HOMOGENEITY IN DEVELOPMENT OFFICERS AND AGENTS ON ISSUES FOR LIFE INSURANCE POLICIES LAPSATION

Dr. Silender Singh Hooda*

Abstract

This paper has made comparative study of responses collected from development officers and the agent on the economic and after sale services issues which responsible for life insurance policies lapsation. The mean, standard deviation has calculated to describe the responses on seven items most affective in policies lapsation and *F*- test has applied to confirm the result of descriptive statistics. The development officers (80) indicate that poor after sale services ($\bar{X} = 4.30, S.D. = .973$) and discontinuity in saving of customers ($\bar{X} = 3.76, S.D. = 1.916$) are the reasons of lapsation of policies. Responses on the same variables, the agents (160) told commission pattern ($\bar{X} = 4.17, S.D. = 1.459$) and poor after sale services ($\bar{X} = 3.63$, S.D. =1.624 are responsible for lapsation. Overall, it has concluded that development officers and agents agreed on poor after sales service is responsible for lapsation, consequently it confirmed the IRH and PRH theories. The results are important for life insurance actuaries, companies, regulators, agents and development officers and also help in increasing the retention of customers.

* Assistant Professor, Department of Commerce, Chaudhary Devi Lal University, Sirsa,(India).

INTRODUCTION

The responsibility of the development officers is mainly watch over of their territory for the development of life insurance. Their responsibilities include marketing and procurement of business, training of agents, meeting prospective clients and agents, promoting the policies and getting contracts. In marketing of life insurance, insurance the services of agents are often considered to be marketing complex (Nik Kamariah 1995). Agents feel pressure of targets and so s/he sell the policies even he has no time to verify the persistency of sold policies. Therefore, after sale service is a dream for policyholders. Resulting, Indian life insurance is facing a big challenge of policies lapsation. Life Insurance Corporation of India (LIC) since its inception and most of the private players are facing this problem continuously. LIC of India has been reported of having 17 to 18% lapsation of life insurance policies (Kannan et. al. 2008). After opening of the life insurance sector, it increased to 39.91% (lapsation by number) in the year 2005, 24.61% 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 shown a lapse ratio as high as 50% or even more. In terms of lapsation in premium amount, there is an increasing trend from 4.40 to 6.95% (total lapse premium Rs. 20521.50 Crores) for the period of 2004-05 to 2006-07.

REVIEW OF LITERATURE

The review of literature has taken up to check theoretical growth on the reasons of life insurance policies lapsation and related empirical studies have analysed to find the conclusive gaps.

Theoretical Review: There are three theories of lapsation. All are revolving around current market situations on the base of taking maximum benefits. The interest rate hypothesis (IRH) (Pesando, 1974; Kuo, Tsai, and Chen, 2003) stated that policy owner may be willing to remove funds from a life insurance policy (either by way of loan or surrender) in order to take advantage of higher market rates. The policy replacements hypothesis (PRH) (Outreville, 1990; Russell, 1997; Carson and Forster, 2000) states that policy lapses may occur simply because the policyholder has identified a more attractive policy with better terms or rates. The emergency fund hypothesis (EFH) (Outreville, 1990; Kuo, Tsai and Chen, 2003; Kim, 2005) argues that

individual tends to lapse a life insurance policy when faced with economic hardship. This theory focused on interest rate and emergency fund hypothesis and analysing that influence of interest rates and unemployment rates on lapse and concluded that lapse is driven by market and/or product rates of return and adverse economic conditions. They established that policyholders lapse their policies to exploit higher interest rates and/or lower premiums in the market when market interest rates rise. Increasing interest rates act as opportunity cost for owing life insurance. The demographic variables of the policyholder make decision on the basis of utility. As it is the utility which compel the policyholder to compare the life insurance products with requirement and rate of return on investment in debentures, shares, real estate, and commodities.

Empirical Studies: (Nik Kamariah 1995) found that when insurance agent not makes the customer-oriented behaviour, after sometime sold policies may lapse. So, agents should provide follow-up services and make help of the customers by increasing in assured amount in response to their changing needs. This would justify the importance of continuous research to satisfy the customers in this dynamic industry. Smith, Michael L., (1982) where selling skill is the ability to accomplish a sale successfully. It can be developed through essentially two broad means: formal training and sales experience gained through exercising the selling job (Darmon, 1992). As reported by Kimball (1994), relationships and emotions are the keys to success in selling. People buy from salespeople they like and trust. This fact makes price and the company brand insignificant when clients make a buying decision, hence increasing the importance of a producer. The insurance company can distribute its products only if consumers buy them and consumers can be expected to buy life insurance only if agents sell it to them (Oakes, 1990).

RESEARCH GAP: Review of earlier studies has shown that EFH, IRH and PRH considered variables to economic aspect of policyholders. Same as empirical studies have shown that they have take up the problem of getting desired results, skill of selling, training, and failure of agent related issues. So, the study has taken up the combined aspects and tried to check these through the responses of development officers and agents.

RESEARCH METHODOLOGY

H_1: There is no significant effect of different reasons for lapse of policies among the development officers' demographic variables.

H_2: There is no significant effect of different reasons for lapse of policies among the agents' demographic variables.

Reliability and Validity: The interactive Cronbach's Alpha value for reliability contains of 7 synchronize items for development officer and agents were found 0.635 and 0.635 respectively. The Content Validity Ratio (CVR) of both questionnaires were 0.80, is significant (.60 ≤ significant) of the present study. It means items in question contained in questionnaires cover the contents of the research significantly as by Kapoor D.R. and Saigal P. (2013).

***Size of sample, data collection method and tool*:** Non-probabilistic convenience-cum-judgement sampling was used and responses of 160 Agents having 20 per cent or above (statistically abnormal condition) policies had lapsed out of total sold policies and 80 Development Officers working in five major life insurance companies (Life Insurance Corporation (LIC), Bajaj Allianz, ICICI Prudential, HDFC Standard and SBI Life) at branch level in four districts i.e. Sirsa, Rohtak, Karnal and Panchkula of Haryana state were taken through well structured questionnaire.

Data analysis strategy: To analysis and interpret, frequency distribution, mean, standard deviation have calculated and *F*- test have applied to confirm significance of these statistical values.

Scope of Study: This study has taken five individual policies i.e. term, whole life, endowment, money back and ULIPs.

ANALYSIS AND INTERPRETATION

The responses of development officers and agents on variables liable for policies lapsation have quantitatively described and their significance has been confirmed.

Table 1: Responses of Development Officers on Reasons for Lapsation of the Policy

Response on Reason of Lapsation		Exploratory Analysis						Descriptive Statistics	
		Completely Agree	Slightly Agree	Neither agree nor Disagree	Mostly Disagree	Completely Disagree	Total	$\bar{X}$	S.D.
High premium	N	25	16	3	21	15	80	3.19	1.568
	%	31.3	20.0	3.8	26.3	18.8	100.0		
Knowledge on financial product in markets	N	25	22	15	13	5	80	3.61	1.258
	%	31.3	27.5	18.8	16.3	6.3	100.0		
Better alternative policy	N	13	26	19	13	9	80	3.26	1.240
	%	16.3	32.5	23.8	16.3	11.3	100.0		
Better saving option	N	23	30	15	5	7	80	3.71	1.203
	%	28.8	37.5	18.8	6.3	8.8	100.0		
Poor after sale services	N	46	19	8	7	0	80	4.30	.973
	%	57.5	23.8	10.0	8.8	0	100.0		
Commission pattern of agent	N	10.0	29	5	13	23	80	2.88	1.479
	%	12.5	36.3	6.3	16.3	28.8	100.0		
Discontinuity in saving of customers	N	28	23	15	10	4	80	3.76	1.204
	%	35.0	28.8	18.8	12.5	5.0	100.0		

Source: Primary, (Data processed through SPSS 18.0)

Table 1(a): Confirmatory Statistics of Development Officers on Reasons for Lapsation of the Policy

Response on Reason of Lapsation	$\bar{X}$	S.D.	Confirmatory Statistics							
			Age (df=4, 75)		Education (df=1, 78)		Experience as Agent (df=3, 76)		Experience as D. O. (df=5, 74)	
			F	Sig	F	Sig	F	Sig	F	Sig
High premium	3.19(6)	1.568	1.213	.312	.053	.818	7.629	.000	3.276	.010
Knowledge on	3.61(4)	1.258	1.082	.372	.052	.821	1.033	.389	1.964	.094

financial products in market										
Better alternative policy	3.26(5)	1.240	.175	.950	7.919	.006	1.652	.184	.654	.659
Better saving option	3.71(3)	1.203	.560	.693	4.151	.045	1.632	.189	1.054	.393
Poor after sale services	4.30(1)	.973	5.193	.001*	12.249	.001*	1.982	.124	7.944	.000*
Commission pattern of agent	2.88(7)	1.479	2.179	.079	2.207	.141	3.249	.026	.620	.685
Discontinuity in saving of customers	3.76(2)	1.204	1.916	.116	.312	.718	3.576	.018	2.879	.020

Ranks in parenthesis in the mean column.
*Significant at .01 level.
Source: Survey, (Data processed through PASW 18.0)

Table 1 and 1 (a) show the exploratory and confirmatory data analysis on the basis of responses collected from the development officer towards reasons of lapsation of policies under study by using 5-point Likert scale (5= Completely Agree, 4=Slightly Agree, 3=Neither Agree Nor Disagree, 2= Slightly Disagree and 1= Completely Disagree). Then, it was found that the development officer are slightly agreed with the reasons of lapsation namely high premium ($\bar{X}$=3.18, S.D. =1.568) and knowledge on financial products in market ($\bar{X}$=3.61, S.D. = 1.258), better alternative policy ($\bar{X}$=3.26, S.D. =1.240), better saving options ($\bar{X}$=3.71, S.D. =1.203), poor after sale services ($\bar{X}$=4.30, S.D. =.973 completely agreed on), commission pattern of agent ($\bar{X}$=2.88, S.D. =1.479 as neither agree nor disagree) and discontinuity in saving of customers ($\bar{X}$=3.18, S.D. =1.568). On the contrary, they are least agree with the unemployment ($\bar{X}$= 3.76, S.D. = 1.204).

As far as *F*-statistics (ANOVA) is concerned at 0.01 level of significance level with respective degrees of freedom by accepting null hypothesis for different demographic variables Table 1 (a) shows that age-wise, education-wise, experience as gent and experience as development officer towards the reasons of lapsation of life policies not significantly differ on all reasons under study, except, poor after sale service. ……. H_1.

Table 2: Exploratory Analysis of Responses of the Agent on Reasons for Lapsation of the Policy

Response on Reason of Lapsation		Exploratory Analysis						Descriptive Statistics	
		Completely Agree	Slightly Agree	Neither agree nor Disagree	Mostly Disagree	Completely Disagree	Total	$\bar{X}$	S.D.
High premium	N	69	23	7	16	45	160	3.34	1.730
	%	43.1	14.4	4.4	10.0	28.1	100.0		
Knowledge on financial product in markets	N	69	20	4	7	60	160	3.19	1.838
	%	43.1	12.5	2.5	4.4	37.5	100.0		
Better alternative policy	N	64	27	2	9	58	160	3.19	1.806
	%	40.0	16.9	1.3	5.6	36.3			
Better saving option	N	59	25	13	17	46	160	3.21	1.691
	%	36.9	15.6	8.1	10.6	28.8	100.0		
Poor after sale services	N	77	26	13	9	35	160	3.63	1.624
	%	48.1	16.3	8.1	5.6	21.9	100.0		
Commission pattern of agent	N	113	12	5	9	21	160	4.17	1.459
	%	70.6	7.5	3.1	5.6	13.1	100.0		
Discontinuity in saving of customers	N	24	2	7	3	124	160	1.74	1.472
	%	15.0	1.3	4.4	1.9	77.5	100.0		

Source: Primary, (Data processed through SPSS 18.0)

Table 2 (a): Responses of the Agent on Reasons for Lapsation of the Policy

Response on Reason of Lapsation	$\bar{X}$	S.D.	Confirmatory Statistics									
			Age (df=3, 156)		Education (df=3, 156)		Experience as Agent (df=3, 156)		Annual Income From sale of policies (df=5, 154)		other Business (df=1, 158)	
			F	Sig	F	Sig	F	Sig	F	Sig	F	Sig
High premium	3.34(3)	1.730	6.815	.000*	7.458	.000*	6.103	.001*	3.834	.003*	3.384	.068
Knowledge on financial product in	3.19(5.5)	1.838	.749	.524	3.617	.015	6.657	.000*	8.433	.000*	2.209	.139

markets												
Better alternative policy	3.19(5.5)	1.806	.268	.848	6.428	.000*	4.218	.007*	5.755	.000*	17.838	.000*
Better saving option	3.21(4)	1.691	2.718	.047	4.027	.009*	3.148	.027	9.650	.000*	5.440	.021
Poor after sale services	3.63(2)	1.624	3.814	.011	3.596	.015	1.417	.240	1.311	.262	10.416	.002*
Commission pattern of agent	4.17(1)	1.459	2.278	.082	1.433	.235	2.686	.048	2.300	.048	.527	.469
Discontinuity in saving of customers	1.74(7)	1.472	5.129	.002*	5.245	.002*	6.514	.000*	1.509	.190	.085	.771

Ranks in parenthesis in the mean column

*Significant at .01 level.

Source: Survey, (Data processed through PASW 18.0)

Table 2 and 2 (a) show the exploratory and confirmatory values analysed on the basis of responses collected from the agent towards reasons of lapsation of policies under study by using 5-point Likert scale (5= Completely Agree, 4=Slightly Agree, 3=Neither Agree Nor Disagree, 2= Slightly Disagree And 1= Completely Disagree). In case, it was found that the agent are slightly agreed with the reasons of lapsation i.e. high premium ($\bar{X}$=3.34, S.D. =1.730) and knowledge on financial products in market ($\bar{X}$=3.19, S.D. = 1.838), better alternative policy ($\bar{X}$=3.19, S.D. =1.806), better saving options ($\bar{X}$=3.21, S.D. =1.691), poor after sale services (($\bar{X}$=3.63, S.D. =1.624), commission pattern of agent ($\bar{X}$=4.17, S.D. =1.459 completely agree) and discontinuity in saving of customers ($\bar{X}$=1.74, S.D. =1.472 slightly disagree).

As far as *F*-statistics (ANOVA) is concerned at 0.01 level of significance with respective degrees of freedom by rejecting null hypothesis for different demographic variables, Table 2 (a) shows that age-wise towards the reasons of lapsation of life policies on the basis of high premium (except, other business), knowledge of financial products in market (except, age, education, other business), better alternative policy (except, age), better saving options (except, age, experience of agent and other business), poor after sale services, other business and discontinuity (except, other business) are significantly different on all reasons under study. ……H_2

Conclusions and Suggestions

Conclusions: As per analysis of responses of the development officers it is found that poor after sale services ($\bar{X} = 4.30, S.D. = .973$) and discontinuity in saving of customers ($\bar{X} = 3.76, S.D. = 1.916$) are the reasons of lapsation of policies. In a lump sum on the basis of all

demographic variables it is found that poor after sale services is most effective variable for policies lapsation. In following the responses on the same the agents told commission pattern of agent ($\bar{X} = 4.17, S.D. = 1.459$) and the agent who have other business, their sold policies are lapsing due to poor after sale services ($\bar{X} = 3.63$, S.D. =1.624). It is concluded that income shock (Outreville, 1990; Kuo, Tsai and Chen, 2003; Kim, 2005, argues that individuals will be more likely to lapse a life insurance policy when faced with economic hardship), needs of households, poor after sale services and commission pattern of agent are leading reasons for lapsation of policies under study. Overall conclusion of the study has explain that development officer and agents are agree on the basis of some variables poor after sales service is also responsible for lapsation in addition of confirmation of IRH and PRH theories.

Suggestions: It may be suggested that whole time contract should be signed with agents so that after sale services may be provided on all financial and social aspect of policies to customers. There may not be allowed to agent write and do other contract. So that lapsation may be decreased.

Further area of Research*:* On the basis of studied variables by doing or applying factor analysis, variables may be divided with showing percentage in order. The study may be extended at international level with same variables by increasing sample size.

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