder can make the overdue premium payment without losing coverage. The length of the grace period varies depending on the terms of the policy.

Reinstatement: Some policies may have provisions for reinstatement, allowing the policyholder to revive the lapsed policy by paying the overdue premiums along with any applicable interest or fees. Reinstatement is usually allowed within a certain period after the lapse.

2. Review of literature:

A literature review is a comprehensive summary of previous research on a topic. The review should enumerate, describe, summarize, objectively evaluate, and clarify this previous research. The following are the reviews of various studies on the present topic.

According to a study conducted by LIMRA and Life Happens **(Insurance Barometer Study 2021),** people need life insurance protection. The market is making it easier to buy coverage than ever before. About 59% of the respondents believed they needed life insurance protection, while 31% were more likely to purchase insurance due to a pandemic. Younger Americans are less likely to be insured, but they are more likely to acquire life insurance in the coming year. Despite the awareness to own life insurance protection, the number of people who own life insurance in the United States has decreased marginally; only 52% of Americans say they have life insurance, compared to 54% in 2020.

The lack of stability will cause many policyholders to take the route of abandoning policies to enable them to have excess money to cover daily expenses. Many countries have recently been shocked by the spread of COVID-19, and this issue has severely affected the country's economic sectors, including the insurance sector. Despite the current situation showing that demand for coverage should increase due to the pandemic, the converse is that demand for insurance coverage is declining as the unemployment rate rises and household incomes decline **(Bernama 2020).**

Karthikeyan et al. (2010) identifies the low interest rate on policy revival, additional benefits like accidental death, loan etc., with the policy, sending reminders at the time of lapsation of policy, easy loan repayment system, additional benefit at the time of settlement, convenience in receiving the maturity amount and the document pledged for loan after settlement are the main factors that highly influences the policyholder's satisfaction towards the services of insurers.

Steward Doss and Kaveri (2000) observed that pre-sales services like advice rendered in selection of policy, product knowledge and capacity of explaining the policy benefits and after sales services like reminding of premium on due date, assistance in premium remittance and other intermediary services of the agents increases the level of satisfaction of urban and rural policyholders.

A study conducted by the **National Council of Applied Economic Research (1980)** took a sample of 12000 lapsed policies (two percent of total lapsed policies) based on systematic stratified sampling techniques. The major findings of the committee are that the policyholders' difficulties accounted for 53 percent of lapses and fault of agents and fault of LIC accounted for 5.6 percent and 23.2 percent respectively.

3. STATEMENT OF THE PROBLEM: The impact of Lapsation on the performance of the insurance companies is huge and the effect is uncontrollable, but the companies must focus on various alternative for the policy holders to maintain their financial position and continuing the policy. The study is focused on the impact of policy lapsation on the company.

4. OBJECTIVES OF THE STUDY

1. To study the significance of Insurance Lapsation
2. To identify the causes of the policy lapsation in the policy holder perspective.

5. RESEARCH RESULT

Causes of Lapsation from policy holder Perspective: Element analysis is used to determine the main element that causes policy lapsation. The major causes of policy lapsation are shown in the following table. Barrett's Test of Sphericity and Kaiser-Meyer-Olkin (KMO) have been used as pre-analysis tests to determine whether the entire sample is suitable for factor analysis. MO and Bartlett's Test results are found to be greater than 0.70. Thus, the gathered information is appropriate for factor analysis. Additionally, the high results of the KMO statistics (0.752) and the Bartlett's sphericity test (903.664, df: 210, Sig=0.000) demonstrated the suitability of factor analysis, i.e., the sufficient sample.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.752
Bartlett's Test of Sphericity	**Approx. Chi-Square**	903.664
	Df	210
	Sig.	.000

Causes of Lapsation - Factor Analysis

Factors	1	2	3	4	5	6	7	8	9
Limited benefit in the product	0.069	-0.034	0.012	-0.037	0.015	0.191	0.828	-0.045	-0.045
High premium rate	0.151	-0.096	0.023	-0.182	0.749	0.032	-0.011	0.089	-0.155
Poor Customer Service	-0.144	-0.417	0.021	-0.452	-0.145	-0.376	0.271	-0.157	-0.052
Mis-selling of the Product	0.119	0.078	-0.245	0.036	0.097	0.011	0.089	-0.616	-0.038
Delay in Renewal Notice	0.106	-0.312	0.137	0.311	-0.104	0.133	0.190	0.219	0.545
Improper Training to the Agents	0.099	0.111	-0.086	-0.141	0.014	-0.115	-0.037	0.017	0.795
Lack of faith about company's past performance	-0.009	-0.010	0.036	0.807	-0.034	0.014	-0.048	-0.117	-0.069
Previous experience about delay in claim settlement	-0.061	-0.275	-0.112	0.072	-0.082	0.353	-0.514	0.023	-0.209
Low awareness about protection of life	-0.228	0.226	0.493	-0.313	0.321	0.107	-0.169	-0.078	0.223
Complex revival procedures	-0.100	-0.032	-0.031	0.368	0.659	-0.150	0.144	-0.041	0.120
Poor rap port with the customers	-0.027	0.058	-0.058	0.052	-0.078	0.841	0.157	-0.047	-0.088
Financial burden for the policyholders	0.112	0.585	0.327	-0.139	-0.031	-0.002	0.095	0.026	-0.125
Loss of Customer confidence due to bad word of mouth from others	-0.098	0.681	-0.080	-0.015	-0.148	0.126	0.103	0.013	0.112
Frequent change of customer address	-0.684	0.067	-0.341	0.002	-0.002	0.019	0.107	0.089	-0.118
Wrong prospecting of customers	0.844	-0.054	-0.045	0.022	0.074	0.010	0.136	0.110	0.061
No transparency in the procedures	0.261	0.009	-0.331	-0.021	0.215	0.011	-0.007	0.707	0.152
Inadequate skill of employees	-0.309	0.396	0.189	-0.190	0.103	-0.047	0.088	0.482	-0.128
Low bonus declaration	0.062	0.006	0.826	0.106	-0.021	-0.079	0.102	0.124	-0.069
Procrastination in paying premium	0.097	-0.169	0.077	-0.187	0.399	0.429	-0.281	0.039	0.226
Agent force to cancel existing policy and make to purchase another new policy	-0.242	0.593	-0.067	0.243	-0.019	-0.223	-0.129	-0.107	0.001
Customers feel it is useless investment	0.847	-0.050	-0.138	-0.008	0.020	0.017	0.048	-0.072	0.004

Eigen Values	2.661	1.848	1.601	1.498	1.292	1.252	1.170	1.151	1.003
% of Variance Explained	12.670	8.802	7.623	7.133	6.154	5.963	5.573	5.480	4.777
Cumulative % of Variance	12.670	21.472	29.094	36.227	42.381	48.344	53.918	59.398	64.175

Source: Primary Data & Calculations

Finding Eigen values greater than unity yields nine factors. It is believed that significant causes of lapsation are those with a component loading of 0.5 or more. 'Customers feel it is useless investment' and 'Wrong prospecting of customers' have component loadings of 0.5 and above, as can be observed from the rotated component matrix. Thus, these two variables make up the first factor.

The factors 'Agent forces to cancel existing policy and make to purchase another new policy, 'Loss of Customer confidence due to bad word of mouth from others,' and 'Financial burden for the policy holders 'are shown to be relevant in the second factor. 'Low bonus declaration' is found to be significant in the third factor. 'Lack of faith about company's past performance' is revealed to be relevant in the fourth component. 'High Premium Rate' and 'Complex revival procedures' are determined to be relevant in the fifth component. 'Poor rapport with the customers' is revealed to be crucial in the sixth factor.' Limited benefit in the product' is shown to be significant in the seventh factor. 'No transparency in the procedures' is found to be significant in the eighth factor. A factor of one contributes a total of 12.67 percent to the policy's lapse. The additional factors that lead to policy holder lapsing are as follows: 8.80, 7.62, 7.13, 6.15, 5.96, 5.57, 5.48, and 4.78. 64.17 percent is the overall cumulative proportion of variables by these nine elements that lead to lapsation. The key components of collapse are shown in the following table, which was assembled from factor analysis.

Causes of Lapsation

Causes of Lapsation	**Component Loading**
Customers feel it is useless investment	1
Wrong prospect of customers	2
Loss of Customer confidence due to bad word of mouth from others	3
Agent force to cancel existing policy and make to purchase another new policy	4
Financial burden for the policyholders	5
Lack of faith about company's past performance	6
High Premium Rate	7
Complex revival procedures	8
Poor rap port with the customers	9
Limited benefit in the product	10
No transparency in the procedures	11
Improper Training to the Agents	12
Delay in Renewal Notice	13

6. DISCUSSION

The perception, responsibilities, and satisfaction level concerning insurance companies play a pivotal role in the endeavour to minimize lapsation rates. Policyholders' perceptions of insurance companies influence their commitment to maintaining their policies, while insurance companies hold key responsibilities in providing value and support. Furthermore, policyholders' satisfaction levels directly correlate with their willingness to continue their insurance coverage. In conclusion, a holistic approach that addresses these aspects is necessary to reduce lapsation rates and foster a more stable and secure insurance ecosystem.

Policyholders' perception of insurance companies is shaped by their experiences, interactions, and overall trust in the insurance industry. A positive perception can be cultivated through transparent communication, ethical sales practices, and a commitment to policyholder welfare. On the other hand, negative perceptions may arise from mis-selling, opaque policies, or a lack of understanding. By focusing on enhancing the perception of insurance companies, the industry can build trust and confidence, encouraging policyholders to see the long-term value in maintaining their policies.

Insurance companies have a significant responsibility to provide not only suitable insurance products but also comprehensive support throughout the policy lifecycle. This includes proper underwriting to ensure the right fit for policyholders, offering flexible payment options, and addressing the evolving needs of customers over time. It is crucial that insurers recognize their role in mitigating lapsation by creating policies that adapt to policyholders' circumstances, thereby reducing lapsation due to financial strain or changing needs. Furthermore, ethical selling practices are essential in ensuring that policyholders purchase insurance products that truly align with their requirements.

7. CONCLUSION

In conclusion, the battle against lapsation rates involves a collective effort from both insurance companies and policyholders. Insurance companies must take the lead in fostering positive perceptions through ethical practices, fulfilling their responsibilities by adapting to policyholders' evolving needs, and consistently enhancing the satisfaction levels of their customers. At the same time, policyholders must recognize the importance of insurance as a financial safety net and maintain their coverage, understanding that insurance companies are there to support and protect them. Ultimately, a collaborative approach that aligns perceptions, responsibilities, and satisfaction levels is vital to minimize lapsation and ensure the long-term financial security of policyholders.

The impact of policy lapsation in Life Insurance Corporation of India (LIC) is a critical issue that has far-reaching implications for both the insurance industry and the financial security of policyholders.

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