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An Empirical Study on the Review of Literature on Factors Determining Lapsation of Insurance Policies

Mrs. A. Siva Naga Lakshmi[1], Dr. P. V. Mohini[2]

[1]Part-time Research Scholar, Department of Commerce and Management Studies, APTDR Hub, Andhra University, Visakhapatnam.
[2]Professor& Research Supervisor, Department of Management Studies, Gayatri Vidya Parishad College for Degree & PG Courses(A), Rushikonda, Visakhapatnam.

Abstract:
Economic conditions or financial hardships may lead to the lapsation of the insurance policy. Policyholders may prioritize their expenses and postpone the payment of premiums to the insurance premium. Lapsation has significant consequences including loss of coverage, premiums, and coverage in the future. The different researchers have identified various reasons for the lapsation. The current study focuses on the review of the literature about the factors influencing lapsation and a hypothetical study about the factors.

Keywords: *Lapsation, ANOVA, Mis-selling, Insurance, Underwriter.*

Introduction: 'Lapsation' in the context of insurance refers to terminating or surrendering an insurance policy due to the policyholder's failure to pay the premium within the stipulated timeframe. When a policy lapses, the coverage provided by the insurance policy is no longer in force. Once a policy lapses, the insurance coverage is no longer active, and the policyholder loses the associated benefits and protection. There will be no payout or coverage if an insured event occurs after the lapse. In some cases, insurance regulatory bodies align their standards with international frameworks and standards to promote consistency and collaboration across borders. This is particularly relevant in regions with cross-border insurance activities. Non-compliance with regulatory standards can result in penalties, sanctions, or even the revocation of an insurance company's license. Compliance with regulatory requirements is essential for maintaining the trust of policyholders, ensuring industry stability, and upholding the overall integrity of the insurance sector. Insurance companies typically have compliance officers or teams dedicated to ensuring adherence to these regulations.

Objectives of the Study:

1. To identify the different reviews of Literature about insurance policy lapsation.
2. To focus on the relationship between the age of a policy, also called its duration, and influences lapse behavior.
3. To analyze the Influence of taxpayers' income with an increase in the number of policies.
4. To evaluate the association between Lapsation and the underwriter's role in the revival of policy.

Three hypotheses are formulated and collected data from the policyholders and identify the relationship between different parameters by using ANOVA and Correlation.

Review of Literature:

1. **Patel and Dwivedi** (2022)[1] studied "A Comparative Study on Profitability and Long-Term Soundness of Selected Private Life Insurance Companies in India" concluded that, after being deregulated in August of 2000, the life insurance business has grown into a sizable one. Unsurprisingly, private life insurance firms have successfully entered the market and established themselves. The purpose of the current study is to evaluate the relative profitability and financial stability of three large private life insurance businesses that account for over half of the private life insurance industry's gross direct premiums. According to the results of the analysis, HDFC LIFE has a high rate of return on investment (ROI), as

measured by its total revenue, shareholder money, and total assets. Considering the ratios of proprietary funds, total liabilities, and policyholders' liabilities to total assets, SBI LIFE has been effectively managing its assets and enhancing SBI LIFE's long-term viability.

2. **Pallavi Pattan and Priyanka Khandelwal** (2018)[2], Evaluated cost effectiveness in their research "Comparative Study of Cost Effectiveness of Public and Private Insurance Companies of India". They concluded that now, the Indian insurance market is open to private corporations, and the state-run Life Insurance Corporation of India (LIC) has competition from independent firms. LIC's business is harmed by the presence of this rival. The goal of the current research was to learn how efficient some businesses were and to make comparisons between them based on their cost-effectiveness ratios. Efficiency in terms of cost is the ratio of inputs to outcomes in terms of money (unit). The value of inputs (cost) is in the numerator and the unit of output is in the denominator of cost-effectiveness analysis (CEA) to calculate this. Despite stiff competition from the commercial sector, the results reveal that LIC is still the most cost-effective life insurance provider in India.

3. **Jayant D. Chandrapal** (2017)[3] aims at the measuring financial soundness of the Indian life insurers (LIC of India and Private Life Insurance Companies (PLIC)) with the help of ratio analysis based on the CARAMEL framework. Financial Soundness indicators indicate the magnificent growth of the Indian life insurance industry. Since LIC of India was found sounder than the PLIC concerning the CARAMEL framework; however, there was slower growth, and some of the indicators such as Management Efficiency show a decreasing trend concerning the financial soundness of LIC of India, on the other side PLIC have improved their position in the area of cost-effectiveness. It was also observed that PLIC shows improvement and increasing trend in the key areas of financial soundness such as Asset Quality (Solvency Margin). This scenario alarms the future challenges to LIC of India and quotes for the stiff competition from the PLIC in the coming days.

4. **Rajini, Gomathi and Narayanan** (2017)[4], Examine and conclude in their research "Constructs Influencing Satisfaction: A Comparative Analysis of Life Insurance Schemes Providers" that the factors that contribute to the happiness of those who run life insurance schemes is the focus of this research. Two insurance providers' selection criteria, brand recognition, service quality, and customer happiness were analysed using a multiple regression model. Using a predetermined questionnaire, we were able to acquire 200 usable samples. Customers of India's LIC are happy with their returns, selection criteria, and quality of service, according to this report. Customers of Reliance Life Insurance have shown that returns are the sole criterion with which they are happy. In addition, most policyholders are unaware of the retirement policy, thus the insurance industry would benefit from marketing activities that raise consumer knowledge of the many plans available.

5. **R. Mahesh** (2017)[5], A Study on Problems and Difficulties Faced by LIC Agents while selling insurance policies with special reference to Kageyama Branch, Insurance is one of the primary elements for everyone's protective lifestyle. The study reveals that awareness levels of people should be increased about insurance. The government also provides various beneficial insurance schemes under its social welfare schemes but most of the people are not aware of them.

6. **Vikas Gairola** (2016)[6] Examine-in his research "A Comparative Study of Public and Private Insurance Companies in Post Liberalization Era" the relative success of state and PIC in India by looking at three key metrics: total premium revenue, the number of new policies issued and market share. The secondary data spans from the 2000-01 year through the 2015-16 year. The research found that private life insurers influenced the LIC in several ways throughout the first decade as they consistently worked to strengthen its operations. LIC produced novel, appealing insurance programs, made strides toward improved customer relationship management, and increased the efficiency of their advertising to counteract the market pressures they were facing. Considering the size of India's population, the country's untapped potential in the life insurance industry is enormous.

7. **Dr. R. Khader Mohideen, K. Sekar** (2016)[7], A Study on Policy-Holders Satisfaction of Life Insurance Corporation of India at Sirkali Town Life Insurance cannot afford to lose sight of its social relevance and shy away from its social responsibilities. The corporation must constantly study the emerging needs of the market, arising due to the change in the value of social life. Demographic changes also produce the different needs amongst the population. The contribution to the nation building through strengthening the economy of a country, improvement of the health care facilities, education as well as employment shall go a long way to ultimately improve the quality of the insurance products of individual members of the society.

8. **C Kalpana Naidu** and **C Paramasivan** (2015)[8] tried on comparison of LIC and private insurance companies. In their study, they stated that selling more unit-linked plans helps private players grab market share from LIC. The investment patterns of LIC and private insurers also showed some differences. The Solvency ratio of private life insurers was much better than LIC despite the big losses suffered by them. The lapsation ratio of private insurers was higher than LIC and servicing of death claims was better in the case of LIC as compared to private life insurers. The private sector companies are performing better than LIC of India.

9. **Luqman Adedamola Sulaiman** (South Africa), **Stephen Migiro** (South Africa), **Tessema Yeshihareg** (South Africa), (2015)[9] Investigating the factors influencing the life insurance market in Ethiopia, this study found that inflation (INFR) was statistically significant on both the life policy demand and supply markets. The young dependency ratio (YDR) and the old dependency ratio (ODR) had a statistically significant effect on the life insurance market demand and the life insurance market supply respectively. Inflation is a principal factor that determines the levels of supply and demand in the life insurance market.

10. **Simona Laura Dragos** (2014)[10], in the research article, "Life and non-life insurance demand: the different effects of influence factors in emerging countries from Europe and Asia", Economic Research. Much previous research has shown that Urbanisation, incomes and their distributions, and the population's degree of education are relevant factors for the development of the insurance sector in any nation. This present paper tried to test the above-said variables using econometrics of panel data on 17 emerging economies from Asia and Europe over 10 years from 2001 -11. This research brought out findings that urbanization influenced significantly the life insurance demand in Asia countries so it pointed out that the main insurance opportunity will be in emerging Asia (especially China and India), where the urbanization rate is lower than it is in Central and Eastern Europe. It also highlighted that tertiary education as a proxy for risk aversion is not appropriate for the life insurance sector because of the complexity of wealth accumulation and distribution of wealth products so a reliable solution for this could be the high level of financial literacy.

11. **V.N. Parthiban** (2014)[11] undertook this study on the life insurers' soundness and performance through the CARAMEL model. The financial soundness and performance of life insurers of LIC, SBI, and ICICI Prudential Life are evaluated through the CARAMEL model (Total Solvency Ratios, Asset quality ratio, Total Reinsurance and Actuarial Issues Ratios, Total management ratios, Total Earning and profitability Ratios and Total liquid ratios) have been satisfactorily financially sound by and large. The present study also found that the CARAMEL parameters were significantly differing between the selected life insurers in India.

12. **Sonal Nena** (2013)[12], in her study- Performance Evaluation of Life Insurance Corporation (LIC) of India has tried to analyse the growth and performance of LIC. She analyzed the major source of income (Premium Earned) of the LIC, as well as the significant heads of expenses of LIC to measure the performance. This study has proved that LIC has been successful in terms of creating value for its policyholders. The performance evaluation also showed a consistent increase in its business. During the study period, there was no major change in the performance of the LIC. So, it was finally concluded that performance remained unchanged and LIC has maintained the market value of their products.

13. **Bidyadhar and Mayadhar** (2013)[13] studied the "Performance of LIC of India after liberalization" and concluded that, in 2000, as part of the broader liberalization of the Indian economy that had been underway since 1991. Nationalizing the insurance industry was seen as a failure due to the unfavorable effects it had on the industry's expansion, geographic reach, and the regulations and procedures it implemented. Although it had great promise, the insurance industry failed to expand outside metropolitan centers. What was provided to clients was not consistent with international standards. When the insurance industry was nationalized, it became inefficient and sluggish. The absence of competition and the careless way business was conducted led to a stale market. It was thought that the insurance industry's potential in the country's economic development was not being realized, both in terms of its contribution to the growth of GDP and in terms of its ability to meet the requirement for long-term capital necessary for the development of the economy.

14. **Sonig, H.O.** (2008)[14] in his study entitled Business Retention in Life Insurance mentions that rather than chasing fresh prospects, insurers should concentrate on long term retention of the existing policyholders, which is certain to leads to reduction of expenses as well as growing reputation. His findings were the care for lapsed policy with efforts to revive it creates a feeling of loyalty in the minds of the policy holders. He suggested that insurance companies should consider appointing retention managers or outsourcing jobs to revive lapsed policies to private establishments with the help of insurance agents. More number of studies have been carried out to measure policyholders' satisfaction. However very few studies have been carried out in ascertaining research for lapsation of life insurance policies, to fill this gap, the present study has been carried out.

15. **Rajagopalan, V** (2008)[15] in his study entitled "Lapsation of Life Insurance policies" asserts that there is a very high level of competition for personal savings from the various retail financial service providers and their products and this also has an impact on the business retention levels of life insurers. His findings are termination of policies at early durations results in loss and wastage of efforts for all the participants in the deal; namely, the policyholder, the agent, and the insurance company.

Causes of Lapsation - LIC

Factors	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Limited Benefit in the Product	0.074	-0.219	0.159	-0.039	-0.032	-0.022	0.148	-0.708	0.436
High Premium Rate	0.148	0.096	0.761	0.235	0.111	0.243	-0.159	0.184	0.126
Poor Customer Service is provided	0.167	0.055	0.078	0.064	0.838	0.017	0.169	0.070	-0.006
Mis-selling of the Product	0.792	0.182	-0.074	0.152	0.062	-0.062	0.115	0.207	0.005
Delay in Renewal Notice	0.078	0.538	-0.190	0.070	0.187	-0.073	-0.368	-0.335	0.291
Improper Training to the Agents	0.283	0.011	0.267	-0.212	0.078	0.214	0.532	-0.075	0.074
Lack of faith about company's past performance	-0.039	-0.431	0.108	0.229	0.069	-0.266	0.079	0.211	0.457
Previous experience about delay in claim settlement	0.128	-0.116	0.057	-0.091	0.002	0.108	-0.007	0.776	0.214
Low awareness about protection of life	-0.080	0.733	0.031	-0.052	-0.110	0.051	0.147	0.030	-0.009
Complex revival procedures	0.163	-0.113	-0.187	0.089	-0.283	0.546	0.280	0.195	0.291
Poor rapport with the customers	0.056	0.128	-0.036	-0.719	0.374	0.114	0.030	0.081	0.204
Financial burden for the policyholders	0.122	0.014	0.170	0.804	0.161	0.192	-0.024	-0.033	0.112
Loss of customers confidence due to bad word of mouth from others	0.280	0.086	-0.811	-0.029	0.037	0.218	-0.190	0.182	0.030
Frequent change of customer address	0.727	-0.166	-0.102	-0.086	-0.017	0.153	-0.205	-0.146	-0.107
Wrong prospecting of customers	-0.489	0.221	-0.370	0.392	0.257	-0.227	0.089	0.127	-0.004
No transparency in the procedures	0.062	-0.097	0.045	-0.020	-0.045	0.049	-0.818	0.064	-0.019

Inadequate skills of sales person	-0.047	0.137	0.034	-0.065	-0.057	0.134	-0.006	-0.012	0.762
Low bonus declaration	0.411	0.106	0.070	0.183	-0.722	0.102	0.191	0.106	0.109
Procrastination in paying premium	-0.095	0.053	-0.031	0.143	-0.001	0.017	-0.064	-0.040	0.086
Agent force to cancel existing policy and market to Purchase another new policy	-0.350	0.333	0.258	-0.295	0.088	0.144	0.324	-0.064	-0.276
Customers feel it is useless investment	-0.009	0.042	-0.082	-0.031	-0.048	-0.904	0.056	-0.060	-0.018
Availability of alternative investment	-0.154	-0.664	-0.004	-0.028	-0.175	0.301	-0.010	-0.071	-0.094
Eigen Values	2.613	2.043	1.966	1.872	1.584	1.517	1.367	1.254	1.180
% of Variance Explained	11.878	9.286	8.934	8.509	7.200	6.896	6.213	5.698	5.364
Cumulative %of Variance	11.878	21.164	30.098	38.607	45.807	52.703	58.917	64.615	69.978

Finding Eigen values greater than unity yields nine factors. Variables are considered to be important causes of lapsation if their component loading is 0.5 or higher. The rotated component matrix reveals the following: poor customer service, complex revival procedures, low awareness of life protection, frequent address changes, delayed renewal notice, high premium rate, improper agent training, prior experience with claim settlement delays, and insufficient salesperson skills.

A total of 11.878 percent of factor one's contribution to policy lapsation occurs. The remaining factors, in the following sequence, lead to policy lapsation: 9.286, 8.934, 8.509, 7.200, 6.896, 6.213, 5.698, and 5.364.69.978 percent is the total cumulative proportion of these nine components' contributions to policyholder lapsation.

HYPOTHESIS TESTING

H1: The age of a policy, also called its duration, influences lapse behavior

ANOVA Results of the duration of policy on lapse behavior

Source of Variation	**SS**	**df**	**MS**	**F**	**F crit**
Between Groups	1.65291	1	0.826455	0.45	3.84*
Within Groups	60.33708	299	1.828396		
Total	61.98999	300			

*Significance at 5 percent level

From the above table, it is observed that the calculated F value is 0.45. The F table value of df1=1, df2 =299 and α=5 percent level of significance is 3.84; Therefore, the calculated value of F is less than its critical value. Hence, the null hypothesis is accepted which concludes that the age of a policy, also called its duration, does not influence lapse behavior.

H2: There is a direct relationship between increases in taxpayers' income and the number of policies.

Influence of taxpayers' income with an increase in the number of policies

(Chi-Square Test)

Factor	**Calculated Value**	**Table value**	**D.F**	**Remarks**
Tax payers' income	13.176	13.019	6	Significant at 5% level

It is surmised from the above table that the calculated chi-square value is greater than the table value and the result is significant at 5% level. Hence, the null hypothesis (H0) is rejected. The hypothesis, "There is a direct relationship between increases in taxpayers' income with an increase in several policies" is associated, and holds good. From the analysis, it is concluded that there is a close relationship between increases in taxpayers' income and the number of policies.

H3: There is an association between Lapsation and the underwriter's role in the revival of policy.

Co-efficient of Correlation between Lapsation and role of the underwriter for the revival of policy

Variables	N	R
Lapsation	295	0.96
Role of the underwriter for the revival of policy		

The table illustrates a statistically significant positive association (r = 0.096) between the Lapsation and the role of the underwriter for the revival of the policy, therefore, the null hypothesis, which stated that " There is no association between Lapsation and the role of the underwriter for the revival of the policy," was shown to be unsupported and so rejected.

Findings: Lapsation varies according to gender and occupation, according to an ANOVA and 't' test. It has been discovered that gender is strongly related to policy lapsation. The majority of policyholders suspend their life insurance policy, believing it to be an unnecessary investment, according to factor research. Workers at life insurance companies have differing opinions about what caused the lapsation. Employees in the Urban branch and Rural branch sectors have reported that a life insurance product's mis-selling causes an insurance company's lapsation rate to rise. Moreover, employees in the Urban branch and Rural branch insurance sectors disclose that intense sales pressure coupled with the need to meet targets leads them to embrace mis-selling practices.

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.

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) and the role of underwriters in managing lapsation in Andhra Pradesh is a critical issue that has far-reaching implications for both the insurance industry and the financial security of policyholders.

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