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ABSTRACT

This paper has focused mainly to study variables affecting on purchase decision of households and accordingly responsible for lapsation of life insurance policies. Factor analysis is employed on data of 29 items those have impinge on lapsation of term, whole life, endowment, money back policy and unit linked plans. The findings indicate that factor 7 is at the top, which encourages the household to get their policy lapse, for saving and investment (Mean= 4.85) followed by cover the needs of family (Mean= 4.56) protection, saving and investment, as well, they consider instalment payment time period (Mean=4.76). Overall, analyses of policies' lapsation provide an understanding by characteristics-wise households differ significantly on some items. The results are important for insurance actuaries, companies, regulators, agents and development officers and also help in increasing the retention of customers, life insurance density and penetration.

KEYWORDS

Household, Lapsation, Factors, Retention, Insurance Density and Penetration.

1. INTRODUCTION

The family is influenced by policies features, company, agent and media at the time of purchase of life insurance products. Before purchasing they generally acquire relevant knowledge about the products, companies and agents, and then after provide information to agent about socio-economic structure of his family. Henceforth, both parties create simultaneously the relation of faith for purchasing and selling. If, demographic information provided to agent and acquired knowledge about policy purchased by household are not properly matches overtime, it may be lapsed. Such problem is increasing throughout and adversely effects on financial health of life insurance companies. Life Insurance Corporation of India reported that 17 to 18 percent lapsation of life insurance policies were in the year 2000. After the opening of this sector, it has been increased to 39.91% (lapsation by number) in the year 2005, 24.61 per cent in the year 2006. As per record of Insurance Regulatory and Development Authority (IRDA) around 9.1 million policies were lapsed in 2009 and some private players have shown a lapse ratio as high as 50 per cent or even more. In terms of lapsation in premium amount, there is an increasing trend from 4.40 to 6.95 per cent (total lapse premium Rs. 20521.50 Crores) for the period of 2004-05 to 2006-07. Moreover, the data available with Insurance Regulatory and Development Authority and Life Insurance Council reveals that the retention ratio which was 95per cent in 2002-03 has been declined to about 83 per cent in the year ended March 2009. Therefore, study has taken up some important variables which affects on purchase decision of households and consequently responsible for lapsation of life insurance policies.

2. REVIEW OF LITERATURE

Anderson and Nevin (1975), found a negative association among family size, education and the amount of life insurance purchased. The authors explained that higher educated people may believe that inflation often decreases the cash value of life insurance from a savings standpoint and hence declines their need for life insurance. Whereas the study assumes that financial literacy increases with age so it became possibility of surrender or lapse of the policy. In case of family size study reveals that if the size of the family member is large simultaneously expenditure increases and it becomes impossible to hold cash value insurance policy for long time. Renshaw and Haberman (1986) focus their analysis on age at entry, duration of policy, type of policy, and company (having data from seven different life insurers). The case study of Cerchiara et al. (2008) shows the importance of policy duration, calendar year, product class, and policyholder age on lapse rates. Milhaud et al. (2010) find the biggest surrender risks for policies including a facility constraint, i.e., surrender charges only apply for a certain part of the contract duration. Once the contract has reached that point of time that the policyholder can surrender without penalty, the lapse risk increases significantly. Other relevant risk factors include policyholder age or method of payment (i.e., regular or single premiums where regular premiums are further divided into monthly, bi-monthly, quarterly, half-yearly and annual instalments). Akerlof (1970) showed that if all insurers have imperfect information on individual risks, an insurance market may not exist, or if it exists, it may not be efficient. To account these studies it is found that to make a efficient life insurance market firstly the reasons of lapsation may be identified and categories. In view of, present study has carried out.

3. RESEARCH METHODOLOGY

Hypothesis: there is no significant effect on lapsation by factors influencing purchase of policy among the households' demographic variables i.e. family size, age, income, education occupation and gender.

Reliability and Validity: The interactive Cronbach's Alpha value for reliability of 29 items was found 0.730. The CVR above .80 is significant (.60 ≤ significant). It means items in questions contains in questionnaires cover the content of the research significantly as by Kapoor D.R. and Saigal P. (2013).

Scale of measurement: The responses of 800 households were collected on these 29 items from households on 5-point Likert scale-summed rating, from 5 for strongly agreement to 1 for strongly disagrees.

Data collection method and tool: Non-Probabilistic Convenience-cum-Judgement sampling was used and responses were taken through well structured questionnaire.

Determination of sample size:

a. **General framework:** To confirm the sample size of 800 was adequate, calculations for sample size determination by proportion were made as follows, using the maximum possible population variation ($\Pi=.18$ or 18%) as per study of the Insurance Regulatory and Development Authority on Lapsation of all life insurance companies in India by Kannan R. et. al (2008). The precision of the D in the present study was ± 0.05 for a 95 percent confidence level ($z=1.96$).

$n = \Pi(1 - \Pi)z^2/D^2$, $n = (.18)(1-0.18)(1.96)^2/(0.05)^2 = 226.71$ or 227 rounded to the next higher integer.

b. **Framework of technique:** Keiser-Meyer-Olkin (KMO) measure of sample adequacy is also used and its value is 0.665, which is large than 0.500. Thus, factor analysis may be considered as appropriate techniques.

DATA ANALYSIS STRATEGY: To analysis and interpret mean, standard deviation, factor analysis has applied. For conformation of descriptive statistics *F*-test, within-subject, is used. The correlation matrix of 29 reaction items which were developed to know the reasons of life insurance policies lapsation and the present study has found that there are 24 loading variables have correlation greater than 0.300 ; it is reliable regardless of the sample size, (F. Andy and M. Jeremy, 2010). To test the appropriateness of factor analysis technique the correlation between the variables are checked and Keiser-Meyer-Olkin (KMO) measure of sample adequacy is also used for the same. The population correlation matrix is an identity matrix, is rejected by Bartlett's Test of Sphericity. The approximate Chi-square value is 15051.977 with 406 degree of freedom, which is significant at 0.05 levels. The value of KMO statistic, 0.665, is also large than 0.6. Further, PCA method is used for extraction of variable for the component (factor) concerned. The extraction communalities, averagely for each variable has been found 0.749 which is the amount of variance a variable share with all the other variables being considered. The reproduced correlation matrix of overall

items in opinion making of agent towards selling of policies has shown that (26%) non-redundant residuals with absolute values greater than 0.05, indicating an acceptable model fit. The component have Eigenvalue more than or equal 1.000 loaded to find the pattern of factors.

4. ANALYSIS, INTERPRETATION, RESULTS AND SUGGESTIONS

TABLE 1: CONFIRMATORY STATISTICS OF FACTORS INFLUENCING OVERALL INFLUENCE ON HOUSEHOLDS FOR PURCHASE OF POLICY

Factor	Mean of the variable	Confirmatory Statistics											
		Family size (df=4, 795)		Age (df=5, 794)		Income (df=3, 796)		Education (df=5, 794)		Occupation (df=5, 794)		Gender (df=1, 798)	
		F	Sig	F	Sig	F	Sig	F	Sig	F	Sig	F	Sig
Knowledge of Terms And Conditions of Policy Factors (F₁)	2.60(7)	6.369	.000*	30.356	.000*	10.039	.000*	28.552	.000*	23.306	.000*	11.651	.001*
25 Grace Period of Policy	2.94	7.093	.000*	15.927	.000*	4.168	.006*	19.734	.000*	17.374	.000*	.719	.397
29 Loan Facility on Policy	2.70	6.785	.000*	19.651	.000*	4.729	.003*	21.254	.000*	27.319	.000*	.400	.527
14 Possesses Surrender Value	2.39	11.503	.000*	30.823	.000*	7.351	.000*	34.041	.000*	20.686	.000*	31.338	.000*
26 Policy Can Be Surrender After A Specific Period	2.22	8.615	.000*	12.339	.000*	8.942	.000*	10.926	.000*	21.112	.000*	42.164	.000*
24 Free Lock Period of Policy	2.82	10.576	.000*	48.601	.000*	8.322	.000*	27.834	.000*	19.776	.000*	4.164	.042
27 Terms And Conditions of The Policy For Maturity	2.20	3.176	.013	15.818	.000*	18.760	.000*	14.808	.000*	18.100	.000*	55.444	.000*
19 Made Comparison Between Rate of Premium On The Policies of Companies	2.29	7.491	.000*	11.134	.000*	8.885	.000*	29.524	.000*	23.472	.000*	.319	.572
15 Children Education	3.20	7.966	.000*	22.649	.000*	10.077	.000*	20.131	.000*	13.637	.000*	4.0147	.042
Agent influence (F₂)	2.14(8)	6.394	.000*	15.498	.000*	6.314	.000*	3.971	.001*	17.920	.000*	2.199	.138
4 Agent Assured Better After Sales Services	3.29	3.665	.006*	6.866	.000*	17.084	.000*	2.757	.018	16.792	.000*	2.627	.105
6 Agent Reputation For After Sale Services	2.03	14.352	.000*	12.890	.000*	2.937	.033	21.589	.000*	7.264	.000*	.795	.373
3 Agent Was Known To My Friend	4.06	6.031	.000*	24.834	.000*	8.002	.000*	9.032	.000*	18.468	.000*	3.327	.069
5 Agent Stress On This Policy	3.17	11.172	.000*	14.302	.000*	4.817	.002*	6.822	.000*	46.156	.000*	.322	.571
Benefits on policy (F₃)	1.78(9)	6.493	.000*	8.311	.000*	12.556	.000*	34.973	.000*	20.597	.000*	22.295	.000*
17 Survival Benefit	1.48	13.035	.000*	13.035	.000*	16.430	.000*	24.640	.000*	8.364	.000*	24.573	.000*
12 Tax Benefit	2.02	4.930	.001*	4.930	.001*	24.934	.002*	37.485	.000*	15.726	.000*	3.481	.062
16 Rebate On Basic Premium	1.80	4.006	.003*	4.006	.003*	5.158	.000*	34.428	.000*	22.979	.000*	70.482	.000*
9 Provides Extra Riders	1.80	8.359	.000*	8.359	.000*	8.026	.000*	33.503	.000*	18.155	.000*	.032	.857
Liquidity and Protection against life Risk (F₄)	4.15(2)	2.644	.033	24.827	.000*	21.551	.000*	9.019	.000*	3.942	.002*	6.411	.012
10 (Provides Financial Protection for Family Against Life Risk)	4.34	5.248	.000*	5.248	.000*	57.673	.000*	6.639	.000*	5.136	.000*	4.378	.037*
13 Liquidity And Financial Protection	3.95	2.244	.063	2.244	.063	2.539	.055	10.268	.000*	2.749	.018	6.574	.011*
Factors of Company (F₅)	3.60(6)	13.510	.000*	22.080	.000*	2.937	.033	6.045	.000*	18.447	.000*	.333	.564
21 Advertisement Of The Company Seen On The Newspaper	3.46	6.862	.000*	16.429	.000*	8.363	.000*	7.147	.000*	4.065	.001*	12.929	.000*
20 Better Sale And After Sale Services	3.23	10.947	.000*	23.948	.000*	5.442	.001*	13.067	.000*	23.278	.000*	2.136	.144
18 Goodwill Of The Company In Society	4.10	9.542	.015	2.830	.015	3.271	.021	2.040	.071	12.480	.000*	1.964	.162
Knowledge on Financial Matters on the Basis of Terms and Conditions of policy (F₆)	3.90(3)	14.602	.000*	11.864	.000*	7.653	.000*	17.602	.000*	57.839	.000*	.124	.724
7 Affordable Instalment of the premium	4.15	9.228	.000*	9.615	.000*	13.032	.000*	19.092	.000*	65.737	.000*	65.737	.000*
23 Policy Can Be Lapse, if Premium Payment Is not Made Continuously	3.64	16.093	.000*	9.255	.000*	6.543	.000*	10.128	.000*	34.382	.000*	34.382	.000*
Combination Of Protection, Saving And Investment (F₇)	4.71 (1)	3.639	.006*	11.485	.000*	3.159	.024	10.999	.000*	9.183	.000*	2.260	.133
11 Saving and Investment	4.85	6.650	.000*	18.495	.000*	3.827	.010	12.630	.000*	7.122	.000*	.847	.358
8 Cover the Needs of My Family	4.56	6.650	.000*	7.653	.000*	1.995	.113	7.766	.000*	9.254	.000*	.847	.358
Specific Agent at Company (F₈)	3.61(5)	6.450	.000*	12.043	.000*	19.581	.000*	2.366	.038	9.965	.000*	2.928	.087
22 Agent of Company Was Known	4.06	6.031	.000*	24.834	.000*	5.452	.001*	9.032	.000*	18.468	.000*	3.327	.069
2 Agent Was My Friend	3.16	4.954	.001*	2.591	.025*	24.219	.000*	2.700	.020	17.001	.000*	.943	.332
Combination of Agent Influence and Knowledge About Policy F₉	3.72(4)	6.533	.000*	3.791	.002*	4.960	.002*	10.278	.000*	9.207	.000*	.045	.833
28 Instalment Payment Time Periods	4.76	5.931	.000*	3.720	.002*	8.001	.000*	7.655	.000*	9.735	.000*	2.061	.151
1 Agent Was Known To Family	2.67	4.199	.002*	4.271	.001*	3.691	.012*	10.619	.000*	4.235	.001*	1.203	.273

Source: Primary (Data processed through PASW 18.0)

Note: Value in the parenthesis shows rank, *Significant at 0.01.

Table 1 enlisted the rating of the factors on the basis of their importance and depicts the results by demographic variables (Independent variables). The factor 7 reveals that households have given preference to policy lapsation in compare to saving and investment with (Mean= 4.85) followed by cover the needs of family

(Mean= 4.56). Same as they favoured policies lapsation than financial protection, saving and investment and instalment payment time period (Mean=4.76). Further, they do not consider benefits attached to policy as depicts by mean (1.78) of the variable of factor three.

As far as *F*-statistics (ANOVA) is concerned, Table 1 shows that family size-wise households significantly differ towards influence on households for purchase of policy, except, goodwill of the company in society and liquidity and financial protection.

Age-wise, except, goodwill of the company, liquidity and financial protection and agent was my friend.

Income-wise, except, agent reputation for after sale services, liquidity and financial protection, goodwill of the company in society, saving and investment and cover the needs of my family.

Education-wise, except, agent assured better after sale services, goodwill of the company and agent was my friend.

Occupation-wise liquidity and financial protection; gender-wise, except, grace period of policy, loan facility on policy, free lock period of policy, made comparison between rate of premium on the policies of companies, children education, factor second, tax benefit, provides extra riders, factor fourth, fifth, sixth and seventh at 0.01 significant level with respective degree of freedom of demographic characteristics of the households of lapse policy. As per results, conclusively it is **suggested** that companies should work with keep in mind two factors first, knowledge of the terms and conditions, and second, benefits on policy to minimise the lapsation of life insurance policies.

Further area for research: the present study has not covered the factors which are related to financial market, so by considering these factors a new study can be conducted related to policy lapsation.

5. CONCLUSION

This paper has focused mainly to study variables affecting on purchase decision of households and accordingly responsible for lapsation of life insurance policies. Factor analysis is employed on data of 29 items those have impinge on lapsation of term, whole life, endowment, money back policy and unit linked plans. The findings indicate that factor 7 is at the top, which encourages the household to get their policy lapse, for saving and investment (Mean= 4.85) followed by cover the needs of family (Mean= 4.56) protection, saving and investment, as well, they consider instalment payment time period (Mean=4.76). Overall, analyses of policies' lapsation provide an understanding by characteristics-wise households differ significantly on some items. The results are important for insurance actuaries, companies, regulators, agents and development officers and also help in increasing the retention of customers, life insurance density and penetration.

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