An Investigation of Determinants for Lesser Customer Attraction and Retention in the Life Insurance Industry in Sri Lanka

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ABSTRACT

Insurance Industry is a well known and renowned industry which can be further subdivided into two broader categories based on their nature; which are general insurance and life insurance. The present study addresses a current issue that prevails in the Life Insurance Industry in Sri Lanka. Life Insurance business has been operating in Sri Lanka since the year 1939. But even so, with respect to the life insurance industry, it is quite inevitable to notice that out of the total population, only a very small percentage of people which is a 10.4% have purchased life insurance policies in Sri Lankan context. Thus the present research has been carried out in order to find out the root causes of this problem. Accordingly, a well established organization was selected as the organization of study. Both primary and secondary data were gathered and analyzed qualitatively. As the findings of this research, it would propose some recommendations to eliminate the causes for the lesser customer attraction for life insurance products and to expand the penetration of this industry in Sri Lanka.

KEYWORDS: Insurance Penetration, Life Insurance, Lapsation of Insurance Policies

INTRODUCTION

Insurance is mainly based on the principle of risk management. It can be defined as the payment of a small predictable amount of money ("premium") to protect against a large unpredictable loss. This fee is the factor that transfers the person's risk to the company. Based on its nature however, insurance can be further subdivided into two broader categories. That is general insurance and life insurance. General Insurance takes on a short term perspective whereas life insurance falls under the definition of long term business.

Even though insurance has been operating in Sri Lanka since year 1939, the insurance penetration level in the country is quite low

in terms of population. The figures of penetration have been 8.8% in life insurance (as a percentage of the total population) and a 24.3% in life insurance (as a percentage of the labor force) in 2006 (Wickramasinghe, 2008).Since then, it has increased up to 10.4% (as a percentage of the total population) in 2009 (Insurance Board of Sri Lanka Annual Report, 2009).

The total number of life insurance policies in force has been 2,131,947 at the end of 2009. Insurance companies have issued only 464,249 new life insurance policies, down by 16.5% against 555,886 new policies issued in 2008. The drop has occurred due to adverse consequences of the global economic crisis in 2009. The penetration as a percentage of total labor force is 26.4%, which indicates a slight decline when compared to 2008 (Insurance Board of Sri Lanka Annual Report, 2009).Furthermore, the industry contributes only up to a percentage of 1.5 for the GDP of the country by 2007.

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Research Objective

The main objective of this research is to identify determinants for lesser customer attraction and retention in the life insurance industry in Sri Lanka. Therefore this research will specifically identify the root causes to the problem and suggest some potential solutions in order to enhance the customer attraction and retention in this industry.

LITERATURE REVIEW

There are two main categories in Insurance. Insurance business that does not fall under the definition of long term business is categorized under General Insurance (Wickramasinghe, 2008). Then the other is Life Insurance and it is a long-term business depending largely on the theory of probability, law of large numbers, factors of mortality and level of the economy (Padmavathi, 2006).

However, disregarding the type of insurance there is a fairly good reason why that it should be there even though people never get to claim on it most of the time.

Naturally, insurance is there to protect oneself and their investment, but many would not have bothered with insurance if it was not required by law. Not only does insurance minimizes the risk, it is also the backbone of the economic development of many countries. Moreover, it is a vital contributor to the economic growth since it improves the investment climate and promotes more efficient activities towards the development of a country than would be undertaken in the absence of risk management instruments (Brainard, 2008).

Lapsation of life insurance policies is an obstacle in keeping up the requirement of large numbers, where the theories of probability and actuarial assumptions work at their best. The number of Insurance policies in the portfolio of every life insurance company is subjected to erosion due to factors such as maturity claims, death claims, and surrenders for cash values etc.

According to Padmavathi (2006) the forced selling of policies without caring for matching of products with requirements of the policy holders has played a vital role in lapsation of policies in the first year of policy life. This has happened due to the fact that beneficiaries are unaware of the insurance products and their comparative merits and limitations. In addition, the after sales services also do not meet the requirements of the policy holders.

METHODOLOGY

The present research has been carried out as a field survey in the natural environmental context. Thus it is an effort to find out the root causes to a problem that exist in the insurance industry. Hence it was carried out as a cross sectional survey since the data was gathered during a particular time horizon.

The main problem, which is the lack of insurance penetration, has been broken down into smaller pieces as it gives a more comprehensive overview about the problem. Therefore, the following have been identified as the sub causes to lower life insurance penetration and are;
- Lower Income
- High costs of insurance provision
- Weak regulatory and supervisory environments
- High informational problems
- Lack of sufficient education about insurance
- Forced selling
- After sales services are not good
- No interest
- Competing financial instruments

The sampling method that has been used for this research is random sampling. Accordingly in this research, three populations had to be considered and are;
- People who have lapsed policies
- People who already have life insurance policies

- People who do not have life insurance policies

A representative sample was taken from each population and as a result the sample size of each population was fifty.

Both primary and secondary data have been used in order to achieve the objective of this research. As a result, primary data have been collected from conducting interviews, observations and a issuing questionnaire to the customers. The secondary data have been gathered through reference texts, the organization's reports, annual reports and the company website.

The data analysis strategy was based on qualitative methods. Since the questionnaire tried to identify the root causes, it could not be fitted into a mathematical model or have not evaluated on any other quantitative basis. Therefore, graphical illustrations have been used as the main tool for data analysis. However, certain calculations have been used such as percentage calculations in order to facilitate the above qualitative analysis.

DATA COLLECTION AND ANALYSIS

Table 1 shows the characteristics of lapsed policy holders.

Table 1: Characteristics of Lapsed Policy Holders

| Method of Life Insurance Awareness			
Agents - 64%		Other - 36%	
Mode of payment			
Monthly - 92%	Quarterly - 6%	Bi-Annual - 2%	
Method of payment of lapsed policy holders			
Agent - 94%		Branch / Bank - 6%	
Satisfaction level about the insurance policy			
Good - 20%	Bad - 10%	No Idea - 70%	
After sales services			
Good - 38%		Bad - 62%	
Period of Service			
Less than 3 months - 10%	3-6 months - 42%	6 months - 1year - 46%	1-5 years - 2%
Reasons for buying a life insurance policy			
To minimize the life risk - 18%	To get the additional benefits - 24%	The agent was a well known person - 48%	Other - 10%
Reasons for Lapsation			
Problems that occurred from the agents side - 28%	Payment method was inconvenient - 12%	Financial problems - 36%	Other - 24%

Table 2: Active Policy Holders

Method of Life Insurance Awareness			
Agents - 82%		Other - 18%	
Mode of payment			
Monthly - 82%	Quarterly - 12%	Annual - 6%	
Method of payment of lapsed policy holders			
Agent - 54%	Branch/ Bank - 20%	Salary Deductions - 4%	Standing Orders - 22%
Satisfaction level about the insurance policy			
Good - 30%	Bad - 10%	No Idea - 60%	
After sales services			
Good - 70%		Bad - 30%	
Period of Service			
Less than 3 months - 14%	3-6 months - 32%	6 months- 1year - 38%	1-5 years - 8%
Reasons for buying a life insurance policy			
To minimize the life risk - 12%	To get the additional benefits - 22%	The agent was a well known person - 54%	Other - 12%

Table 3: Non Life Insurance Policy Holders

Life Insurance Awareness				
Yes - 54%		No - 46%		
Method of Life Insurance Awareness				
Not Applicable - 46%	Agents - 20%	Other - 34%		
Reasons for not buying a life insurance policy				
No idea - 28%	Not interested/ Not necessary - 40%	No trust that the claims will be paid - 14%	Financial Problems - 8%	Other - 10%

After analyzing the data relating to all three samples, it can be identified that different but almost similar causes have contributed to lesser customer attraction and retention in the industry. Hence, the following key factors (Figure 1) could be identified as determinants for lesser customer attraction that affects the industry as a whole.
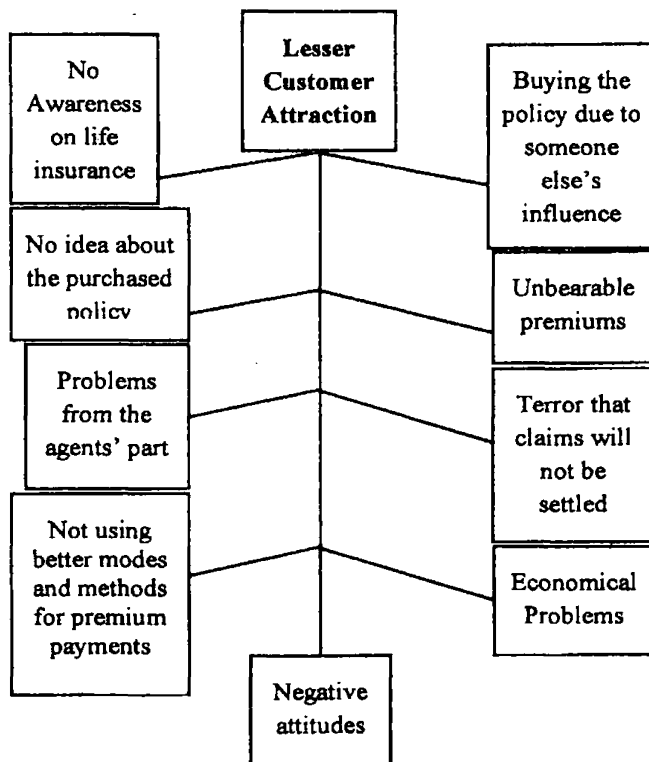
Figure 1: Root Causes

CONCLUSIONS AND RECOMMENDATIONS

It is quite evident that due to the factors mentioned and discussed, the life insurance penetration is very low in the Sri Lankan context. Therefore, by adopting following recommended solutions, the life insurance sector will be able to optimize its growth.

	Recommendations
1	Innovating low cost solutions
2	Review the policies from time to time and try to adjust the policies to an economical level that will fit the client
3	Adjust the premium only to a level that is permitted by the regulatory
4	Develop strategies to give awareness about life insurance to the people
5	Enhance employee retention strategies
6	Giving a good knowledge to the policy holder about the policy
7	Encourage people to use, better modes and methods of payments

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