Factors Affecting Lapsation of Life Insurance Policies in Sri Lanka: Special Reference to Matara District

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Abstract

Long-term insurance companies operate in Sri Lanka's insurance industry, offering various kinds of insurance products. Customers have a vast range of choices, and they have become more powerful decision-makers in the market. Also, this study will help to solve the existing problems in life insurance plans and create high recognition in the field. So that, it is more important to identify the key factors affect the lapsation of life insurance policies. To achieve this goal, questionnaires were distributed among 97 employees who are life insurance policyholders in Matara District. Data was collected through primary data sources. To analyze the collected data, an SPSS statistical application is to be used, and through those, descriptive statistics, Pearson's coefficient of correlation analysis, and regression analysis are to be undertaken to test the hypothesis of the study. Throughout the analysis it is identified that there is a significant impact between Mis Selling of Policies, Poor Customer Relationship Management and Financial Burden for the Policyholders on Lapsation of Life Insurance Policies. The insurance companies have to find the reasons for the lapsation of life insurance policies and take remedial actions to mitigate. In this study, the researcher has considered three major factors that affect the lapsation of life insurance policies. Researchers have identified Poor Customer Relationship Management as highly affecting the lapsation policies in the life insurance industry. Therefore, insurance companies have to give more attention to customer relationship management.

Keywords: Misselling of policies, Poor customer relationship management, Financial Burden for the policyholders, Lapsation

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Introduction

The insurance sector in Sri Lanka has displayed study growth in recent years. There are 30 companies in operation as insurers as of the end of the year 2015. Out of the 30 companies in operation, 2 companies were composite insurers, carrying on both long-term insurance business and General insurance business, 16 companies were carrying on long-term insurance business, and 15 companies were carrying on general insurance business. (IRCSL, 2022). At present, there are 28 insurance companies in the Sri Lankan insurance industry (IRCSL, 2022). Among those companies, there are 14 companies engaged in the general insurance business. The Regulation of Insurance Industry Act, No. 43 of 2000, provides the relevant legal framework for the regulation and supervision of insurance companies, insurance brokering companies, insurance agents, and loss adjusters (IRCSL, 2022).

Insurance companies are competing not only with themselves but also with other financial institutions within the financial industry. A high level of competition is the most important factor in influencing the structure and activities of the insurance system around the globe. More and more insurance facilities are made available in every part of the country, even in small cities, towns and rural areas. With the growing awareness among the people about insurance, various services provided by the companies, and the availability of insurance facilities across the globe, the insurance sector is emerging very rapidly, and there is a need to identify the main factors that affect customers' choice of insurance companies.

Insurance is a broad concept: there are many different insurance products. Insurance companies offer two kinds of services: life insurance and general insurance. In life insurance, people contribute money to a pool and compensate the insured or the beneficiary of the insured on a policy-mentioned occurrence, such as death, total disability, partial disability, illness, etc. Life insurance is a complex matter. People sometimes make thoughtless decisions with their life insurance policies, such as lapsing their policies and stop paying their premiums. Lapsation of insurance policies is a serious matter for insurers because the foundation of insurance is risk pooling and risk sharing. It means losses of the few are spread over the group. So lapsation causes to break that foundation. Lapsation impacts customer retention, product performance, pricing factors, public image, and workforce planning and is ultimately detrimental to the insurer's business.

The life insurance industry in Sri Lanka, being highly competitive, faces the significant challenge of policy lapses. For a life insurance policy to remain valid, premiums must be paid regularly. A policy typically lapses when these payments are not made. One of the key issues contributing to this problem is the high rate of policy lapsation prevalent in Sri Lanka.

The lapse risk is one of the main risks that life insurers should take into account in terms of its potential financial effects. Because they result in unexpected cash flows and alter the insurers' commitments through changes in contractual guarantees, lapses have a significant impact on the ALM of insurers. (Milhaud & Dutang, 2018). Furthermore, high lapse rates could undermine consumer trust in the overall life insurance sector and pose a systemic risk if a string of lapses by policyholders triggers a generalized panic among consumers akin to a bank run. (Yu, Cheng & Lin, 2018).

The long-term insurance sector generated a GWP of LKR 102,974 million in 2020, up by 15.98% against the GWP of LKR 88,787 million generated in 2019. (IRCSL, 2020). Product innovation, digitization of operations, remodeling distribution channels, and usage of customer-centric operating models were a few of the key strategies used by long-term insurers to achieve business growth during the year. (IRCSL, 2020). Premium generated from Decreasing Term Assurance (DTA)/Mortgage Protection Policies saw a considerable rise during the year due to increased loan grants by the banking and financial institutions, supported by monetary policy relaxation measures of the Central Bank. (IRCSL, 2020). Additionally, the insurance policy lapses at the due date or within the grace period because of nonpayment of premium amounted to 256,202 (2019: 265,256) policies with a slight reduction of 3.41% during the year under review. (IRCSL, 2020). The new insurance policies lapsed stood at 70,337 (2019: 83,547), with a significant drop of 15.81% and claimed for 27.45% of the total insurance policies lapsed. (IRCSL, 2020).

Therefore, increased unemployment, loss of income, and increased vulnerability were among the dominant social impacts of the crisis. As well as the policy lapsation is Continuously increased with this economic situation.

Dias, Chathurika, & Samarakoon (2020), it was found that they have focused on the determination of Lapsation of Life Insurance policies. However, through the research of the last years, the study found that the Matara district has not been covered. Further, this region's policies lapse increased by 50% compared to the last few years. (IRCSL, 2022). After looking into the factors affecting the lapsed policy and the lapse rate, the authors realized that there is no basic foundation for knowing how this has affected the lives of policyholders. According to the IRCSL (2022), many insurers expanded their branch networks to cover all nine provinces, resulting in an increase in the total number of branches from 1,896 to 2,046. Consistent with previous years, the majority of branches were located in the Western Province, followed by the Southern and North Western Provinces. Specifically, the Southern Province had a total of 256 branches. Matara is a district located in the Southern Province of Sri Lanka. It is one of the 25 districts that constitute the second-level administrative divisions of the country.

However, there are many studies done on factors affecting lapse policies around the world, and when considering prior studies, an empirical gap could be identified in this regard with the Sri Lankan life insurance market. The research conducted in different parts of the world and reaching different conclusions about the relationship between the factors affecting the lapsed policy is not enough to conclude the lapsed policy in the Matara district.

In this research, the authors examined the factors influencing the lapsation of life insurance policies among policyholders. The primary focus was on understanding the reasons behind policy lapses.

Accordingly, this research aims to analyse the effects of insurance policy lapses on policyholders and their impact on quality of life. It also seeks to address the challenges and issues related to insurance coverage. The study aims to highlight the importance of maintaining active life insurance coverage in enhancing policyholders' quality of life. By doing so, it enables them to manage future risks effectively by selecting insurance policies that align with their needs and financial capabilities.

Research Questions

This research focuses on the following main research question.

What are the factors affecting policy lapses in the life insurance industry?

Literature Review

Insurance Industry

There are two main categories of Insurance. Insurance businesses that do not fall under the definition of long-term businesses are categorized as General Insurance. The other category is life insurance, which is a long-term industry that heavily depends on the law of big numbers, the theory of probability, mortality considerations, and economic activity. Regardless of the form of insurance, there is a solid justification for its existence, even though most individuals never make use of it. (Ramanayake, Wattegama, 2011).

Chen, Lee, & Lee (2011) said the relationship between life insurance and economic growth (basic model) and the factors influencing this relationship (extended model). The extended model is the fundamental model with additional conditions. The level of financial development, individual saving rates, interest rates, social security costs, income, young dependency ratio, life expectancy, and geographical areas are among these factors. We may analyze whether the circumstances exacerbate or lessen the effects of the life insurance market on economic growth using the extended model. One might anticipate that nations with the same level of insurance market development will have substantially diverse results in terms of economic performance if associated variables play a significant role in affecting the effects of the insurance market on growth.

Ramanayake & Wattegama (2011) said, Nevertheless, regardless of the form of insurance, there is a solid justification for its existence, even though most individuals never use it. Insurance is there to protect oneself and their investment, but many people wouldn't bother with it if it weren't mandated by law. Not only does insurance reduce risk, but it also supports the growth of many nations' economies. Additionally, it is a significant factor in economic growth since it enhances the investment climate and encourages more effective activities for a country's development than would be done in the absence of risk management tools.

Insurance companies are competing not only with themselves but also with other financial institutions within the financial industry. A high level of competition is the most important factor in influencing the structure and activities of the insurance system around the globe. More and more insurance facilities are made available in every part of the country, even in small cities, towns, and rural areas. With the growing awareness among the people about insurance, various services provided by the companies, and the availability of insurance facilities across the globe, the insurance sector is emerging very rapidly, and there is a need to identify the main factors that affect customers' choice of insurance companies. The competition among the insurance companies is essentially based on the technology and innovative products and services provided by the insurance companies which may help them to attract and retain customers. The competition and saturation in the insurance industry require insurance companies to be more customer-focused as customers today are much more concerned about the value for money.

In 2021, the Sri Lankan insurance market's gross written premium was $1.18 billion. During the forecast period, the market is anticipated to expand at a CAGR of more than 9%. The Sri Lanka insurance market study offers thorough market analysis, data, insights, and a comprehensive perspective by industry product category. For the review period and forecast year, it gives values for important performance metrics such as gross written premium, retail and commercial split, premium accepted and ceded, profitability ratios, and premium by line of business. A thorough assessment of Sri Lanka's economy, demographics, and COVID-19 impact on the sector is also provided in the research. (GlobalData, 2022).

Life Insurance Market

Fang & Kung (2020) Highlighted that There are two main types of individual life insurance products: Term Life Insurance and Whole Life Insurance. In a contract between a policyholder and an insurance company known as term life insurance, the insurer agrees to pay a death benefit to the designated beneficiaries of the policy if the covered person passes away during the term of the policy. The term duration and the level of coverage are the two key choices you must make when purchasing term life insurance. Whole life insurance protects the rest of your life and has a cash value feature that allows you to access the money while you're still alive.

Additionally, Dias, Chathurika, & Samarakoon (2020) said that the Sri Lankan life insurance market, which is one of the most competitive in the country, has an issue with expired policies. A lapsed policy is one for which the premium was not paid at the end of the grace period. The grace period in Sri Lanka is seen as lasting two consecutive months. Lapsation can happen due to many reasons, such as the interest of the customer after some time, forgetting about the policy with time since they are matured over a very long period, lesser agent-customer relationship, miss-selling of the product, high premium rate, the financial crisis of the policyholders, delay in the renewal notice, poor customer service, agent forces to cancel the existing policy to purchase another new policy.

Regardless of theoretical frameworks or empirical data, the majority of the current study concentrates on industrialised nations with mature life insurance markets. There are no empirical studies of lapse rates in the Chinese life insurance industry hypothesis (Yu, Cheng & Lin, 2018)

Policy Lapsation

Lapsation is an important part of an important phenomenon in life insurance markets. 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 insurance policies is considerably high in Sri Lanka (Sandanayake & Perera, 2012). Both lapse behaviour and surrender activity can erode the customer base, leading to an increase in fixed administrative costs per policy and requiring substantial marketing expenditure to offset these (Russell, Fier, Carson, & Dumm, 2013).

However, In the body of extant literature, two key lapse behaviour ideas have drawn the greatest attention. When facing financial hardship, policyholders should consider their life insurance as an emergency fund, according to the emergency fund hypothesis (Yu, Cheng & Lin, 2018). Additionally, policyholders must decide whether to let their policies lapse due to a lack of funds to pay for the contracts (Kim, 2013).

In recent theoretical research, Daily, Hendel, & Lizzeri (2008) and Fang & Kung (2020) demonstrated that if policyholders' lapsation is motivated by their loss of bequest motives, consumer welfare is unquestionably lower with a life settlement market than it is without one. However, Fang & Kung (2020) demonstrated that if policyholders' lapsation is motivated by income or liquidity shocks, then life settlement may potentially improve consumer welfare. The lapse of life insurance policies is a barrier to maintaining the need for big numbers, where actuarial assumptions and probability theories perform best. Every life insurance company's portfolio of insurance policies is susceptible to degradation from variables like maturity claims, death claims, and surrenders for cash values, among others. (Ramanayake & Wattegama, 2011). According to Padmavathi (2014), the first year of a policy's life is when the majority of policies expire since they were forcedly sold without consideration for how well the products matched the needs of the policyholders. This occurred as a result of recipients' ignorance of the insurance policies' comparative benefits and restrictions. Additionally, die post-sale services also fall short of what policyholders demand.

Early failures cause life insurance significant financial difficulty, according to Mall & Sahoo (2016) observation. This said that a stochastic model had been established and that the surrenders were treated as conditionally independent.

The lapsing of insurance policies is profitable for an insurance company in the short term. The payments made by the customers to the company every month till the date of lapsing are not refundable to the customer until the policy is matured and the customer does not get any of the benefits that he/she signed up for at the beginning of the contract. But in the long run, lapse policies reduce the expected income of a company, unsatisfied customers and bad word of mouth bring losses to life insurance companies (Subashini & Dr.Velmurugan, 2015). Chen, Lee, & Lee (2011) have all ascertained that the demand for life insurance is positively related to income. demonstrate that the income elasticity of demand for life insurance is much higher in Mexico than in the United States. And also indicates that the impact of life insurance on economic growth is driven by high-income countries only.

A lapsed policy is one for which the premium was not paid at the end of the grace period. The grace period in Sri Lanka is seen as lasting two consecutive months. Lapsation can occur for a variety of reasons, including the loss of interest by the customer over time, forgetting about the policy over time because it has been in place for a very long time, a lack of agent-customer interaction, misselling of the product, a high premium rate, the policyholders' financial situation, a delay in receiving the renewal notice, poor customer service, and agent pressure to cancel the existing policy in favour of buying a new one (Subashini & Dr.Velmurugan, 2015).

Misselling of Policies

In Sri Lanka, the grace period is considered as extending for two consecutive months. Lapsation can occur for a variety of reasons, including loss of interest over time, forgetting about the policy over time because it has been in place for a very long time, a lack of agent-customer interaction, misselling of the product, a high premium, the policyholders' financial situation, a delay in receiving the renewal notice, poor customer service, and agent pressure to cancel the existing policy in favour of buying a new one. (Subashini & Dr.Velmurugan, 2015). Dias, Chathurika, & Samarakoon (2020) mention that Insurance policy misselling has been noted. Due to the pressure to meet targets, the majority of agents tend to offer policies that are not based on the needs and requirements of the consumer or their financial situation. This is referred to as "misselling of policies," and it is supported by the study. In Kandy, the life insurance market has grown fiercely competitive. By avoiding misselling, providing excellent services, and offering a straightforward, transparent, and equitable approach, insurers can build trust and confidence among policyholders. Technology use and the creation of new products will aid in improving customer service for policyholders. (Subashini & Velmurugan, 2015)

Poor Customer Relationship Management

Poor customer relationship management has been identified to be a significant contributor to lapsed insurance coverage. Agents do not follow up with clients and remind them of deadlines. They can struggle to establish a solid rapport with customers. It was also clear how carelessly agents handled clients. The outcomes are consistent with the conclusions made by Subashini & Dr.Velmurugan (2015). Insurance companies should also focus their efforts on launching renewal promotions to persuade policyholders whose policies are in a lapsed condition and provide premium discounts or bonuses for the revival of the lapsed policies to avoid complicated revival procedures. (Subashini & Dr.Velmurugan, 2015).

Subashini & Dr.Velmurugan (2015) suggested that the whole time contract should be signed with agents so that after-sale services may be provided on all financial and social aspects of policies to policyholders. They may not be allowed to agent write and do other contracts. So that lapsation may be decreased.

However, Dias, Chathurika, & Samarakoon (2020) identified that to eliminate the causes of financial strain and incorrect selling, it is crucial to have a solid customer audit mechanism and to encourage agents to use references. Additionally, it is necessary to instruct agents on the rules and to improve professionalism.

Financial Burden for the Policyholders

Concerns about clients' financial burdens are referred to as financial pressure, and it is consistent with the research done by Subashini and Dr.Velmurugan (2015). Financial difficulty was a significant common factor among businessmen in the city. Tourism is the main industry of Kandy. The main industries in Kandy that cater to tourists include hotels, travel agencies, arts and crafts, gems, and spices. The Perehara season is when these industries experience their highest level of activity. Due to their financial difficulties during the off-season, Kandy sees a high rate of life insurance cancellations.

As well an insurance company cannot control the factor of financial strain. However, any insurance company has complete control over the other two factors. Therefore, management must take steps to stop insurance agents from misselling their products and improve the management of customer-agent relationships. If the agents use an efficient risk analysis method before issuing the policy to each customer and by determining their policy and premium based on the client's income earning potential, even the lapsation caused by financial burden can be avoided as a factor affecting life insurance lapses. This can also be viewed as a component of product misrepresentation (Dias, Chathurika, & Samarakoon, 2020). To address this issue, insurance companies can design products with attractive bonus rates and provide consistent income to the policyholders to make them stay longer with the company. The expectation of policyholders on the bonus rates may no longer be attractive, and as a result, it is also one of the reasons for the lapsation. Insurance companies should focus their efforts on launching revival campaigns to persuade policyholders whose policies are in a lapsed condition and provide premium discounts or bonuses for the revival of the lapsed policies to avoid complicated revival procedures.

Conceptual Framework

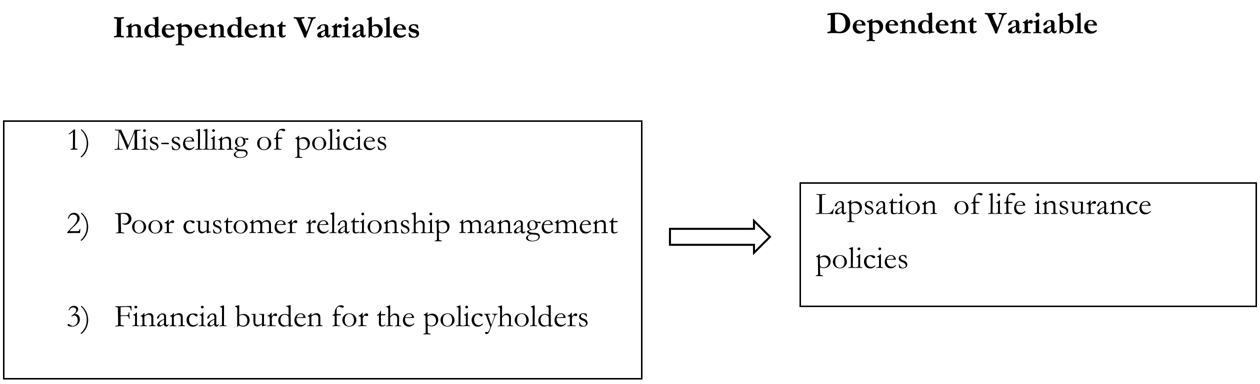

Figure 1. Conceptual Framework

Hypothesis

At the outset of the study, four research types of hypothesis shown below have been developed to identify the impact of policy lapsation factors.

Misselling of policies

H1: There is a significant impact of mis-selling policies on factors affecting the lapsation of life insurance policies.

Poor customer relationship management

H2: There is a significant impact of Poor customer relationship management on factors affecting the lapsation of life insurance policies.

Financial burden for the policyholders

H3: There is a significant impact of Financial burden for the policyholders on factors affecting the lapsation of life insurance policies.

Methodology

The positivistic research approach was used, and the sample was selected based on established sampling techniques appropriate for the study. Mis-selling of policies, Poor customer relationship management, and financial burden for the policyholders are significant factors in contract characteristics That drive policy duration in life insurance. The hypotheses were developed based on the current prevalent theory. Streeskerk (2019) said that when conducting deductive research, you always start with a theory. (The result of deductive Research). Reasoning deductively means testing these theories. If there is no theory yet, you cannot conduct deductive research.

Table 1. Operationalization

Variable	Indicator	Sources
Misselling of policies	Technology use conditions	Dias, Chathurika, & Samarakoon (2020). Subashini, Dr.Velmurugan (2015)
Poor customer relationship management	Holding period Agent trust	Dias, Chathurika, & Samarakoon (2020). Subashini, Dr.Velmurugan (2015)
Financial burden for the policyholders	Installment payment (premium) Income Mode of payment	Dias, Chathurika, & Samarakoon (2020). Subashini, Dr.Velmurugan (2015)
Lapsation of life insurance policies	Grace period policyholder's awareness	Fang & Kung (2020) Subashini, Dr.Velmurugan (2015)

Source: Authors' presentation

Lapsation data of a life insurer is highly confidential. Thus, data for lapsation is not publicly available. The data analysed in this research paper is being provided by an official agreement with insurance companies. In Sri Lanka, Lapse Policy engaged in the Life Insurance

Policyholders in Matara district are targeted for the study. The population was life insurance policy lapsed employees declared by long-term insurance companies in Matara. This company are listed under the Regulation of Insurance Industry Act, No. 43 of 2000. The sample is picked out 5 listed leading insurance companies based on the long-term industry with the highest profitability in the Insurance Regulatory Commission Of Sri Lank annual report 2021. Among the 10,898 lapsed policyholders recorded in 2022, 97 were employees. Questionnaires were distributed to all 97 employee policyholders, representing the entire population, during the 2022 study period. These include Life insurance policyholders who are engaging in policy lapse in the insurance market.

Research design is a simple combination of the structural framework of various research methods and techniques used by a researcher. According, this research will be conducted as quantitative research. And we are using cross-sectional data seriously. In this research, Data required for the study is primary in nature. Accordingly, primary data collection is mainly done using the following research instruments. Thus primary data is collected by making use of a questionnaire. Questions about the lapsation of the insurance policies are included in the questionnaire. For this study researcher used a self-administered questionnaire to collect the data. These are close-ended (structured) questions prepared so as to be distributed to the selected sample and then given one week to fill out and return the questionnaire. And at the end those questionnaires will be collected by the researcher in order to analyse the data collected. To measure the questions related to the variables, the researcher has used a five-point Likert scale.

To analyze the collected data, an SPSS statistical application is to be used, and through those, descriptive statistics, Pearson's co-efficient of correlation analysis, and regression analysis are to be undertaken to test the study's hypothesis. These data analysis tools are in line with the prevailing literature. There are a number of presentation tools which can be used for data presentation. Summary tables and charts are used as the data presentation tool for this research.

Data Analysis and Presentation

Reliability and Validity of the Questionnaire

Table 2. Reliability of the Questionnaire

Variables	Cronbach's Alpha	N of Items
Misselling of policies	.738	2
Poor customer relationship	.765	3
Financial Burden	.712	3
Lapsation	.785	2

Source: Authors' estimation using Source: Survey Data (2023)

The calculated Cronbach's Alpha value for all variables is more than 0.7. According to the calculations, the researcher could conclude that the set of questions that were used for the survey was reliable.

The external validity was measured by using KMO and Bartlett's test,

Table 3. Sample Adequacy

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.786
Bartlett's Test of Sphericity	Approx. Chi-Square	194.867
	df	45
	Sig.	.000

Source: Authors' estimation using Source: Survey Data (2023)

According to the field (2009), the KMO of sampling adequacy is used to decide whether the sample size is large enough to conduct the factor analysis, and it should be greater than 0.5. According to Table 4.2, the KMO measure of the sample adequacy of this study was 0.786; it was over the acceptable index of 0.5, and the significant level was 0.000. According to the above figures, the external validity of the research is high.

Descriptive Statistics

Table 4. Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Mis Selling of Policies	88	3.00	2.00	5.00	4.1307	.60408	.365
Poor Customer Relationship	88	3.00	2.00	5.00	3.7273	.63838	.408
Financial Burden	88	3.00	2.00	5.00	4.0909	.65454	.428
Lapsation	88	3.50	1.50	5.00	3.8750	.75144	.565
Valid N (listwise)	88						

Source: Authors' estimation using Source: Survey Data (2023)

Table 4.3 shows the summary of statistics. The mean value represents the average value of the data set. According to the result, the mean values of Misselling of policies, Poor customer Relationship Management, Financial Burden and Lapsation were 4.13, 3.72, 4.09 and 3.87, respectively. These mean values indicate the average values of each variable. The standard deviation measures the amount of variation or dispersion from the average. A low standard deviation shows that the data points tend to be very close to the mean, and a higher standard deviation indicates that the survey data points are spread out over a large range of values.

The researcher also uses descriptive statistics to investigate what type of factors mostly affect the policy's lapsation. According to this research objective, the researcher explored what will be the main factor which mostly affects Lapsation.

Table 5. Test of Normality

		Mis Selling of Policies	Poor Customer Relationship	Financial Burden	Lapsation
N	Valid	88	88	88	88
	Missing	0	0	0	0
Mean		4.1307	3.7273	4.0909	3.8750
Median		4.0000	4.0000	4.0000	4.0000
Std. Deviation		.60408	.63838	.65454	.75144
Skewness		-.921	-1.049	-.345	-.954
Std. Error of Skewness		.257	.257	.257	.257
Kurtosis		1.385	1.371	.325	.912
Std. Error of Kurtosis		.508	.508	.508	.508

Source: Authors' estimation using Source: Survey Data (2023)

The dependent and independent variables are both inside the -1 skewness +1 range, which indicates that the data set is moderately skewed, according to the data in Table 4.4. Those variables' kurtosis values are below 3 and have a positive sign. This indicates that the data is platykurtic.

Multiple Regression Analysis

Table 6. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.473[a]	.223	.196	.67395	2.090

a. Predictors: (Constant), Financial Burden, Poor Customer Relationship, Mis Selling of Policies

b. Dependent Variable: Lapsation

Source: Authors' estimation using Source: Survey Data (2023)

According to Table 4.5, the model summary is used to explain the dependent variable (Lapsation) by using three predictor variables: Misselling Of Policies, Poor Customer Relationship Management, and Financial Burden for the policyholders. Here, the R square value is taken into consideration, which is 0.223, and it concludes that lapsation can be explained at 22.3% by using three predictor variables: Misselling Of Policies, Poor Customer Relationship Management, and Financial Burden for the policyholders.

The adjusted R-value implies how much variance in the dependent variable would be accounted for if the model has been derived from the population from which the sample was taken. Also, adjusted R 2 gives us some idea of how well this model can be generalised, and ideally, it would like its value to be the same or very close to the value of R 2 (Field, 2009). Current study is R 2 is 0.223 and adjusted R 2 of this study is 0.196.

Table 7. Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.914	.613		1.492	.039
	Mis Selling of Policies	.272	.136	.219	1.997	.049
	Poor Customer Relationship	.307	.121	.261	2.536	.013
	Financial Burden	.169	.124	.147	2.360	.037

a. Dependent Variable: Lapsation

Source: Authors' estimation using Source: Survey Data (2023)

The regression equation of these variables;

Yt = β0 + β1X1t + β2X2t + β3X3t + €t

Lapsation of Life insurance Policiest = 0.914 + 0.272 Misselling of Policiest + 0.307 Poor Customer Relationship Managementt + 0.169 Financial Burden for the Policyholderst + €t

As per the above data, the coefficient between the selling of policies and Lapsation is 0.272 at (0.049) 5% significance level.

The coefficient between Poor Customer Relationship and Lapsation is 0.307, and it is statistically significant (0.013) at a 5% significance level. It implies that when one unit of change in Poor Customer Relationship will affect to increase in Lapsation by 0.307.

In the coefficient table, there is a 0.169 B value as the coefficient between Financial Burden and Lapsation, and it is statistically significant (0.037) at a 5% significance level. It implies that when one unit of change in Financial Burden will affect to increase in Lapsation by 0.169.

Table 8. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.971	3	3.657	8.052	.000[b]
	Residual	38.154	84	.454		
	Total	49.125	87			

a. Dependent Variable: Lapsation
b. Predictors: (Constant), Financial Burden, Poor Customer Relationship, Mis Selling of Policies

Source: Authors' estimation using Source: Survey Data (2023)

An ANOVA table is a summary table of the variability in the data. It is very useful in tabulating the result for hypothesis testing in more complicated statistical analysis problems. The fit of the regression model can be measured by using the ANOVA, and if the p-value is less than 0.05, the model is significant (Field, 2009). The p-value in the Analysis of Variance table indicates that the relationship between independent variables and dependent variables is statistically significant at an alpha level of 0.05. The value of ANOVA is 0.000. It shows the significance value as (P< 0.05). Therefore researcher confirms that the model is significant.

Hypothesis Testing

Table 9. Coefficient and P value

Predictor	Coefficient	P value (significant value)
(Constant)	.914	.039
Mis Selling of Policies	.272	.049
Poor Customer Relationship	.307	.013
Financial Burden	.169	.037

Source: Authors' estimation using Source: Survey Data (2023)

There is a significant impact of mis-selling policies on factors affecting the lapsation of life insurance policies.

The calculated p-value of Pearson's coefficient of correlation of Mis Selling of Policies 0.049 is less than α value (0.05) and can reject the null hypothesis (H0). Further, the researcher can accept the alternative hypothesis (H1). Therefore, there is a significant impact of the mis-selling policies on factors affecting the lapsation of life insurance policies.

H2: There is a significant impact of Poor customer relationship management on factors affecting the lapsation of life insurance policies.

The calculated p-value of Pearson's coefficient of correlation of Poor customer relationship management 0.013 is less than α value (0.05) and can reject the null hypothesis (H0). Further, the researcher can accept the alternative hypothesis (H2). Therefore, there is a significant impact of Poor customer relationship management on factors affecting the lapsation of life insurance policies.

H3: There is a significant impact of Financial burden for the policyholders on factors affecting the lapsation of life insurance policies.

The calculated p-value of the regression analysis for the independent variable is 0.037. It is less than α value (0.05) and can reject the null hypothesis (H0). Further, the researcher can accept the alternative hypothesis (H3). Therefore, there is a significant impact of Financial burden for the policyholders on factors affecting the lapsation on life insurance policies.

Conclusion and Recommendation

Discussion of the Findings

The Factors Affecting Lapsation of Life Insurance Policies. By referring to the previous studies and the other sources of literature, Misselling Of Policies, Poor Customer Relationship Management, and Financial Burden for the policyholders were selected as the independent variables and lapsation of life insurance policies was considered as the dependent variable in this study.

Misselling of insurance policies is the First reason that has been highlighted. Most agents sell plans that aren't based on the demands and requirements of the customer or their financial situation since they are under pressure to meet targets. This is referred to as misselling policies, and it is consistent with a study conducted by Dias, Chathurika, & Samarakoon (2020).

Secondly, lapse policies were shown to be mostly caused by poor customer relationship management. Agents are not maintaining track of clients or reminding them of deadlines.

They can fail to establish a connection of trust with clients. It was also clear that representatives were being careless while interacting with clients. The outcomes align with the conclusions made by Subashini, Dr.Velmurugan (2015).

The clients' concerns about their financial burden emerged as another subject during the questionnaire. The financial burden is what this is known as, and it correlates with Subashini, Dr.Velmurugan (2015).

The sample of this study is 97 employees of Life Insurance Policiholders' of Top Five Life Insurance Company in Matara district. In order to collect primary data, 97 questionnaires were distributed among the respondents, and the researcher was able to collect only 88 questionnaires. The collected data was analyzed and interpreted using the SPSS software.

Firstly, the reliability of the independent and dependent variables was tested. According to reliability analysis, Cranach's alpha values for the independent and dependent variables are in an acceptable range, and the questionnaire can be considered reliable.

The descriptive statistics of the data were done by using frequency distribution and measures of central tendency and dispersion. The demographic profile of the sample was measured under 6 dimensions. Those were Age, gender, marital status, Living Area, Monthly Income and Work Company. In terms of age factor, the researcher identified students based on five age categories: 18 - 25 years, between 26- 30 years, 31 - 35 years, and greater than 36 years. below Among them, the majority of the policyholder's age limit is above 36 years (37%) and only 18% of policyholder's age limit is between 31 - 35 years. In terms of gender, Most of the policyholders are male employees (62%), while female employees are 38%. In terms of marital status, 39% of the Policyholders are married, while being single is 49%, 9% of policyholders are divorced, and 3% of policyholders are widowed. As well as, 82% of policyholders live in rural areas, and 18% of the policyholders live in urban areas. 02% of the sample earn below 7500 average monthly income, and 5% of policyholders get Rs.7501 - 15000. 33% of the sample obtain Rs.15001 - 30,000 average income per month, and the rest of the sample (60%) represent respondents who earn more than Rs.30000 average monthly income. The Employees of life insurance policyholders are 11% of policyholders who have obtained only Ceylinco life. 16% of policyholders have obtained Softlogic Life and, 18% of the policyholders have obtained Sri Lanka Insurance Corporation and, 24% of the policyholders have obtained Union Life, 31% of policyholders worked in AIA.

The conceptual framework and three hypotheses were developed based on the above-identified variables. The findings of this study are similar to the previous studies. According to Pearson's coefficient of correlation, the mis-selling of policies has a significant positive relationship with the lapsation of life insurance policies (.366). Poor Customer Relationship Management has a significant and positive relationship with the lapsation of life insurance policies (.371). Financial Burden for the Life Insurance Policyholders also has a significant and positive relationship with the lapsation of life insurance policies (.315). The findings of this study have contributed to the achievement of the three objectives of this study. According to the regression analysis, three dimensions of Misselling Of Policies, Poor Customer Relationship Management, and Financial Burden for the policyholders have significant positive impacts on the lapsation of life insurance policies. The specific objective also has been achieved through this study.

Implications of the Study

The result of the study has important implications from both theoretical and empirical perspectives. From a theoretical perspective, the study extends our understanding of the lapsation of life insurance Policies in the Life insurance industry in Sri Lanka. This would stimulate the research interest of scholars in the field. From a policymaking perspective, the findings of this study highlight several critical areas that require attention to reduce policy lapsation rates. Specifically, the study identifies mis-selling of policies, poor customer relationship management, and the financial burden on policyholders as significant factors that are positively correlated with policy lapsation. These results suggest that insurance companies and regulators should prioritize improving sales practices, enhancing customer service, and addressing the financial challenges faced by policyholders in order to mitigate lapsation rates.

Additionally, the study's findings underscore the importance of these factors in contributing to lapsation, further emphasizing the need for targeted interventions. Policymakers in the insurance sector could leverage these insights to develop more effective strategies, such as implementing stricter regulatory measures to curb mis-selling, providing comprehensive training programs for insurers on customer relationship management, and offering more flexible policy options to alleviate the financial stress on policyholders. Addressing these issues would contribute to the long-term sustainability of the life insurance market in Sri Lanka and better meet the needs of policyholders.

Limitations

This study identified the factors affecting the lapsation of life insurance policies with special reference to the Life insurance Industry in the Matara district. The sample of this study is 97. It selected executive employees of life insurance policyholders in the top five life insurance companies in the Matara district. This sample does not represent the entire population. Because the policyholder's information is highly confidential, the sample of data situation researcher was unable to collect the data from the entire sample. The primary limitation of this study is that its findings are based on a sample of respondents from the Matara district, and as such, they cannot be generalized to represent the policy lapse rates of the entire Sri Lankan insurance market. The findings of the research depend on the reliability of information obtained from the respondents through questionnaires. Respondents may be reluctant to express their genuine ideas for the questions. The responses can be biased based on mental conditions, personal preferences, perceptions and attitudes of the policyholders. The understanding of the questions can also differ from person to person. Even if there are many dimensions of the lapsation of life insurance policies, the researcher adopted only three dimensions to examine the relationship between the Misselling of Policies, Poor Customer Relationship Management, and Financial Burden for the policyholders with the Lapsation of life insurance policies. These are the general limitations of this study.

Suggestions for Future Researchers

Future research should be carried out in order to enhance the understanding of the concepts of lapsation of life insurance policies. The sample size of this 97 research was small. Future studies should be carried out in a wide geographical coverage with a larger sample size from the larger amount of the life insurance industry in order to get more accurate and representative answers. It would be more appropriate to adopt both qualitative and quantitative research methods, which can get more insight into the topic. Moreover, in this research, some demographic factors such as Age, Gender, Living Area, and Monthly Income were explored. Thus, future researchers can investigate more demographic factors to get more meaningful insights. This study has considered only three dimensions of the lapsation of life insurance policies. Future research should expand the current study by adopting more factors related to the lapsation of life insurance policies and should be concerned with the impact of demographic factors on the lapsation of life insurance policies. It can be recommended to future researchers to expand the study to investigate the factors affecting the lapsation of insurance policies in other sectors, such as the General Insurance sector apart from the insurance sector.

Conclusion

At present, most companies have identified the Lapsation of life insurance policies as a major issue, and it has also been a dilemma in the insurance industry. So, the insurance companies have to find the reasons for the lapsation of life insurance policies and take remedial actions to mitigate. In this study, the researcher has considered three major factors that affect the lapsation of life insurance policies, such as the misselling of Policies, Poor Customer Relationship Management and Financial Burden for the policyholders. Researchers found that the Misselling of Policies, Poor Customer Relationship Management and Financial Burden for the policyholders significantly affected lapsation policies in the life insurance industry, according to Pearson's coefficient of correlation test output. Insurance companies are able to analyse the business with considered factors and predict the lapsation of life insurance policies in the near future. Researchers have identified that Poor Customer Relationship Management highly affects the lapsation policies in the life insurance industry, according to regression analysis. Therefore, insurance companies have to give more attention to customer relationship management.

Recommendations

Insurance companies can use client feedback to enhance their offerings and identify unexplored business opportunities. Insurance companies could keep handling customer comments and complaints in order to reduce the lapse of life insurance policies. Customer Relationship Management is a common strategy for every industry to increase customer retention. The relationship between insurer and customer revolves around two key moments: when the customer buys and when the customer claims. Therefore insurance companies should maintain best CRM practices for mitigating the lapsation of life insurance policies. By engaging customers with individual messages that are relevant to their needs and situations, insurers can create a relationship that lasts. By analysing individual customers, insurers can create a more personal relationship by identifying new opportunities, finding policyholders who are at risk of switching and personalizing communications. Marketers are company representatives. They should be able to properly understand customer needs and offer the best company products which satisfy customer needs. the insurance company can give proper training to the marketers in interpersonal skills and how to appraise a customers' needs. Further company and arrange out bound training for marketers to build up their moral attitudes. Before offering policies, company representatives and customers should have sufficient knowledge about the policy terms and conditions and their benefits. Both parties must be knowledgeable regarding the policy coverage and what is being covered and what is not being covered. Because when claimed, many policyholders request compensation for excluded items. It may be occurred to defect customers from the company. Insurers can offer special policy terms and conditions in insurance policies. It makes them feel valuable and appreciated. This approach will win over a great foundation of loyal customers, and they will advocate and refer the company to their colleagues and friends.

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