FACTORS THAT LEAD TO LIFE INSURANCE POLICY LAPSES AT ZSIC LIFE INSURANCE LIMITED

BY

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A dissertation submitted to the University of Zambia in partial fulfilment of the requirements for the award of the degree of MBA Management Strategy.

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DECLARATION

I, **Webster Mtonga**, do hereby certify that the dissertation is my original work and, that its contents have never been presented elsewhere. I also declare that the narratives, figures, graphs, and statistics contained in the report were generated by me, except those whose origin has been acknowledged.

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APPROVAL

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ABSTRACT

The Life Insurance Industry in Zambia has been faced with the problem of policy lapses and ZSIC life Limited is no exception to this problem. The focus of this study was to investigate the factors that led to life insurance policy Lapses at ZSIC life Limited and developing strategies aimed at reducing Life Insurance policy lapses. The study also investigated the demographic characteristics of policy holders who lapsed their policies. The study employed a quantitative research approach. The investigation was carried out at ZSIC life limited head office in Lusaka. Data was collected using a questionnaire with closed ended questions and analyzed in MS excel 2016 and IBM SPSS version 26. The study established that there four groups of factors that led to policy lapses. The first group were Policy holder related factors, which were policyholder's financial burden and low awareness about the financial protection offered by life insurance policies. The second group was the group of product related factors, namely, Low benefits and low bonuses being offered by the policy. The third group was the group of Insurer related factors, which included; Poor customer care, Poor rapport with policyholders and Complex policy revival procedures, the fourth group was the group of Agent related factors, these were; Agents forcing policyholders to lapse the policy and purchase a new one and agents not being well trained to respond to the changing insurance needs of the policyholders. The study established that age, sex, marital status, policyholder's level of education and employment type were important demographic moderators in the policy lapse decision. Therefore, the study recommends that; when underwriting the investment policies, ZSIC Life should conduct financial underwriting of the life insurance policy proposer, ZSIC Life should be conscious of proposers who are male, aged between 41 to 50 years, married, and are proposing an investment policy. ZSIC Life should become more innovative to increase the benefits of the life insurance policies, during on boarding of the client, ZSIC Life should provide client with information on possible policy lapses and the available options to manage the lapse, ZSIC Life should review the policy reinstatement procedure and make it more user friendly to allow policyholders to revive lapsed policies with very minimal challenges. The study also recommends that the ZSIC Life invests in customer care to always be in the face of the customers and keep collecting the know your customer information to keep track of the customer's insurance needs and any challenges in premium payments. The study further recommends that there is need for further investigation on the extent of the financial impact of policy lapses on the whole Zambian life insurance industry.

Keywords: *Insurance, insurer, lapse, policy, insured, premium.*

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DEDICATION

This dissertation is dedicated to my wife Elebert Pauline Mwanza Mtonga, my son King Dalisto Mtonga, My Daughters Doris Mtonga, Blandina Mtonga and Tionge Mtonga who have been supportive all the way. I also dedicate this work to my parents King George Anderson Mtonga and Lucy Mkandawire Mtonga for being my source of Inspiration, My brothers Daniel Mtonga, Amon Mtonga and my late brother Kebby Elias Jere Mtonga. My Sisters Doris Mtonga Kamanga, Betinah Mtonga, my late sister Phaides Mtonga, Martha Mtonga, Anna Mtonga and Enala Mtonga, I wouldn't ask for a better support system than you guys.

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CHAPTER ONE

INTRODUCTION

1.1 Background

Ionesco (2012) defined life insurance as an agreement through which the insured pays a certain amount of money known as the insurance premium and in exchange to that the insurer will pay a certain amount of money which is known as the insured sum in the event of death or compensation. Mark *et al* (2003) defined Life insurance as a form of protection of the dependents or of other people designated as beneficiaries in the event of the insured person's death (the person whose death risk is insured), that gives financial security to the family so that after the insured person dies the family can be able to manage financially.

The insurance industry is a significant player in Zambia's economy because of the amount of premiums it collects, the scale of investment and the socio-economic role it plays through covering personal and business risks (PIA, 2012). Mark *et al* (2003) highlighted that life insurance is a key sector whose contribution to the development of Zambia's economy cannot be over-emphasized. Beside giving security to the insured against exposure to risk, life insurance is a mobilizer of domestic savings, teaches the culture of thrift, and helps increase income and create wealth. According to Mark et al (2003) one of the key factors to the survival of the life insurance industry is reduction of policy lapses because policy lapses affect the liquidity and solvency of an insurance company.

1.1.1 History of Insurance in Zambia.

According to PIA (2019) prior to independence, there were 26 Insurance companies in Zambia that provided both general insurance and Life insurance. In 1968, the Insurance sector was nationalized. The Law stated that no other insurer will conduct insurance business except through Zambia State Insurance (ZSIC Corporation), hence there was only one insurance company which was providing both life insurance and General insurance until in 1991, when the market was again opened by simply repealing the Act which forbade other insurers to transact in insurance business. In 1992, some insurance companies were admitted conducting insurance and these included Professional Insurance and Madison Insurance. There was no regulatory body. In 1997, the

Insurance Act was enacted and saw the establishment of the Pensions and Insurance Authority as the regulator.

In 2005, the Insurance (Amendment) Act No 26 was passed directing all insurance companies to separate their short term (general insurances) and long term (life insurance) business. This separation led to the development of Zambia's Life Insurance market which currently has 10 players including the state owned ZSIC Life limited. (PIA, 2019)

1.1.2 History of ZSIC Life Limited

Zambia State Insurance Corporation- Life, operated as a division under the Zambia State Insurance Corporation Limited from 1968 to 2005.following the amendment of the Insurance Act No. 27 of 1997 as amended by Act No. 26 of 2005, the Zambia State Insurance Corporation split into three distinct business entities, namely ZSIC Limited, which was the holding Company, ZSIC General Insurance Limited and ZSIC Life Limited as subsidiary company's (ZSIC, 2019).

Zambia State Insurance Corporation- Life was unified on 23rd April 2008 under the Companies Act, CAP 388 of the Laws of Zambia. It was registered as an insurer under the Insurance Act, No. 27 of 1997 (as amended). It is a subsidiary of Industrial Development Corporation (IDC), an entity which is wholly owned by the Government of the Republic of Zambia (GRZ) (ZSIC, 2019).

Zambia State Insurance Corporation- Life maintains a diverse product portfolio that includes both investment and risk protection individual life insurance products. ZSIC Life also provides group Life insurance products such as Group Life Assurance, Group Pension schemes, Group Medical Insurance and Annuities. (ZSIC, 2019).

1.1.3 Performance of the Life Insurance Market in Zambia

The Pension and Insurance Authority (PIA) regulates life insurance industry in Zambia. This is a statutory government agency, it was established as a body corporate following the amendments to the Pension Scheme Regulation Act No. 28 of 1996 as amended by Act No. 27 of 2005, (Pension scheme regulation) Amendment bill No.28, 2005.

In terms of ethical and prudent business practices in the industry, the Insurers Association of Zambia (IAZ) largely oversees this. The Insurers Association of Zambia is an umbrella body bringing all insurance companies in Zambia together (IAZ, 2019). The life insurance industry has ten (10) market players, the gross written premium for 2018 was Zambian kwacha 1,314,717,849.00 representing a growth of about 28% from Zambian kwacha 1,025,678,825 for the year 2017. When it comes to market share, Sanlam had the largest share in terms of gross written premium with about 24%, followed by ZSIC Life with about 16%, SES with about 15%, Madison Life and Prudential Life with about 14% each, Liberty Life and Barclays Life had about 6% (PIA, 2019).In terms of Life insurance policy lapses, the industry is experiencing quiet a high number of policy lapses with about 12,850 policy lapses in the period June 2017 to June 2019.The industry had a market lapse rate of about 3.6 % in the same period (PIA, 2019).

Kiesenbauer (2011) defined life insurance policy lapse, as a disruption in the premium payments resulting in the loss of insurance cover for the insured and loss of business and income for the insurance company and all other benefits that come with a running life insurance policy to the insured, the Insurer, and the economy at large. The insurance sector went through phases from being unregulated to completely regulate. It is governed by several acts. The first statute in Zambia to regulate the life insurance industry was the Pensions and Insurance Authority (The Insurance Act, 1989). According to PIA (2019) a life insurance policy lapses when premium contribution has been disrupted for two consecutive months.

1.2 Statement of the problem

There is a problem in the Life insurance market. The PIA quarter one report of 2019, states that the industry has been experiencing a high number of Life insurance policy lapses. ZSIC life is among the most affected companies. For the period June 2017 to June 2019, ZSIC life had a lapse rate of about 17 %, (PIA, 2019) which was quite high in comparison to the Market lapse rate of about 3.6% for the same period (PIA, 2019). Policy lapses have far reaching negative effects on all the stake holders involved in the life insurance business, thus the insurer, the insured, the regulators and the industry as a whole.

To the Insurer policy lapses can lead to liquidity problems and force insurer to sale some assets, policy lapses can lead to loses, and especially for those policies that lapse within the first two years of being in force as the insurer will not have recouped their business acquisition costs. Policy lapses lead to loss of income and possible future profits as well as posing a reputational risk on the image of the life insurance company.

To the insured, policy lapses lead to the loss of financial protection that the insured enjoyed when the policy was in force, also, for the investment policies, the insured loses out on the expected future returns from the investment policy.

1.3 Aim of the study

To investigate the factors that lead to life insurance policy lapses and develop strategies to reduce the life insurance policy lapses at ZSIC Life limited.

1.4 Study Objectives

a. To establish the Agent, Insurer, Product and Policy holder related factors leading to the lapse of various life insurance policies at ZSIC Life Limited.
b. To determine policyholder's social and demographic characteristics that are an important moderating factor in the policy lapsing decision.
c. To recommend a model for reducing Life Insurance policy lapses at ZSIC Life limited

1.5 Research Questions

a. What are the factors that lead to lapsing of various Life Insurance policies at ZSIC Life Limited?
b. Which policyholder's social demographic characteristics are an important moderating factor in the policy lapsing decision?

1.6 Significance of study

Investigating the factors that led to policy holders lapsing their life insurance policies and recommending a model to reduce policy lapses is important to ZSIC Life limited and its customers. To Zambia State Insurance Corporation Limited, the profitability and liquidity of ZSIC life can be

heavily influenced by policy lapses. Therefore, policy lapses constitute a material risk for ZSIC Life and needs to be controlled and managed carefully. This can be achieved through a proper understanding of the factors that lead to policy lapses and developing strategies to reduce the policy lapses and implementing these strategies. For the Customers, lapses led to loss of financial protection, preventing life insurance policy lapses will ensure that policyholders continue enjoy financial protection. If the Life Insurance Company does not control and manage the risk of policy lapses, new customers will be uncomfortable to place cover with Life Insurance Company. For the regulators, understanding factors that led to policy lapses is key to designing an effective regulatory environment that ensures that life insurance companies do not fail due high lapse rates.

The study is significant because it helped to increase industry knowledge about policy lapses and strategies to reduce them as policy lapses have been an area of intense interest in the life insurance industry but empirical studies are limited to a few countries and factors. Currently, there is little that is known about studies that have been done to investigate the factors that lead to life insurance policy lapses in the Zambian Life insurance market and ZSIC life.

1.7 Scope of study

This was a quantitative study in the life insurance industry. The study was focused on ZSIC Life clients who lapsed their life insurance policies in the period June 2017 to June 2019.The study was conducted at ZSIC Life Limited head office in Lusaka. The focus of the study was to investigate the underlying factors that lead to life insurance policy lapses among ZSIC Life Limited clients and developing strategies to reduce the policy lapses. The study was focused on individual life policies both risk and investment policies.

1.7.1 Limitations of the Study

The study was an academic research, this means that the researcher had limited time in which to carry out the investigation and share the findings and recommendations. This study was limited to ZSIC Life clients and so the findings will only be applicable to ZSIC Life limited only. The clients whose policies lapsed do not usually communicate when their policies lapse so this information is not documented in the ZSIC's records, to collect the information, the researcher had to communicate directly with the policy holders in order to collect the information, this was not easy

as some policyholders were not corporative because they no longer had a relationship with ZSIC Life.

1.9 Operational definitions

Beneficiary is the person or entity entitled to receive the claim amount and other benefits upon the death of the benefactor (insured) or on the maturity of the policy (The Economic Times, 2019).

I.A.Z is a member organisation for licenced insurance and reinsurance companies in Zambia, it is responsible for ethical and prudent insurance business conduct in Zambia. I.A.Z was formed in 1997 (I.A.Z, 2019)

Insurance policy is a document detailing the terms and conditions of a contract of insurance. (Collins English dictionary, 2019)

Insured is a person or organization covered by insurance (Collins English dictionary, 2019).

K.Y.C Know your customer (wikipedia.org/wiki/Know your customer)

Lapse ratio is the proportion of policies where renewal premium was not paid (Subashini and Velmurugan, 2016).

Lapse refers to a "lapse in coverage", meaning the life insurance contract will no longer pay a death benefit or provide any insurance coverage for the insured person when there is a disruption in premium payments (Rockford, 2014).

P.I.A refers to the Pension and Insurance Authority which regulates the insurance industry in Zambia. This is a legislative government agency established under the Insurance Act (Amendment) 2005, CAP 392 of the Laws of Zambia to regulate, supervise and develop the insurance industry (Pension scheme regulation amendment billNo.28, 2005).

Policy lapse refers to a life insurance policy that has not contributed premium for two consecutive months (PIA, 2019).

Premium is the amount of money an individual or business pays for an insurance policy, once earned, the premium is income for the insurance company (Investopedia, 2019).

Sum assured is the amount of money an insurance policy promises to pay up before any bonuses are added. In other words, sum assured is the sure amount the policyholder will receive. This is also known as the cover or the coverage amount and is the total amount for which an individual is insured (Collins English dictionary, 2019).

WL- Whole life Policy is insurance for life and covers you for as long as you live as long as premiums are paid on time (AIG, 2019)

ZSIC a person or company that underwrites an insurance risk; the party in an insurance contract undertaking to pay compensation (Oxford dictionary, 2019).

1.10 Organization of the study

This study is divided into five chapters which are included as follows;

Chapter One describes about general background, statement of the problem, aim of the study, objectives of the study, research questions, and significance of the study, scope of the study, limitations to the study, operation definition and organization of the study.

Chapter two deals with literature review, it looks at the Overview of the Life Insurance Industry, principles of insurance, it also looks at various studies of life insurance lapses in different countries and conclusions therein.

Chapter three looks at the research methodology adopted for the study to be carried out. This includes the philosophical orientation of the study and the research design

Chapter four concentrates on presentations of findings in graphs, tables' pie charts and the discussion of results.

Chapter five summarizes the research work performed. It develops a clear view about the study in the form of conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section looks at what work has been done in other studies related to life Insurance policy lapses. The section discusses the overview of life insurance, defines what Life insurance is, the types of life Insurance, benefits of life insurance, what life insurance policy lapse is, how one can lapse a policy and the effects of life insurance policy lapses on the financial performance of the Life Insurance Company and the Individual. The chapter also looks at the global, regional and local perspective of Life insurance policy lapses. The study also looks at social demographic characteristics of policy holders who lapse life insurance policies, the Interest rate, emergency fund and policy replacement hypotheses. Later the section discusses the knowledge gap that this research was trying to address.

2.1 Overview of the Zambian Life Insurance Industry

Life Insurance is a contract between an insured and an insurer, where the insurer promises to pay a designated beneficiary a sum of money (the "benefits") upon the death of the insured person (Mark, 2002). Depending on the contract agreed, other events such as terminal illness or critical illness may also trigger payment. The policyholder typically pays a premium, either frequently or as a lump sum. Other expenses (such as funeral expenses) also are sometimes included in the benefits.

According to (IAZ, 2010) life insurance is one of the major employment sectors in Zambia. There are five companies offering life insurance listed in the Lusaka Stock Exchange. Today, life insurance industry in Zambia employs thousands of Zambians and contributes about 1% of Zambia's GDP. While this is much lower than the banking sector, it is quite significant given that over 10,000 Zambians are employed in this sector. A reduction in Life insurance policy lapses and lapses would improve GDP and create employment for more Zambians (Oden, 2002).

Life insurance also play a key role in the real estate growth. Without life insurance, lenders would either be unwilling to finance homes or the cost would be higher because the risk of losing their

investment would be very much higher. Far fewer people would be able to afford housing without financing. This makes life insurance an important key player in the economic growth of any nation (Bull, 2009).

For economic development, investments are necessary. Investments are made from saving. A life insurance company is a key instrument for the mobilization of savings of the people, particularly from the middle- and lower-income groupings. These savings are channelled into investments for economic growth. The insurance act has strict provisions to ensure that insurance resources are invested in safe avenues, like the government bonds, companies with record of profits and so on. Life insurance businesses therefore play a major role in the capital markets steadiness. The growth of life insurance would bring more confidence in the industry, which is currently very low. This would lead to the growth the industry because insurers would be able to lower the premiums due to economies of scale. Today, many Zambians cannot afford life insurance because premiums are relatively high as insurance companies try to cover the risk of business loss and policy lapses. The IAZ report (2018) also says that growth in life insurance acts a catalyst to growth of other industries. If life insurance grows, its means there is more disposable income. This assort investor confidence and sparks growth in other sectors of the economy. Life insurance also has tax benefits, which are used to invest in other sectors of the economy.

The primary function of insurance is to act as a risk transfer mechanism; that is, to transfer a risk from one person, the insured to the insured. Transferring the risk to an insurer does not in itself prevent losses from occurring, but it provides a form of financial security and peace of mind for the insured. The large unknown financial risk that an individual face, for example, of their home burning down, is transferred to the insurer and replaced by the much smaller certain cost of premium. According to (The CII, 2004: 1) these contributions, or premiums, must be large enough in total to meet the losses in any pool and provide an element of profit for the insurer. The insurer endeavours to make one-year and, in addition, must cover the costs of operating the insurance that the premium which each insured pays is proportionate to the risk, which they introduce to the pool.

2.2. Principles of Insurance

According to CII (2004) Insurance principles are referred to, as the cannons of risk management, based on assumptions of expected outcomes, in which the law of averages is applied in theory or in practice in approximating those outcomes. The insurance companies use these principles to quantify risk factors and determine the cost of indemnity. The following are the key insurance principles regularly used in practice.

(i) The Principle of Utmost Good Faith

According to Yohanna (2010) utmost Good Faith is defined as a positive duty to voluntarily disclose, accurately and completely, all facts material to the risk being projected, whether requested or not. In an insurance contract, the insurer does not know the true status of the subject matter of the contract, if an insured person opts not to tell his insurance company about the pragmatist circumstances for his/her affair would produce, the insurance company accepting a risk higher than expected. Therefore, the one proposing has an unfair advantage over the insurer since he has greater knowledge about the subject matter of the contract. For this cause, the law impose a greater duty on the parties of an insurance contract than in further commercial contracts. This is called the doctrine of "uberrima fides" interpreted as utmost good faith. This doctrine demands for the proposer to disclose all facts that are material to the risk, whether the insurer inquires for the facts or not. A Material Datum is any fact which influence the insurer in accepting or declining a risk or in fixing the premium or terms and conditions of the contract. Breaches of the duty of Utmost Good Faith arise due to: Misrepresentation act that happens when the proposer does not report the facts accurately or Non-disclosure acts that happens when the proposer omits to report material facts. In other instance, the proposer attempt Concealment, i.e., the proposer deliberately hides facts that he/she knows to be material (Akrami, 2011).

(ii) The Principle of Insurable Interest

According to CII (2019) Insurable interest is the financial interest of the proposer in such a way that the proposer stands benefited by the safety or continuous existence of an asset and absence of liability and prejudiced by the damage of assets or existence of liability. Any asset is insurable by a person only if harm to that asset results in loss of a legal right or creation of a legal liability for

that person. The subject matter of insurance can be any type of property or any event that may cause a loss or create a liability (Twin, 2019). Insurance is taken to offset the loss incurred or to pay for the liability created There are several ways in which insurable interest arises. When the element of insurable interest is automatically present, it is said to have risen through common law. Secondly, is when insurable interest arises by virtue of a contract entered into? Thirdly, through a Statute when an act of parliament may create an insurable interest by granting some benefit to a person or imposing some duty (Akrami, 2011).

(iii) The Principle of Indemnity

According to IISA (2019) Indemnity is the mechanism by which insurer provide financial compensation to make good the loss suffered by the insured due to the happening of the insured. The effect of indemnity is to put the insured in the same financial position in which he was immediately before the loss neither better off nor worse-off than before. Indemnity means to provide compensation to the policyholder in a way that neither he is benefited nor does he remain in loss, afterward a claim under the policy (Gupta,2011) .There are distinctly two corollaries to the principle of indemnity – Subrogation and Contribution. CII (2019) Defines subrogation as the right of one person, having indemnified another under a legal obligation to do so, to stand in the place of that other (insured) and benefit himself (Insurer) of all the rights and remedies of that other, whether already enforced or not enforced. This principle is corollary to the principle of indemnity in the sense that it stops the insured to be benefited by loss after getting the loss from the insurer as well as the responsible third party. The insured can recover the loss from another source after getting the claim from the insurer s but that additional money must be given to the insurers. Subrogation applies only when there is a contract of indemnity. It is not applicable in life insurance, personal accident insurance as these are not subject to the principle of strict indemnity. This principle does not apply to only the insured but also to the insurer as insured are not permitted to recover more than what they have paid as claim. Just like the insured, the insurer must also not make any profit out of an insurance claim (Findlaw, 2017).

(iv) Corollaries of indemnity

Contribution: In some cases, more than one policy may be in force on identical subject matter at the time of loss. In such circumstance, respectively insurer would need to bear a proportion of loss.

This is referred to as Contribution, i.e., the right of the insurer to call upon others similarly (but not necessarily equally) liable to the same insured to share the cost of an indemnity payment. Contribution is usually calculated on the base of 'Rateable Proportion'. This means that each insurer contributes towards paying the loss in direct proportion to the sums insured on the policies (Akrami, 2011).

Subrogation; Subrogation is when one party stands in for another. In the insurance setting, subrogation will rise if you are injured by a neglectful third party, and your insurance company compensates you for your damages. Under this principle, your insurance company can stand in your place and recover the pay-out from the neglectful party. The goal is to encourage responsibility and accountability by holding neglectful parties responsible for injuries they cause (Findlaw, 2017).

(v) Proximate Cause

IISA (2016) Defines proximate Cause as the lively effective cause that sets in motion a train of actions, which bring about a result, without the interference of any other force started and working autonomously from a new source. An insurance policy is designed to provide reimbursement only for losses that are caused by insured perils. This means that the obligation of the insurer arises only if the loss is caused by a risk, which is covered under the policy. However, as per the doctrine of proximate cause, the time that elapses between cause and result does not materialise. The cause that is considered truly proximate is that which is proximate in effectiveness not in time. Therefore, it is not the latest, but the most direct, operative and efficient cause that is regarded as proximate (Rahman, 2016).

2.3 Types of life Insurance policies

From a general viewpoint, life insurance policies can be considered as either term life insurance or cash value life insurance (Rejda, 2004). Term life insurance provides temporary and pure protection, whereas cash value life insurance policies not only provide protection for the whole life of the insured but also builds a source of saving/wealth, which is named; the cash value. A number of cash value (Investment) life insurance policies are available to consumers. This section will review term life insurance and the primary cash value (Investment) life insurance policies:

whole life insurance (WL), universal life insurance (UL), variable life insurance (VL), and variable universal life insurance (VUL).

2.4.1 Term Life Insurance

Term life insurance provides insurance protection for a limited time and pays a death benefit only if the insured dies during that period. If death does not happen during that period, the policy can be renewed for additional periods without evidence of insurability if it has a guaranteed renewable feature. Term life insurance is pure protection. It does not have a cash value. Primarily, when the insured is younger, premiums are lower than the premiums of cash value life insurance. Term life insurance premiums, however, increase with the insured's age because the probability of death increases with each year of life. Eventually, they reach unaffordable levels later in life, often when life insurance is no longer needed (Kagan, 2020).

Based on the details of term life insurance, people have drawn reliable conclusions on when it is appropriate to use term life insurance. As Rejeda (2004) and Trubey (1999) suggest term life insurance is appropriate in the following situations: if the insured has limited income that can be spent on life insurance, such as young people who are just starting their careers or families; or if the need for protection is temporal, such as saving for children's education or paying off a mortgage or other debts if the family head dies hastily. Angell (2019) said that term life insurance is an ideal plan to carry if the insured has the needed self-discipline to regularly invest the difference in term and cash value life premiums. He willingly admitted, however, that many people do not have this self-control.

2.4.2 Whole life insurance

In contrast to term life insurance, which provides temporary protection, whole life insurance (WL) is the most basic cash value life insurance offering lifetime protect. Ion (IISA,2017) Premiums remain level and fixed throughout the policy's life; they will not increase with the age of the insured. The death benefit is guaranteed and remains constant. Under a whole life insurance policy, the insured is overcharged for the insurance protection during the early years and undercharged during the later years (IISA, 2017). Whole life insurance has an investment or saving element called the policy's cash value which is built by the greater premiums required in the early years of

the policy's life (Kagan, 2020). With whole life insurance, the cash value is guaranteed to grow at a fixed rate of interest that is not known to the owner of the policy. As the cash value increases as a proportion of the face value, the amount of pure protection decreases, at all given age, the sum of the protection element and the cash value element will always equal the face amount of the policy. To secure the guaranteed growing rate of WL, the insurer chooses fairly conservative financial vehicles in order to assure that their assets meet their liabilities. This, in turn, causes a relatively low rate of return (Kagan, 2020). A key feature of WL is that the increases in cash value are not subject to income tax if the policy is held until the insured's death. The death benefit, paid to the beneficiary, is received free of income-tax. The cash value can be taken in cash by surrendering the policy or borrowing against the policy requiring interest to be paid by the owner of the policy on the loan to offset the loss of interest to the insurer. This interest is comparatively low and the loan principal need not be repaid, however, the death benefit is reduced by the amount of any unsettled balance on the loan (AIG, 2020).

Though cash value life insurance has a saving element, the insured should keep in mind that the fundamental purpose of life insurance is to provide financial protection for the family. The saving and investment purpose of cash value life insurance is generally a secondary concern (Angell, 1981). Angell suggested that when families have sufficient money left over, cash value life insurance can be purchased as an investment, after all other tax advantaged saving vehicles have been exhausted. Trubey (1999) advocated that whole life insurance is the proper choice when the insured wants both lifetime protection and cash accumulation; wants additional income during retirement; wants to leave an estate to their heirs; needs money for estate settlement costs and taxes; or to save money for children's college funding. For many individuals, whole life insurance may be a suitable, competitive choice, but the cost of the premiums makes WL unaffordable. In this case, an ideal insurance plan may be a combination of whole life and term life insurance.

2.4.3 Universal Life Insurance

Universal life insurance (UL), introduced in 1979, has been the most popular type of cash value insurance sold in recent years. According to LIMRA's report, UL accounted for 41% of total premiums in 2007 and the sale of UL outperformed that of other cash value life insurance policy types. According to Shaw (1985) Universal life insurance is diverse from whole life insurance on

several issues, firstly, the protection and saving elements are separated in UL. Thus, in contrast to whole life insurance, the death benefit and cash value accumulation are not being guaranteed but the rate of return and cost of insurance are explicitly known. Second, unlike whole life insurance, UL does not require a fixed schedule of premium payments; instead, the premium payment schedule is flexible. Flexibility allows policy owners to skip scheduled premium payments occasionally without causing the policy to lapse. Third, under WL, the policy owner captures cash value by surrendering the policy or borrowing against the policy. A UL policy holder, in contrast, can access his or her cash value by making partial withdrawals in addition to the two options offered with WL. Finally, though UL does not guarantee a fixed growth rate, it assures a minimum rate of interest, and it credits a current interest rate to the policy. The same income tax treatment applies to UL as to WL (Kagan, 2020).

Shaw (1985) further highlights that universal life offers flexibility and adaptability in several areas making it a more appealing alternative to most households as compared with whole life insurance. The insured willing to give up certain contractual assurances in exchange for potentially greater cash value growth will be attracted to universal life (Trubey, 1999).

2.4.4 Variable Life Insurance

Variable life insurance (VL) can be defined as a fixed premium policy in which the death benefit and cash values vary because of the investment performance of a separate account (Rejeda, 2004). Variable life insurance is the other form of cash value life insurance that performs like traditional whole life insurance in some ways: fixed premiums, guaranteed death benefit equals to the original face value, and no partial withdrawal. The main differences between WL and VL are regarding how the cash values are invested and with respect to who assume the risk of the underlying investment. Under WL, cash value growth is generated by investing in fixed-interest vehicles and the insurer assumes the risk of investment performance. In contrast, the owner of the policy under a VL has a right to choose various financial vehicles to invest premiums, such as mutual funds of stocks, bonds, or money market securities. Investment options can be changed after original purchase, thus making the decision one that is closer to an investment decision as opposed to an insurance decision. When altering account investment choices, an account transfer fee can apply. If the investment performance is favourable, the face amount of life insurance is increased. If the

investment performance is poor, the face amount of life insurance is reduced, but it will typically not fall below the original face amount. Thus, the owner of the policy bears the risk of investment results, as opposed to the insurer (Higgins, 2020).

Since premiums can be invested in a variety of favourable investments, the VL policy could provide potentially better cash value growth than that available in WL. Hence, those who need long-term insurance protection and a fixed predictable premium payment but are not satisfied with the conservative rate of return associated with whole life and prefer potentially better tax-free cash value growth, a VL policy may be a suitable option (Trubey, 1999). Of course, VL policy owners must be well-informed about investments and willingly to accept the greater risk of poor investment results.

2.4.5 Variable Universal Life Insurance

Variable universal life insurance (VUL), introduced in 1984, is a popular type of cash value insurance that has been widely sold in recent years. It combines the structures of universal life with variable life. These features include; adjustable death benefits, flexible premiums, more methods of accessing cash value, more investment choices, and the potentially higher rate of return and that comes with accepting greater risk. Most VUL are traded as investments or tax shelters (Rejeda, 2004).

Like UL, VUL allows the policy owner to adjust the amount and frequency of premium payments and death benefits to meet his or her needs. The policy owner determines how to invest the premiums under a VUL policy. The premiums are held in separate accounts which are not subject to creditor claims of the insurer (Freeman, 1995). The types of investments are the same as those of VL, ranging from very conservative guaranteed fixed accounts, to bonds, to common stocks and highly aggressive sector funds. The policy owner can also choose how much of their premiums will be allocated into the various accounts, allowing for a potentially greater rate of return. Internal transfers between the dissimilar accounts are free of income tax. Like VL, VUL has no certain minimum cash value since the cash value depends on the performance of the underlying investments.

Variable universal life insurance policies have substantial investment risk. The policy owner completely bears the risk of investment. Investment returns depend on how the premiums are invested. If the investment performance is poor, cash values can drop to as low as zero. Therefore, the policy owner should be acquainted with investing and be able to choose his investment well (Trubey, 1999). The VUL policy has important expense charges including investment, management, and mortality costs. According to a study by the Consumer Federation of America (CFA) in 2003, these various costs can more than offset the tax benefits of VUL policies. Thus, CFA advised purchasing a VUL only when the policy owner has made maximum annual contributions to his or her employer's 401(k) plan or individual retirement account (IRA) because they provide favourable income tax treatment at a much lower cost. This advice also applies to other cash value life insurance purchase since the expense loading of cash value life insurance is relatively high when compared to competing investments.

2.4.6 What is life insurance policy lapse?

According to Rosen (2019), a lapse means that a life insurance policy is no longer an active contract due to missed premium payments. A life insurance policy will surely lapse when both premium payments are wasted and cash surrender value is exhausted if it is a permanent life insurance policy. The term lapse refer to a "lapse in coverage", meaning the life insurance contract will no longer pay a death benefit or deliver any insurance coverage for the insured person. A policy will only lapse after a grace period has passed, and most businesses will allow their clients to reinstate their policies for a short period after the policy has lapsed without further underwriting.

To prevent a life insurance policy from lapsing each and every time a premium payment is slightly late, insurers allow life insurance policies to go through what is known as a grace period after a payment is missed. This is a period of time (usually 30 days) where in spite of the missed payment, the insurance policy will still provide coverage and make a complete pay-out if the insured dies. In Zambia, the grace period is 60 days (PIA, 2019). Only after when the grace period has passed without receiving the due premiums can the life insurance business consider the policy to have lapsed. Once a life insurance policy lapses the life insurance business is not under any legal obligation to pay the recipients if an insured person passes away.

2.4.7 Reinstatement of a Policy

According to Diulio (2020) for some period (depending on business and policy type) after a policy first lapses, the owner may have the option to restore the policy. The insured may want to make sure that they reinstate the policy as quickly as possible after a lapse. Different companies have different rules for reinstatement and the insured could miss the window to reinstate the policy if they do not act quickly enough. After a policy has lapsed, a reinstatement can usually be done with no underwriting within the first 30 days, and with limited underwriting after 30 days but for less than six months. The limited underwriting usually requires that the insured person answers some health questions, and attests that no material changes in health have occurred since the policy was underwritten. The insureds are expected not to lie at the time of reinstating the policy, lying on this questionnaire, if caught during the claims process, can negate a life insurance claim from being payable (Smith, 2017).

The reinstatement period is very important to policy holders and insured persons for a couple of reason; the first reason is that the insured person may not need to go through the underwriting process if they unintentionally miss a payment and let a policy lapse. If a person has had a major health change, he or she may not necessarily be aware of the change. As long as he or she doesn't lie on the reinstatement form and can prove that they were unaware of any changes in health, the insurance company will reinstate the policy and make a pay-out if a claim is filed. The underwriting process may uncover more about a person's health than they ever knew, for better and worse. Avoiding underwriting when possible almost always leads to lower insurance premiums (Kagan, 2020).

The second reason the reinstatement period is very vital is that even with the identical health rating, a new life insurance policy will always be more expensive than an old policy because the insured person has aged. The older the insured person, the higher the rates will be, all things being equal. The bottom line is: Reinstating a life insurance policy rather than taking out a new policy will save a lot of money (Rockford, 2019).

After a policy has lapsed, a larger payment must be made to reinstate the policy as such it is in the best interest of a policyholder never to let a policy lapse. This additional payment is not a late fee, but it does signal to the life insurance firm that a person is not going to constantly be letting a policy lapse. The huge payment will cover the policy premium due for at least a few months. Policy holders are encouraged never to allow a life insurance policy to lapse and best way to avoid a lapse is to always make premium payments on time (Rockford, 2019).

2.4.8 How policy holders can avoid policy lapses

All major life insurance carriers offer the ability to automatically draft payments from an insured's checking account to pay the policy on time every month. This is a nice feature because it removes the need to think about life insurance premium payments every month, which is not at the top of most people's priority lists. So, premiums will automatically be paid from the insured's account directly to the insurer's account (Carrns, 2013).

Whole life, universal life and variable universal life insurance policies will usually take the cost of insurance from the cash value in some way if a premium payment is missed. While this can ease the burden for clients during times when it is not possible to make payments into the policy, clients must stay on top of the policy values (Diulio, 2020). If the value slips near zero and there are not sufficient funds to cover the cost of life insurance, the policy will lapse (Carrns, 2013).

Term life insurance has no cash value. Therefore, when a premium payment is missed, the policy will immediately go into a grace period, and it will lapse after the prescribed amount of time. Policy holders endeavour to always make a premium payment on time for term life insurance policies, and not miss payments. Term life insurance can be easily replaced, but if, policy holders are also encouraged to take up policies with very affordable premiums to avoid policy lapses due to financial pressure (Diulio, 2020). Policyholders are also encouraged to communicate with their beneficiaries or other responsible individuals, who may be able to step into resume premium payments should the insured be unable to (Ladika, 2019).

2.4.9 How Insurers can help policy holders to avoid policy lapses?

Mueller (2018) recommends that insurers can help their policyholders to avoid policy lapses by;

a) Explain lapse in the client onboarding materials

According to Agatha (2016) Insurers should be up front about what it means to lapse a policy. They should include a fact sheet with common questions and tips to avoid lapsing. The fact sheet should cover subjects such as grace periods, reinstating coverage, and best practices to avoid a lapse. In most cases, customers lapse a policy because they cannot afford it. So, what other options are available before a lapse happens? If they know there are options (reducing coverage, sourcing a cheaper policy from a new carrier), they are more likely to reach out to the insurer for help before dropping their coverage (Agatha, 2016). The insurer should include this information in the client welcome/onboarding packet. This is the information they're most likely to keep, whether it is provided in digital or paper format (Carrns, 2013).

b) Asking the client about their budget

In an annual evaluation, the goal is often to make sure clients have sufficient coverage. But insurers may also want to give them the space to bring up any financial hardships (Diulio, 2020). It's hard for people to admit they're not doing well financially, or that they've had a serious setback since the last time you talked. The insurer should give them an opening to inform them that they may need to downgrade their coverage. This might be as simple such as, "Is the monthly payment for this policy still able for you?" the insurer should keep it casual, and if the insured give an indication that it's not do-able, the insurer should offer to run a new quote there and then so they can see what a new policy might look like (Sharma, 2019).

c) Send a Reminder

According to Sharma (2019), Insurers may want to send a quick check-in email every year, besides the annual review. This email doesn't have to be specifically about financial hardship, either it can ask a short series of questions that, if the answer is yes, means the client should contact you to talk about their options. Sample questions might include: Have you reviewed your beneficiaries lately? Do I have your most recent contact info? Do you have additional (or fewer) family members now

that alternate your coverage needs? Are you having trouble making your policy's premium payments? (Sharma, 2019).

d) Create Specialized Content

The insurer can also create content that specifically answers the question, "What if I can't afford my policy?" This might be a video, a blog post, an entry on the insurer's FAQ page, social media posts, and more. The goal is to make it easy for clients to find (Agatha, 2016). In the content, the insurer should make sure the insured or get in touch so that they can be helped. The insurer should reinforce how valuable the coverage is so the insured understands that lapsing may not be their best option. The insurer should bring up ways to make the coverage more valuable, with riders for disability or long-term care, for example. If their current carrier or policy doesn't offer those riders, the insurer can help them look for a new policy that does (Agatha, 2016).

e) Tag and the Customer Relationship Management tool

If the insurer uses the customer relationship management tool to keep track of their book of business, you should be able to tag clients they want to monitor. If a client says their primary concern is the budget, or indicates their financial circumstances have changed, the insurer should tag them so the insurer can check in with them more frequently (Carrns, 2013).

2.4.10 Effects of policy lapses on the insured

According to CII (2017), when a policy lapses it ceases to provide insurance protection to the insured. It forfeits benefits under the policy and possible favorable terms later in the insurance contract. A new policy would be costly, considering the current higher age and other related factors. Some insurer's consider previous lapses as adverse factor while underwriting a new proposal (Diulio, 2020). The pay back, which is part of the premium paid that cannot be forfeited, never meets the expectations of policyholders and certain products do not carry cash values, so they will not compensate any value when the policy lapses (Diulio, 2020). Unit linked policies yield good returns only in the long run. If the unit linked product lapses, policyholders receive the blow, in that they may not have received any gains, not recovered the front-end costs and also miss out on the advantage of lower costs in the long run (Carnes, 2013). Unit linked policies are priced such that the cost of insurance reduces with increasing accumulation value. So, when these policies

lapse prematurely, policyholders are deprived of these benefits. Even for the traditional policies, the policyholder suffers huge losses as there would be higher surrender charges and possible loss of bonuses. According to Sharma (2019) Policy lapse affects the policyholders in three ways:

a. When the policy lapses, the policyholders lose the insurance coverage and usually the insurance need is acute at the times of lapse (one example is where the insured is not in employment due to illness and hence not being able to pay premiums).
b. Customers with whole life policies get a reduced return if any; from the lapsed policy as discount factors are applied to the paid-up value.
c. Customers will be affected by increased lapse rates as the cost is passed on to them by way of higher premiums (in future product pricing) or lower bonuses.

2.4.11 Effects of policy lapses on the financial performance of the life insurance company.

Liargovas and Skandalis, (2008) studied the factors that affect life insurance companies' financial performance in Greece. The study distinguished between financial and non-financial drivers of firm's financial performance and concluded that life insurance policy lapses are a key driver of firm's financial performance due to the loss in premium income and possible future profits and the overall change in the insurer's assets and liabilities resulting from policy lapses.

According to kuo et al (2003) Lapses affects the insurer's liquidity in the following ways;

- Financial loss; financial loss will result from the insurer's inability to recoup the upfront investment made in acquiring new business. It takes an insurer at least two years to recoup the upfront investment made in acquiring the new business and if the policy is cancelled before two years, the insurer will not be able to recoup the cost of acquiring the new business hence the financial loss.
- Liquidity Risk; the insurer may be exposed to liquidity risk when forced to pay cash surrender values for lapsed policies with a surrender option. This will negatively affect the insurer's cash flows.

The pronouncement to lapse a life insurance policy can have far-reaching effects on the issuing insurance company. From the insurer viewpoint, extreme policy lapse activity adversely impacts

costs, investment returns, and mortality experience, each of which negatively affects the financial stability and wellbeing of the insurer (Black and Skipper, 2000).

Gatzert, Hoerman and schmeiser, (2009) highlighted that policy lapses and surrenders could result in a situation where the insurer must liquidate high-yielding investments in order to satisfy policyholder requests for surrender values. They also noted that excessive policy lapses can influence pricing when lapses are greater than expected or when they cause actual mortality rates experienced by the insurer to deviate from expected mortality rates.

According to Dutang (2018), when it comes to Solvency II framework, the lapse risk corresponds to the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrender. In terms of financial consequences, the lapse risk is one of the biggest risks to consider for life insurers. Lapses strongly affect insurer's asset and liabilities Management (ALM) since they trigger unexpected cash flows, and modify the insurers' commitments through changes in contractual guarantees (IISA, 2017). In the Canadian regulatory system, the lapse risk is taken into account as an explicit component of the risk-based capital formula. On the opposite, in the U.S. regulatory system, the lapse risk is implicitly taken into account in Commission's Reserve Value (Dutang, 2018).

2.5 Social Demographic Characteristics of Policy holders that lapse policies and the policy domain that is dominant in lapses.

Fier and Liebenberg (2012) studied demographic characteristics of policy holders who lapsed their policies in the United States of America and concluded that age is an important moderating factor in the lapse decision, variations in income appeared to more directly affect the decision to lapse for younger households, while they are commonly unrelated to the lapse decision for older households.

Liebenberg *et al*. (2012) find a positive relation among recent retirement and the decision to drop term life insurance coverage. They state that the relationship may be explained as either the result of (1) the loss of employer-sponsored life insurance or (2) the substitutability of retirement income for life insurance. He also notes that following the death of a spouse, the remaining spouse may

allow an outstanding policy to lapse as the financial benefit derived from the policy may no longer be required.

Liebenberg *et al*. (2012) also found out that employment status also has an influence on the policyholder's decision to lapse a policy. The findings of the investigation indicate that working households are less likely to drop their whole life insurance. Another demographic factor that has an influence on the policyholder's decision to lapse a policy is the policyholder's level of education.

Robert Lian *et al* (1993) claim that among the Singapore policy holders, persistence in maintaining a life insurance policy was high in policyholders who were older in age and males with term insurance policies small in size with premiums paid less frequently. This study also found out that the highest number of policy holders who lapsed their Life insurance policies were single women, self-employed and maintained a monthly premium paying policy. The study concluded that age, marital status and status of employment played an important role in influencing a policy holder's decision to lapse a life insurance policy.

2.6 The Interest rate, Emergency fund and Policy replacement Hypotheses.

According to kuo *et al.* (2003) the root cause for policy lapses has attracted academic interest for some time and three main hypotheses have been investigated and these are;

i. The interest rate Hypothesis
ii. The emergency fund hypothesis
iii. The Policy replacement Hypothesis

2.7 The Interest Rate Hypothesis, Emergency Fund Hypothesis and the Policy replacement Hypotheses.

The interest rate hypothesis assumes that saving through life insurance is sensitive to rates of returns kuo *et al* (2003). The argument is that policy holders lapse life insurance policies in order to exploit the higher interest rates and or lower premiums on the market when market interest rates rise. Chen (2003) agrees that policyholders may be willing to remove funds from a life insurance policy (either by way of loan or surrender) in order to take benefit from higher market rates. Using

aggregate data from the American Council of Life insurers (ACLI) for the period 1951-1998, Kuo et al. (2003) report evidence consistent with the interest rate hypothesis and they also find that the impact of interest rates on lapse behaviour is of greater economic importance.

According to Russell *et al* (2013), the emergency fund hypothesis argues that "Financial distress forces policy holders to lapse their policies in order to access the surrender value" .Russell *et al* (2013) analyzed life insurance policy surrender activity to determine whether surrender is a function of certain macroeconomic variables and, therefore, highly correlated across policies. Results supported the Emergency Fund Hypothesis and the Interest Rate Hypothesis.

The policy replacement hypothesis argues that "the policy holder will cancel a policy in order to replace it with another life insurance policy" (Fier and Liebenberg, 2012). They investigated both the emergency fund hypothesis and the Policy replacement hypothesis, the results of the study suggested that the decision to lapse a life insurance policy is directly related to the purchase of a different life insurance policy, reliable with the policy replacement hypothesis.

2.8 Global perspective of Life insurance policy lapses.

Dieter and Kiesenbauer (2011) studied the determinants of lapse in the German life insurance industry on 133 German life insurance companies from 1997 to 2009. Five unalike product categories are considered (endowment, annuity, term life, group, and other). The findings showed that the main lapse determinants where very similar across all product categories, except that the direction of impact was reversed for the product category "other" which consisted almost exclusively of unit-linked business. In particular, the interest rate and emergency fund hypotheses where only supported for unit-linked business, while these hypotheses did not hold for the remaining product categories. Overall, the analysis provided an understanding of lapse dynamics related to economic indicators and company characteristics.

Jayetileke *et al* (2017) studied the factors affecting the Persistency of Life Insurance Policies in Sri Lanka. The study concluded that even though there are large number of insurance companies to issue life insurance policies in Srilanka, none of them maintained a persistent data base of life insurance policies. Moreover, those who had been convinced to obtain an insurance policy did not understand the importance of maintaining their insurance policies in force by paying regular

premium. This resulted in high rates of policy lapses. The study also concluded that mode of payment, age, marital status and employment were identified as factors for the persistency of a life insurance policy in Sri Lanka.

Fier *et al.* (2012) studied the lapse behaviour of policyholders in the United States of America. Their findings were consistent with the emergency fund hypothesis the study concluded that voluntary lapses where related to large income shocks, and consistent with the policy replacement hypothesis as it concluded that the decision to lapse a life insurance policy is directly related to the purchase of a different life insurance policy. The study also indicated that age is an important moderating factor in the lapse decision. Changes in income seemed to more directly affect the decision to lapse for younger households, while they are usually unrelated to the lapse decision for the older age. Diulio (2020) in his article "What happens when your policy lapses?" claims that policy lapses one of the life insurance industry's best-kept secrets and that a great number of life insurance policies in the U.S.A tend to lapse and that some studies claim as many as 80 percent of policies lapse before a pay-out is due.

Shodganga (2012) Studied life insurance lapses for the Indian market and concluded that high lapse of life insurance policies is one of the most serious issues in the Indian marketplace. On average about 20 percent of policies lapse in the first year. In some businesses and in some product lines, lapses are much higher.

Subhashini *et al* (2016) studied lapses of insurance in Coimbatore, they indicated that factors that can be attributed to Lapsation are unexpected change in policyholder's financial Position, uncertainty in job market and failure to pay premiums on time. The study reported that a large chunk of insurance policies from private insurers lapsed because investors did not pay their renewal premium. The paper indicated that there was a lapse ratio as high as 51 per cent for Birla Sun Life Insurance, 48 per cent for Future Generali and at 43 per cent and 36 per cent, separately for ICICI Prudential and Bharti Axa Life in 2014-15. A study conducted by the Indira Gandhi Institute of Development Research, Mumbai in April 2013 titled "Estimating losses to customers on account of mis-selling life insurance" concluded that policy holders lost over $ 28 billion as a result of policy lapses (Subhashini, 2016).

Fang and Kung (2012) studied policy lapses for Philadelphia. They concluded that lapses are driven either by income, health or bequest motive shocks. The study also concluded that income and health shocks are relatively more important than bequest motive shocks in explaining lapses when policyholders are young, but as they age, the bequest motive shocks play a more important role.

According to Padmavathi (2017) lapsation of life insurance policies in India is a curse for the underwriting company and a serious challenge within an insurer which, if not cured, could even lead to the whole company's collapse. Lapsation of policies makes it difficult for insurance companies to come up with accurate estimates. Lapsed policies have a damaging effect on risk pooling and sharing - so, if policies start lapsing then business is sure to deteriorate. Lapsation negatively impacts on customer retention, product performance, pricing factors and public image of the insurer (Jayetileke, 2017). When it comes to customer retention; Lapses may be the source of customer dissatisfaction, satisfied customers generally want to continue to do business with the company. Customer retention is a key profit driver for an insurance company, repeat customers are cheaper and more profitable than attracting new customers (Diulio, 2020).

Piquet (2018) in his article "titled Commitment and Lapse Behaviour in Long-Term Insurance" stated that insufficient knowledge of insurance products was the cause of lapsation in a number of policies in the United States. He recommends that enhancing knowledge of the environment in terms of risk and of insurance solutions would be helpful in reducing policy lapses and would also increase insurance demand, as argued by Richter, Browne, and Grund (2010)

2.9 Regional perspective of Life insurance policy lapses

According to KPMG (2018) Lapse rates remain a challenge for life insurers in South Africa. South African life insurance companies pay significant upfront acquisition costs meaning that persistency is important to recover some of the acquisition costs. The tough economic conditions continue to put strain on the consumers hence most of them lapsing their life insurance policies. Life insurance policy lapses increased from 37.6% in 2016 to 41.6% in 2017.The study also concluded that most of the business that lapsed is that which was acquired directly. The study also concluded that Lapse risk was the most significant contributor to life insurance underwriting risk. In an impact study conducted as part of the development of the new insurance act, lapse risk was identified as the

most significant contributor to the capital requirement for life insurers in South Africa. In 2017, 2.7 million policies less than 12 months old were lapsed compared to 2 million in 2016.This was evidence that life insurance policy holders where under a lot of financial pressure De Villiers(2017). According to Kathanga *et al* (2016) most people with lapsed policies in the Kenyan life insurance market were not willing to revive their policies and they showed a general lack of knowledge on insurance benefits. The study showed that lack of knowledge on the benefits of insurance was a major contributing factor to their decision to lapse their life insurance policies.

According to Geraldine (2015) the Kenyan Life insurance industry experienced a 52-60% loss resulting from life insurance policy lapses because of not employing customer satisfaction strategies.

Mojekwu (2011) studied modes of policy holder exit of life insurance in Nigeria, the study concluded that Lapse is the commonest mode of exit. This mode of exit also recorded the highest number of occurrences within the age group 25–35 years.

Seka1*et al* (2011) studied factors that influence life insurance policy persistency in the Kenyan market and discovered that demographics of the policyholder was proved to be important in achieving persistency. Mainly, these demographics focused on age, gender, education and occupation of policyholders which were found to have an effect on persistency of ordinary life assurance. Policyholders employed by the government were found to have high persistence rates as compared to those employed by private companies and those self-employed. Low income earners had a more likely hood to lapse their policies than those with high income. Policyholders the sum assured of less than five hundred were more prone to lapse than those with sum assured above five hundred thousand. The change of a physical location of policyholder increased the changes of lapsing of policies.

According to Salami (1996) existing customers allowed the policies to lapse due to poor premium pricing and poor relationship management on the side of the life insurance company. He also stated that Nigeria life insurance Companies did not, premium charged in li take cognisance of inflation rates when charging premiums, so in most cases, the value of the sum assured which is payable would have been eroded by inflation in the economy.

2.10 Local perspective of Life Insurance policy lapses

The life insurance market has 23 companies selling various Group Life, Group Creditor annuities, and Individual Life policies. Zambia's life insurance sector is relatively small in terms of absolute premiums written. Just like most sub-Saharan nations except South Africa, density (i.e. premiums per capita) is very low. A survey commissioned by (PIA, 2008) reported that there were only 362,059 individual life policies at the end of 2007 in a working population of 8.74 million (about 4% coverage). Indeed, majority of ordinary life policyholders are persons on permanent terms of employment such as civil servants and teachers, mainly on check-off system of premium payment. Just a few self- employed or informal sector workers hold any form of insurance and there exists a need to target these persons who form the bulk of our population in order to raise the level of spread for life insurance (Julius, 2013).

Nevertheless, the rapid growth in density, and the fact that the segment accounts for a significant portion (approximately a third) of all activity in the insurance sector, is very encouraging (PIA, 2011). While about 3% of Zambians have general insurance, only about 1.3% have Life Insurance. General insurance like car insurance, fire insurance has a better uptake because it's a legal requirement to take up such insurance. Life Insurance is largely voluntary and is largely dependent on the Agency model of distribution. According to Association of Zambian insurers, it was approximated that only around k48 million was to be collected as premiums in the Life Insurance industry in Zambia by end of year 2018. According to (PIA, 2011), ordinary life insurance recorded a gross premium income of K10.51 Million compared to 8.56 million in the year 2010. The composition comprised endowment policies accounting for K9.00 million, term assurance policies K1.27 million, whole life policies K0.13 million and annuity policies accounting for K0.11 million.

In terms of Life insurance policy lapses, the industry is experiencing quiet a high number of policy lapses with about 12,850 policy lapses in the period June 2017 to June 2019.The industry had a market lapse rate of about 3.6 % in the same period (PIA, 2019).

Table 1**: Summary of the Interactive Gaps**

ARTICLE	AUTHOR	FINDINGS	GAP
Factors that affect Life insurance companies	Ligovars and SKardis(2008)	Policy lapses are a key driver of a firms's financial performance	Did not look at the demographic characteristics of policy holders who may lapse their policies
Demographic Characteristics of policy holders who lapse their policies in the US	Fier and Liebenberg (2012)	Age is an important moderating factor in the lapse decision	Study was confined to age and not looking at other demographics such as Marital status and Sex
When Does a life insurance policy lapse?	Kamran Rosen (2019)	Most policyholders are not aware of the options to reinstate or sale their life insurance policies	Did not look at factors that lead to policy lapses
Dangers of letting your life insurance policy lapse	Nick Diulio (2019)	Loss of cover for beneficiaries, cover becomes expensive because of advancement in age	Did not discuss strategies on how policyholders can avoid policy lapses
How lapses Hurt you	Allen Wastler (2019)	Loss of protection and having to pay more to get the protection back	Did not study how policy lapses hurt Life insurance companies
A study on lapses in Combatore	S.Subashini and Dr.Velmurugan (2016)	Lapsations not only affect insurance companies but the whole economy	Did not study on how companies can reduce or avoid policy lapses

Source: Author's Construction

2.11 Knowledge gaps to be addressed by the Study

From the different investigations cited above, it is worthy to note that for different types of policies, different social demographic factors may influence policy holder decision to lapse a life insurance policy (Subhashini, 2016). Therefore, it was important to investigate which social demographic factors may influence insurance Life policyholders to lapse their life insurance policies and to identify which policies were influenced by what type of social demographic factors, especially that there was little known about any investigation that has been done to analyse the factors that lead to lapsing of life insurance policies of a life Insurance company in the Zambian market.

The conflicting results from the above cited investigations on the interest rate hypothesis and the emergency fund hypothesis may be due to differences in the markets data and it is for this reason that it was important to investigate and find out what was obtaining on the books of ZSIC Life limited.

Conducting this investigation is beneficial to ZSIC Life because finding out the factors that lead to life insurance policy lapses and developing strategies to reducing them will protect ZSIC Life limited from the negative effects of life insurance policy lapses. This will also help to ensure that persistency ratios for policies go up and policy holders will continue to enjoy the financial protection that in force life insurance policies provide (Rosen, 2019).

2.12 Theoretical and Conceptual framework

2.12.1 Theoretical Frame work

a. **The interest rate hypothesis;** According to Kuo et al (2003), this theory assumes that saving through life insurance is sensitive to rates of returns kuo et al (2003). The argument is that policy holders lapse life insurance policies in order to exploit the higher interest rates and or lower premiums on the market when market interest rates rise.
b. **The emergency fund hypothesis**, proposed by Linton (1932) is a theory in which policyholders regard their life insurance policies as a source of emergency funds and will withdraw their policies in times of need. So when policy holders are faced with financial challenges, they lapse their policies in order to access the surrender value in the cash value life insurance policies.

c. **Policy replacement Hypotheses**; According to Fier and Liebenberg (2012**)** this theory argues that "the policy holders will withdraw a policy in order to replace it with another life insurance policy" Policy holders lapse policies because they want to purchase another new policy which they may feel offers better life insurance benefits than the one they are currently enjoying.

2.12.2 Conceptual framework

Based on the above literature review the researcher constructed the conceptual framework shown in Figure 1 below.

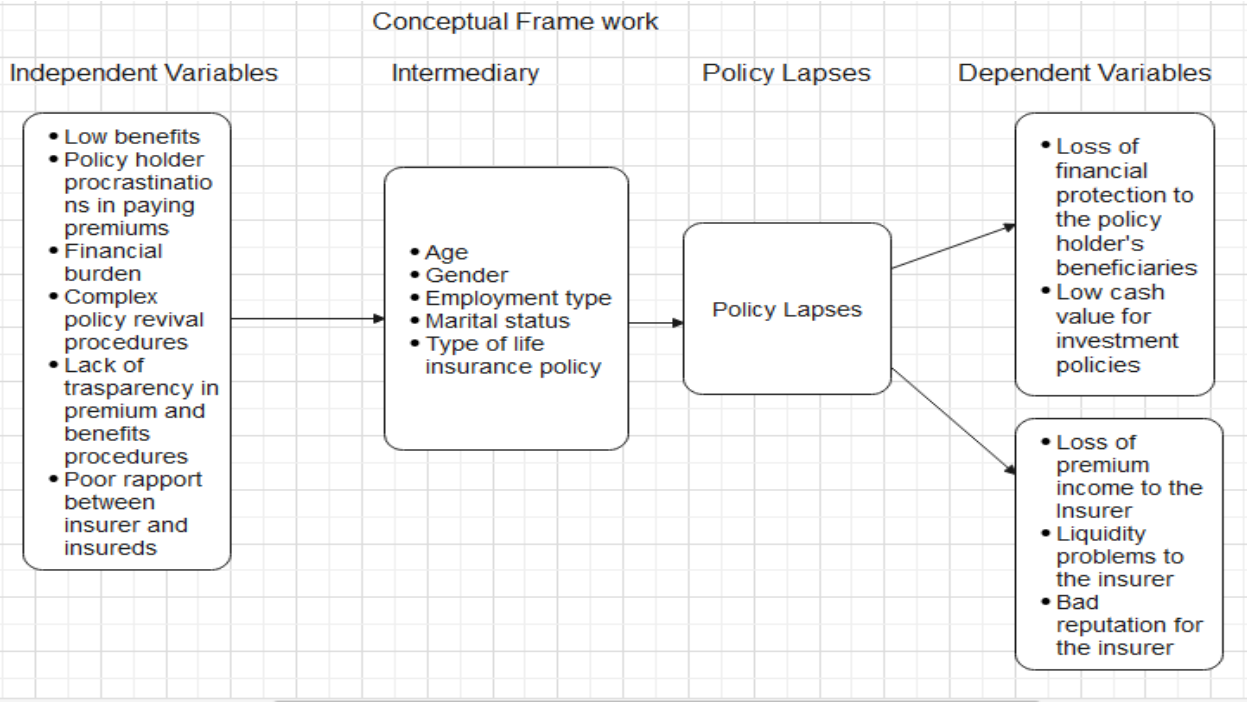

Figure 1: Conceptual Framework

Source: Author's Construction

When policy holders perceive that the insurance policy has low benefits, complex policy revival procedures, facing some financial burdens or there is poor rapport with the insurer and are of a certain age, certain gender, are in a certain type of employment or marital status, the policy holders is most likely to lapse the policy (Kuo,2003). This results in loss of protection for the beneficiaries

and low cash pay outs for investment policies. The insurer suffers liquidity problems from loss of premium income, posts losses if the policy lapses before recouping the business acquisition costs and may earn a bad reputation in the market (Eling, 2015).

2.13 Chapter Summary

This section looked at what work has been done in other studies related to life Insurance policy lapses. The section discusses the overview of life insurance, defined what Life insurance is, the types of life Insurance, benefits of life insurance, what life insurance policy lapse is, how one can lapse a policy, the effects of life insurance policy lapses to the insured and on the financial performance of the Life Insurance Company. The chapter also looked at social demographic characteristics of policy holders who lapse life insurance policies as revealed by different studies in different markets, the Interest rate, emergency fund and policy replacement hypotheses as well as the global, regional and local perspective of Life insurance policy lapses. Later the section discusses the knowledge gap that this research was trying to address.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a systematic theoretical analysis of the methods applied in conducting the study. It begins by presenting the philosophical orientation, thereafter the research design, target population, sampling technique, sample size, tools of data collection, methods of data analysis, data validation and ethical considerations.

3.2 Philosophical Orientation

The philosophical approach behind this study is positivism. Positivism observes to the view that only accurate knowledge gained through observation of the senses, including measurement, is trustworthy. In positivism studies the role of the researcher is limited to data collection and interpretation in an objective way. In this type of research, findings are usually observable and quantifiable. Positivism depends on quantifiable observations that lead to statistical analysis. It has been noticed that as a philosophy, positivism is in accordance with the empiricist view that knowledge stems from human experience. It has an atomistic, ontological view of the world as encompassing discrete, observable elements and events that interact in an observable, determined and regular manner (Collins, 2010).

In positivism studies, the researcher is autonomous from the study and there are no provisions for human interests within the study. Crowther and Lancaster (2008) argue that as a rule, positivist studies usually adopt a deductive approach. In line with the philosophical orientation, the mode of research which was conducted is a quantitative research: quantitative research is a systematic empirical investigation of observable phenomena and statistical techniques. The research analyzed the data with the help of statistics and hoped the number yield an unbiased result that can be generalized to some larger population.

3.3 Research Design

Under this study, a survey research was considered. According to Ponto (2015) Survey research is the collection of data attained by asking individual questions either in person or through questionnaires. Conducting surveys is one form of primary research, which is gathering first-hand data from its source. Surveys provide a high level of wide-ranging capability in representing a large population this is due to many people who answer to the administered questionnaire in a survey, the data being gathered possess a better description of the relative characteristics of the general population involved in the study. As compared to other methods of data gathering, surveys are able to extract data that is near to the exact attributes of the larger population. For the reason that of the high representativeness brought about by the survey method, it is often easier to find statistically significant results than other data gathering methods. Multiple variables can also be effectively analyzed using surveys. Ponto (2015).

3.4 Study Area/site and Population

The study was conducted at ZSIC Life Limited Head Quarters which is located at Insurance House along Cairo road in Lusaka.The research respondents that were considered in this study are the 230 policy holders who lapsed their policies between June, 2017 to June 2019

3.5 Sample Size

The sample was calculated using the Taro Yamane method, (Yamane, 1973) as shown below; with 95% confidence level.

$n=N/ (1 + Ne^2)$

Where;

n= Sample required

N=Population Size =230

e=Margin of error = 0.05

Substitute in the formula

I.e., n=230/ (1 + 230(0.05 ^2)

=230/1.575

=**146 participants**

3.6 Target Population

The study was focused on ZSIC Life Limited clients whose life insurance policies lapsed between June 2017 and June 2019. This was achieved by picking a sample of 160 policy holders from the policy Lapsation records at ZSIC Life Limited.

3.7 Sampling Technique

The researcher used simple random sampling technique because Simple random sampling allows every item in the population to have an even chance and likelihood of being selected in the sample. Simple random sampling allowed all the elements in the study population to have an equal opportunity of being part of the research sample. The selection of items completely depends on chance or by probability and therefore (McCombes, 2019). The following steps were taken in conducting simple random sampling;

- A list of all the policy holders who lapsed their policies during the period under study was prepared.
- The names where cut and put in a box
- The box was shaken and 160 names were randomly picked from the box.

3.8 Sources of Data Collection

3.8.1 Secondary Data

Secondary data considered literature from related books, articles, journals, published and documents from the libraries and the internet. These sources of data were used to help the researcher know of other findings or opinions that have been found as regards to the topic of the study and identify what is yet to be explored (Saunders, 2007).

3.8.2 Primary Data

Primary data comprised of the information that was collected from the participants at ZSIC Life Limited. A structured questionnaire with closed ended questions was used to collect primary data from ZSIC Life Limited clients. The questionnaire was in two parts, section A had questions to collect social demographic data and section B had questions meant to investigate the factors that lead to Life Insurance policy lapses, the questions comprised of a Likert scale and participants had to give a rating on the scale presented in the questionnaire.

3.9 Data Collection Procedure

Since it was not convenient to meet in person with the participants due to the nature of the research and because their insurance lapsed. The researcher resorted to conduct telephone survey with the policyholders whose policies lapsed. In this case, the questionnaire was concise and flexible so as not to waste the participant's time and avoid the occurrence of participants excusing themselves minus finishing the survey. The researcher ensured that the collection of information from each participant was done in the space of not more than 10 minutes.

3.10 Tools of Data Analysis

The tools that were used during data analysis is excel and Statistical Package for Social Sciences (SPSS). The researcher chose excel because it is cheap and easy to use and SPSS because it is a versatile package that allows a lot of analysis and data transformations and forms of out-put. The results were realized from the analysis and summarized using pie charts, tables and bar charts.

3.11 Validity and Reliability of the Data collection tool

Saunders *et al* (2019) define data validity as the extent to which a concept is accurately measured in a quantitative study. Another measure of quality in a quantitative study is reliability, or the accuracy of an instrument, in other words, the extent to which a research instrument consistently has the identical results if used in another similar situation on recurrent occasions (Saunders, 2019). The researcher used the content validity method to test validity and reliability of the instrument. This was achieved by asking an independent persons to review the questionnaire

against the research objectives and confirm that each question on the questionnaire was driving to give response to the research questions (Korb, 2012).

3.13 Ethical Considerations

As it is a requirement that every piece of research that involves human participants to go through a formal process of research ethics review. In order to do this, ethical principles were put into consideration during the period of data collection and the following were the ethics that were followed;

- The researcher had to seek clearance from the research ethics committee.
- The researcher ensured that pressure was not exerted on individuals who chose to participate.
- Respondents were not subjected to research without their consent.
- Furthermore, anonymity and confidentiality were applied and this involved assuring all the respondents that their responses and identities will be kept confidential.
- Respect for individual's autonomy was well-thought in such a way that participants were made aware to feel free to withdraw from participating in the research if they did not feel comfortable at any point without having to explain themselves.

3.14 Chapter Summary

This chapter presented a systematic theoretical analysis of the methods applied in conducting the study. It began by presenting the philosophical orientation which gave guide on the research methodology, thereafter the research design which gave a guide on how the study was to be done, target population, sampling technique, sample size, tools of data collection, methods of data analysis, data validation and ethical considerations that were put in place.

CHAPTER FOUR

PRESENTATION OF THE FINDINGS

4.1 Introduction

This chapter presents the results of the study and discusses these results obtained from the research survey. The researcher carried out telephone interviews to fill out the questionnaires. Data was analysed using IBM Statistical Package for Social Sciences (SPSS) version 26 and MS Excel 2016. Analysis of raw data was presented in tables, bar graphs and pie chart. The results gathered by the researcher, based on 153 respondents surveyed from ZSIC life limited investigated the factors that led to life insurance policy lapses. The results are discussed in two folds as outlined in the questionnaire. The first part discusses the social demographic factors of policyholders who lapsed their policies and the second part discusses the factors that led to life insurance policy lapses in detail respectively.

The chapter later looks at strategies to reducing life insurance policy lapses and makes recommendations for future studies on laps'es in the Zambian Life insurance market.

4.2 Social Demographic Characteristics of policyholders

4.2.1 Age of policyholders

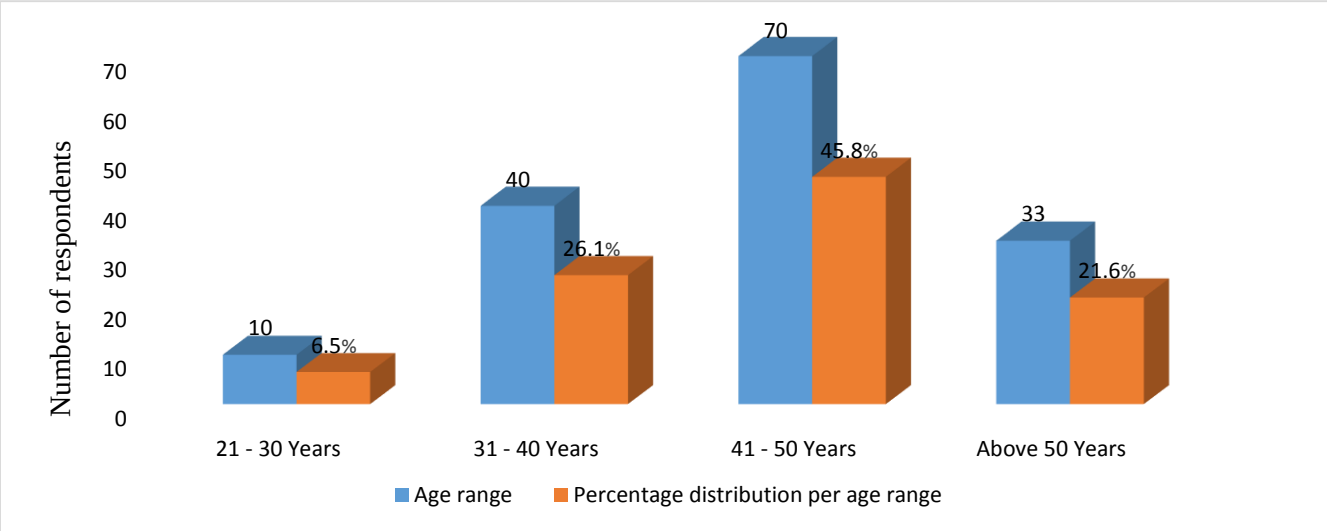

Figure 4.1: Age Range of respondents

Figure 4.1 depicts the age range of respondents that were selected for the study. The majority (48.8%) of respondents were in the age range of between 41-50 years followed by respondents between the age of 31-40 years recording a 26.1%. respondents above 50 years recorded 21.6% and the minority (6.5%) were in the age range of 21-30 years.

The table 4.1 shows MS excel 2016 Chi-square test for association between age range and policy lapses

Table 4.1: Chi-square test for independence between age range and lapses

Category	Hypothesized proportion	Observed	Expected
21-30	0.25	10	38.25
31-40	0.25	40	38.25
41-50	0.25	70	38.25
Above 50	0.25	33	38.25
		153	153
p value	0.00000472797		

Hypothesis: H_0: All age ranges equal zero (Age does not influence lapses)

H_1: All age range do not equal zero (Age range influences lapses)

Interpretation of results

Since P-value is less than 0.05, we reject H_0, age ranges influence policy lapses.

Therefor; Age is a significant moderator of the decision to lapse a policy and that the age range 41-50 is the most significant.

4.2.2 Gender of policyholders

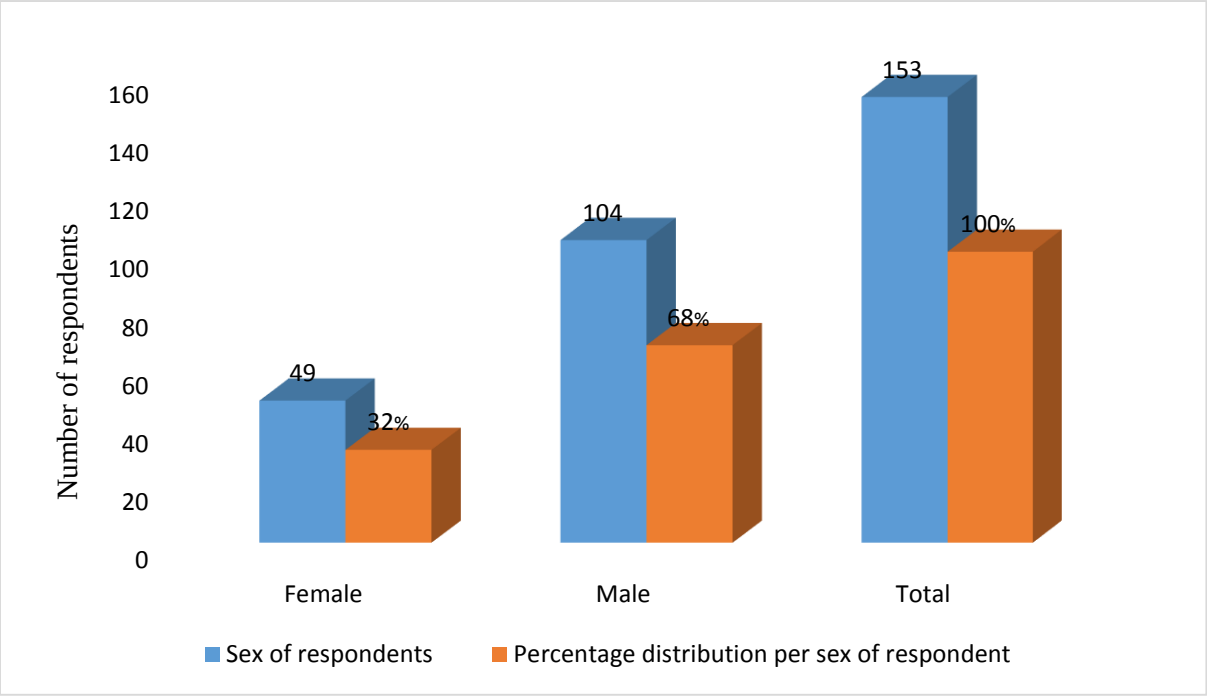

Figure 4.2: Gender of respondents

Figure 4.2 shows the gender distribution of respondents. 68% of the respondents were males and 32% females respectively. This implies that males lapsed their policies more than women perhaps because they consume more of insurance products than females because in the Zambian cultural context, the majority of males are bread winners and head of the family making all the financial decisions.

Table 4.2 shows MS excel 2016 Chi-square test for association between gender and policy lapses

Table 4.2: Chi-square test for independence between gender and policy lapses

Category	Hypothesized proportion	Observed	Expected
Male	0.5	104	76.5
Female	0.5	49	76.5
Total		153	153
p value	0.00000872862		

Hypothesis: H_0: Gender is Does not influence lapses

H_1: Gender is influences lapses

Interpretation of results

Since P-value is less than 0.05, we reject H_0, gender is statistically different from zero.

Therefore: We conclude that gender is a significant moderator in the decision to lapse a policy and that Male gender is the most prominent in policy lapses.

4.2.3 Policyholder's level of education

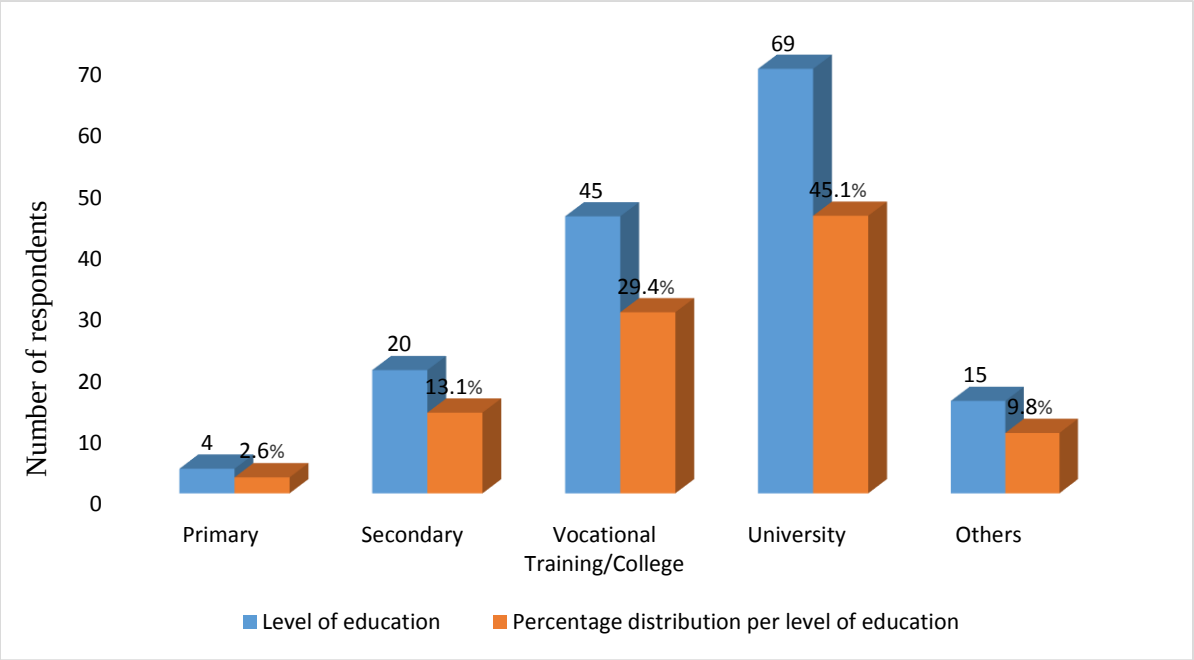

Figure 2.3: Respondents level of education

Figure 4 .3 depicts the respondents` level of education. The majority (45.1 %) of the respondents are bachelor's degrees holders from various universities, followed by vocational training/ college graduates at 29.4% and those with Secondary at 13.1%, 9.8% for those who have achieved other forms of education such as skills training and lastly respondents with primary level of education recorded 2.6%.

4.2.4 Policyholder's Marital status

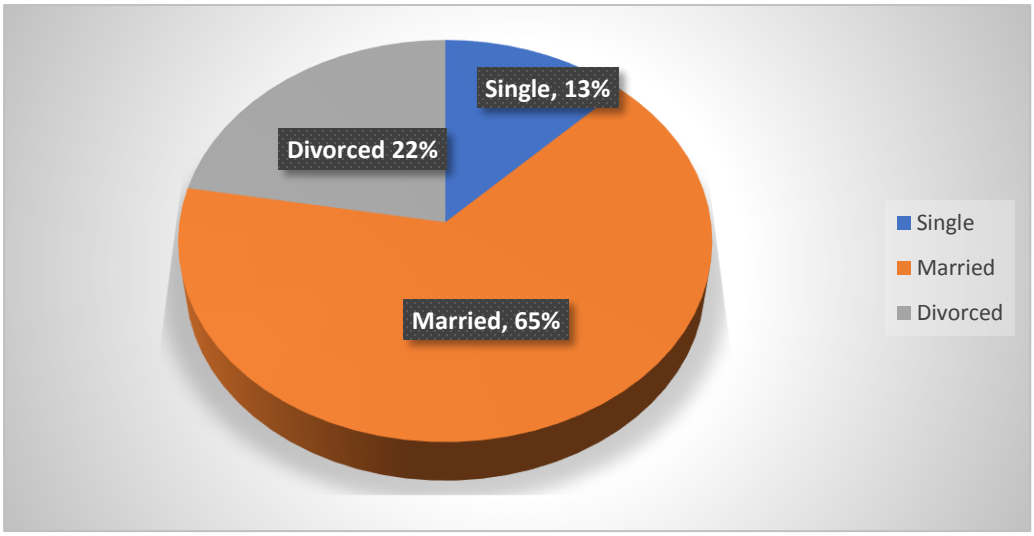

Figure 4.4: Respondent`s marital status

Figure 4.4 depicts the respondent's marital status, most of the respondents that were selected for the sample were married at 65% followed by divorcees at 22% and lastly singles at 13%.

Table 4.3 shows MS excel 2016 Chi-square test for association between marital status and policy lapses

Table 2.3: Chi-square test for independence between marital status and policy lapses

Category	Hypothesized proportion	Observed	Expected
Divorced	0.33	34	51
Married	0.33	100	51
Single	0.33	19	51
		153	153
p value	0.000000000000207271		

Hypothesis; H0: Marital Status is significant to policy lapses

H1: Marital status is not significant

Interpretation of the test results

Since P-value is less than 0.05, we reject H_0, therefore marital status is a significant moderator in policy lapses. However, the observed value for the married is significantly higher than the expected value meaning that married marital status is more prominent in policy lapses.

4.2.5 Policyholder's employment type

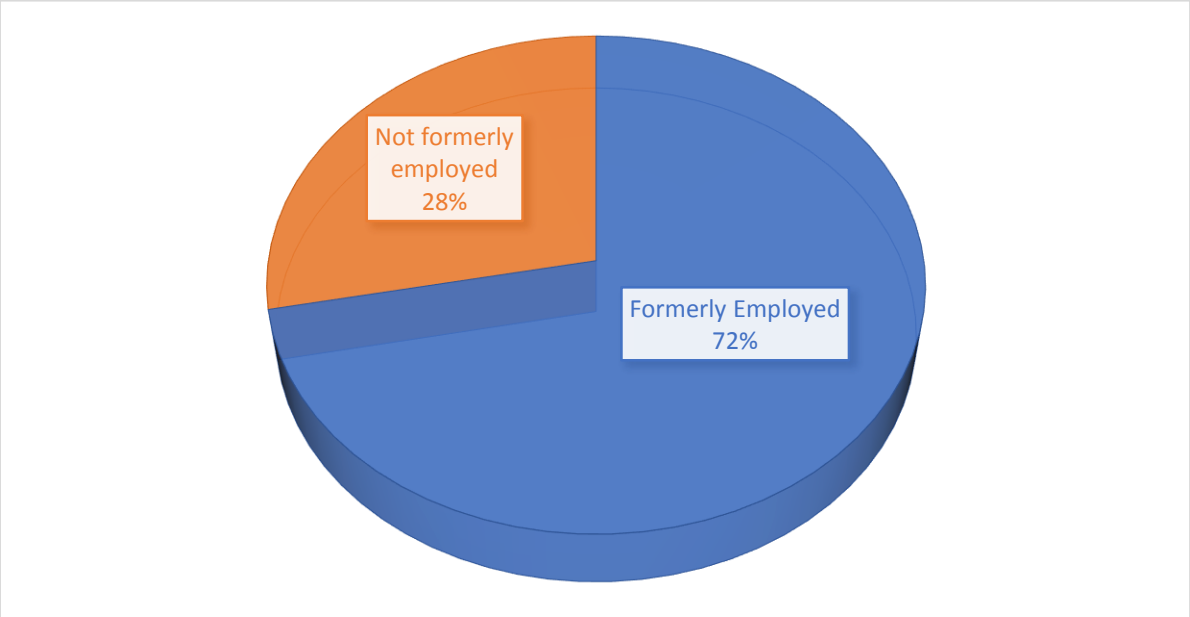

Figure 4.5: Employment Type

Figure 4.5 shows the employment status of the respondents that took part in the study; 72% was represented by those in formal employment and 28% in the informal sector. This could be attributed to the fact that majority of the work force is employed by the public sect and so they are in formal employment.

Table 4.4 shows MS excel 2016 Chi-square test for association employment type and policy lapses

Table 4.4: Chi-square test for independence between employment type and policy lapses

Category	Hypothesized proportion	Observed	Expected
Formal employment	0.5	43	76.5
Informal employment	0.5	110	76.5
		153	
p value	0.0000000607332		

Hypothesis; H_0: Employment type is not significant to policy lapses

H_1: Employment type is significant to policy lapses

Interpretation of results

Since P-value is less than 0.05, we reject H_0, employment type is significant. The observed value in the informal employment is higher than the expected value and the observed value in the formal employment is lower than the expected value of 76. Therefore, we conclude that employment type is a significant moderator to policy lapses and that formerly employed employees are more significant in policy lapses.

4.3 Factors that led to life insurance policy lapses

Analysis of descriptive Statistics were used to describe and analyse the factors that led to policy lapses. This section shows key measures of central tendency, variability, and distribution. The focus in this section was on computing the mean, standard deviation, skewness, and kurtosis of

each variable. According to Pallant (2011), skewness provides an indication of symmetry of the distribution, whereas kurtosis provides information about the 'peakedness' of the distribution. Perfect distribution has skewness and kurtosis index of zero. Negative skewness indicator that scores are clustered at the right-hand side of the normal distribution graph. When scores are clustered to the left at the lower values, then the distribution is positively skewed. Negative kurtosis implies that the negative relatively flat with many cases in the extremes. Positive kurtosis suggests that, positive values are more pointed than the normal distribution and scores are clustered in the centre of the distribution with long thin tails. The values of asymmetry and kurtosis between -2 and +2 are considered acceptable to prove normal univariate distribution (George and Malley, 2010).

A 1 to 5 Likert scale was used to measure the variables, with 1 being Strongly agree, 2 being agree, 3 being regarded as undecided, 4 represents Disagree, 5 representing being Strongly Disagree. Therefore, mean values significantly greater than 3 imply that on average, the respondents perceived the factors of insurance lapse to be ineffective or very ineffective towards their lapsing of Life insurance policy. However, mean values significantly less than 3 implies that on average, the respondents perceived the factors of insurance lapse to be very effective/effective towards their lapsing of Life insurance policy. Mean values around 3 imply that on average, the respondents had no idea of the effect of the variable on their lapsing of the Life Insurance policy.

Table 4.5 shows the mean, standard deviation, skewness, and kurtosis for each of the items for or reasons (factors) for lapse of the Life insurance policy. The computations showed that, the mean ranged from 1.41 to 4.63; the standard deviation ranged from 0.65 to 1.46; skewness ranged from -2.10 to 2.19 and the kurtosis ranged from -1.74 to 2.95.

Table 4.5: Descriptive Statistics for Quantitative Variables of Factors that led to policy Lapses

Factors leading to life insurance policy lapses	N	Mean	Std. Deviation	Minimum	Maximum
Limited benefits	153	2.25	1.406	1	5
High premium rate	153	3.44	.648	1	3
Poor customer service	153	1.41	.996	1	4
Mis-selling of the product	153	3.06	1.253	1	5
Delay in renewal notice	153	3.31	1.028	1	4
Improper training to the agents	153	1.04	.917	2	5
Lack of faith about the insurer's performance	153	3.12	1.169	1	4
Previous experience about delay in claim settlement	153	3.06	1.406	1	5
Low awareness about protection of life	153	2.56	1.464	1	5
Complex revival procedure	153	2.20	1.338	1	5
Poor rapport with the customers	153	1.69	1.072	1	4
Financial burden for the policyholders	153	2.55	1.164	1	5
Loss of customer confidence due to bad word of mouth from others	153	1.69	1.206	1	5
Frequent change of customer address	153	3.31	1.029	2	5
Wrong prospecting of customers	153	4.47	1.118	1	5
No transparency in the procedures	153	4.63	.767	2	5
Inadequate skill of employees	153	2.03	1.371	1	5
Low bonus declaration	153	1.80	.962	2	5
Procastination in paying premium	153	3.21	1.223	1	5
Agent force to cancel existing policy and make to purchase another new policy	153	1.91	.869	1	4
Customer feel it is useless ivestment	153	3.80	1.153	1	5

Source: Author's construction

4.3.1 Interpretation of the descriptive statistics on reasons for policy lapsation

a. Limited benefits

Overall, the results indicated the average rating of 2.25, an indication that the respondents agreed to the fact that limited benefits explained the reasons why they lapsed their Life insurance policy.

b. **High Premium Rate**

With regards to high premium rate, the results showed an average of 3.41, which entails that the respondents did not agree to the fact that high premium rates contributed to the lapsing of their life insurance policy.

c. **Poor customer service**

For the mean as regards to customer service was 1.41 implied that poor customer service was one of the major reasons for the lapsation of the insurance policy at ZSIC.

d. **Mis-selling of the product**

The mean score of 3.06 in Table 4.1 entails that respondents where indecisive as to whether mis-selling of the product contributed to the lapsation of life insurance package.

e. **Delay in renewal process**

Respondents where indecisive as to whether the delay in renewal process contributed to lapsation of the life insurance products at ZSIC as evidenced by a mea 3.31 as reflected in the Table 4.1

f. Improper Training to Agents

As the mean scored was 1.04 significantly implied that improper training to agents significantly contributed to the lapsation of life Insurance at ZSIC.

g. **Lack of Faith about Company Past Performance**

The mean of 3.12 significantly entails that lack of faith about the company past performance did not impact much to the lapsation of life insurance policy.

h. **Previous experience about Delay in claims Settlement**

The previous experience about delay in claims settlement did not impact to lapsation of the life insurance products as the mean scored 3.06 in comparison to the standard average score of

i. **Low Awareness about Protection of Life**

The low awareness about protection of life contributed moderately as to life insurance lapsation at ZSCIC as the mean score was derived at 2.56.

j. **Complex Revival Procedure**

As regards to complex revival procedure, the average rating of 2.20 was scored, an indication that the respondents were in agreement to the fact that complex revival procedure explained the reasons why they lapsed their life insurance policy.

k. **Poor Rapport with the Customers**

The Poor Rapport with the clients contributed moderately to lapsation of the life insurance products as the mean scored 1.69. In the nutshell, it entails that the factor did contribute to the lapsation of the insurance policy but its contribution was temperately.

l. **Financial Burden for Policy Holders**

Financial burden for policy holders was one of the major factors and as a result, it sufficiently or efficiently contributed to the lapsation of the life insurance policies as deduced from the mean score of 2.55.

m. **Loss of Customers Confidence Due to the Word of Mouth from Others**

As the mean score recorded at 1.69, it significantly implied that loss of customer's confidence due to the word of mouth from others did not impact much on the lapsation of life Insurance at ZSIC.

n. **Frequent Change of Customer Address**

To a greater extent, a mean score of 3.31 significantly implied that frequent change of customer address did not impact to the lapsation of life Insurance at ZSIC

o. **Wrong Prospecting of Customers**

To a greater extent, a mean score of 4.47 significantly implied that wrong Prospecting of Customers did not impact much to the lapsation of life Insurance.

p. **No transparency in procedure**

A mean score of 4.63 as recorded asserts that lack of transparency in procedures did not impact to the Lapsation of life insurance policy.

q. **Inadequate Skills from Employees**

The mean score of 2.03 significantly entails that Inadequate Skills from Employees contributed to the lapsation of life insurance package at ZSIC.

r. **Low Bonus Declaration**

As indicated by the results, the average rating of 1.80, showed that respondents agreed to the fact that low bonus declaration explained the reasons why their insurance policy lapsed.

s. **Procrastination in Paying Premium**

t. The other factor that did not contribute to the lapsation of life insurance policy package is the procrastination in paying premium by clients and this was evident in the mean score of 3.21.

u. **Agent Force to Cancel Existing Policy and Make to Purchase Policy**

The mean score of 1.91 significantly entails that agent force to cancel existing policy and make to purchase policy contributed insignificantly to the lapsation of life insurance package.

v. **Customer Feels It Is Useless to Invest**

The final and not the least factor is customers becoming less confident in investing which boasted a mean score of 3.80. The score significantly entails that customer loss of confidence contributed inefficiently to the lapsation of life insurance package.

4.4 Relationship of Social Demographic Characteristics to factors that lead to policy lapses.

The factors that led to policy lapses were grouped in four categories namely, Agent related factors, insurer related factors, product related factors and policyholder related factors. These factors were later analysed against the Social demographic characteristics of policy holders namely age, gender, Marital status, level of education and employment type and below are the findings;

4.4.1. Agent related factors.

There were two Agent related factors that led to policy lapses namely, inadequate skill of the employees in this case, the insurance agent and Agent force to cancel the existing policy and make the policyholder to purchase another new policy.

4.4.1.1 Agent related factors against Age

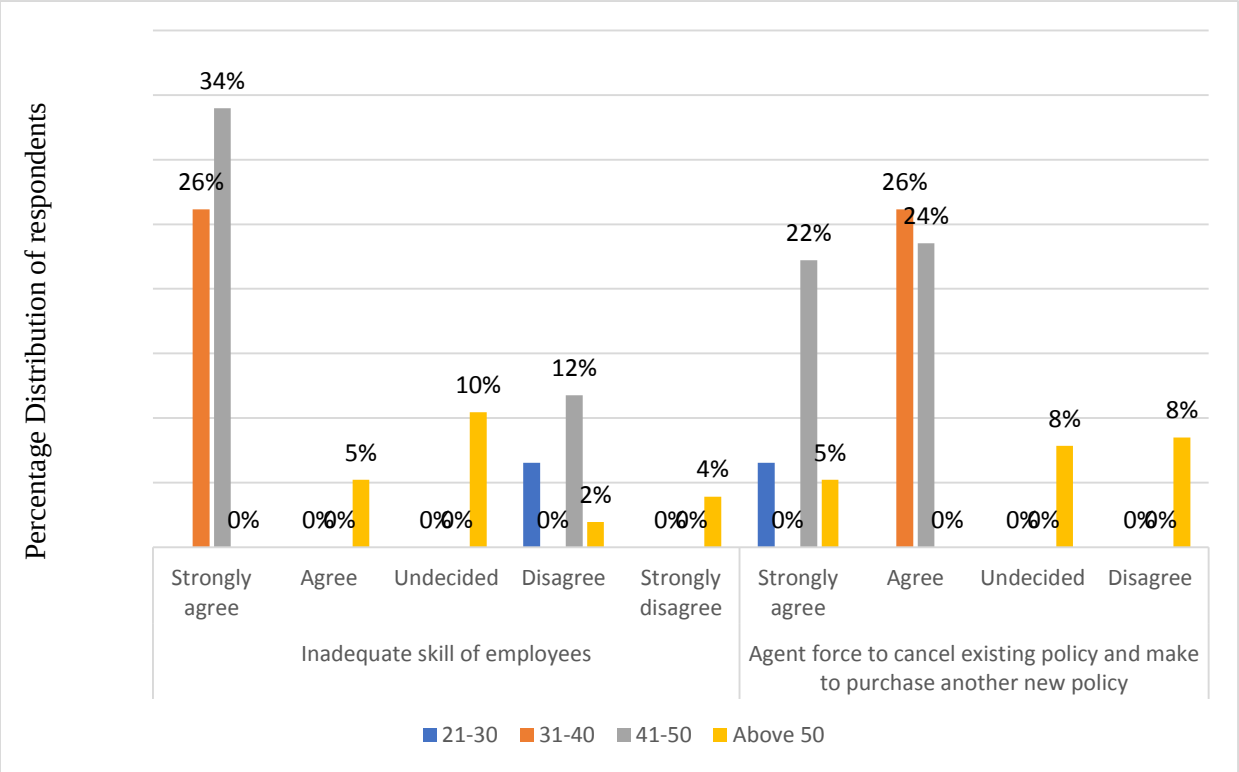

Figure 4.6: Graphical analysis of Agent related factors against Age of policy holder.

Figure 4.6 shows that 26 % of the policy holders aged between 31-40 and 34 % of the policyholders aged between 41-50 strongly agreed that they lapsed their life insurance policies because they felt that the insurance agents had inadequate skills to manage their insurance needs. We also noted that 22% of policy holders aged between 41-50, strongly agreed to lapsing their policy because of the agent's forcing them to lapse the policy in order to purchase a new policy, 26% of these aged between 31-40 and 24 % of those aged between 41-50 agreed to lapsing the policy because of insurance agents forcing the policyholders to lapse the policy and purchase a new policy.

From the above findings we can conclude that agent related factors that lead to policy lapses had an influence on policyholders aged between 31 to 50.

4.4.1.2 Agent related factors against Gender

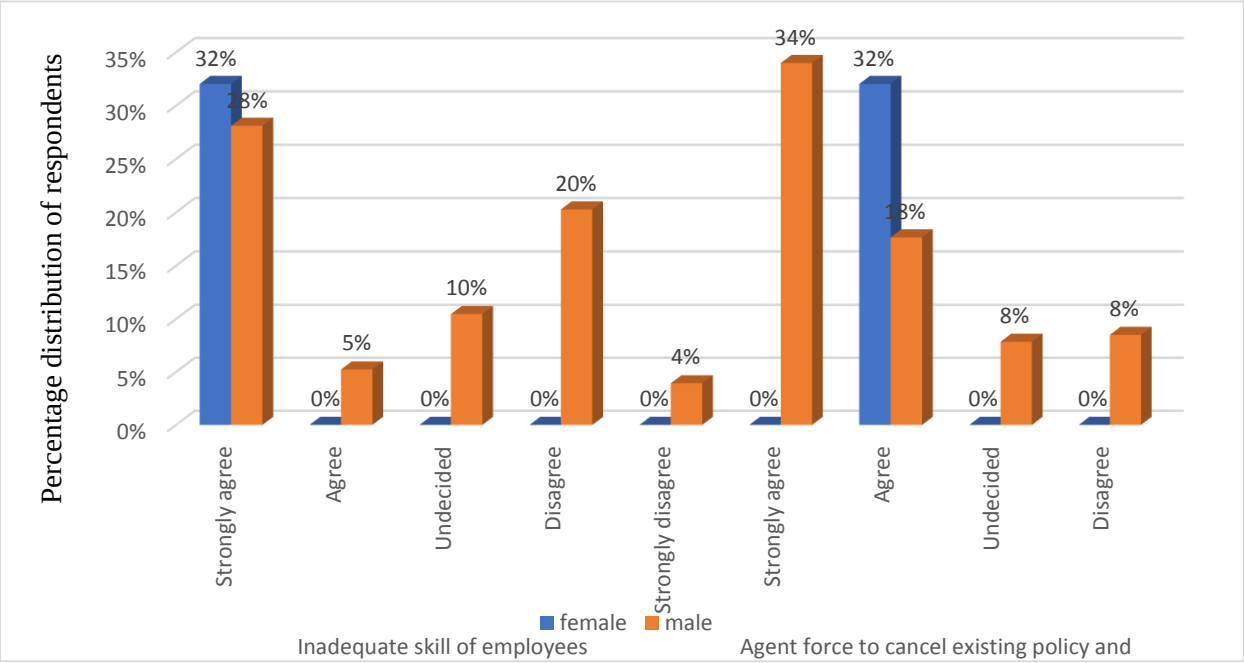

Figure 4.7: Graphical analysis of Gender against Agent related factors

Figure 4.7 shows the gender of policy holders who lapsed their policies in relation to agent related factors that led to policy lapses.32% of females and 28% of males strongly agreed to lapsing their policies due to inadequate skills of the insurance agents and 34% males and 32% of females strongly agreed to lapsing their policies due to agent forcing them to lapse and purchase a new policy.

4.4.1.3 Agent related factors against policyholder's level of Education

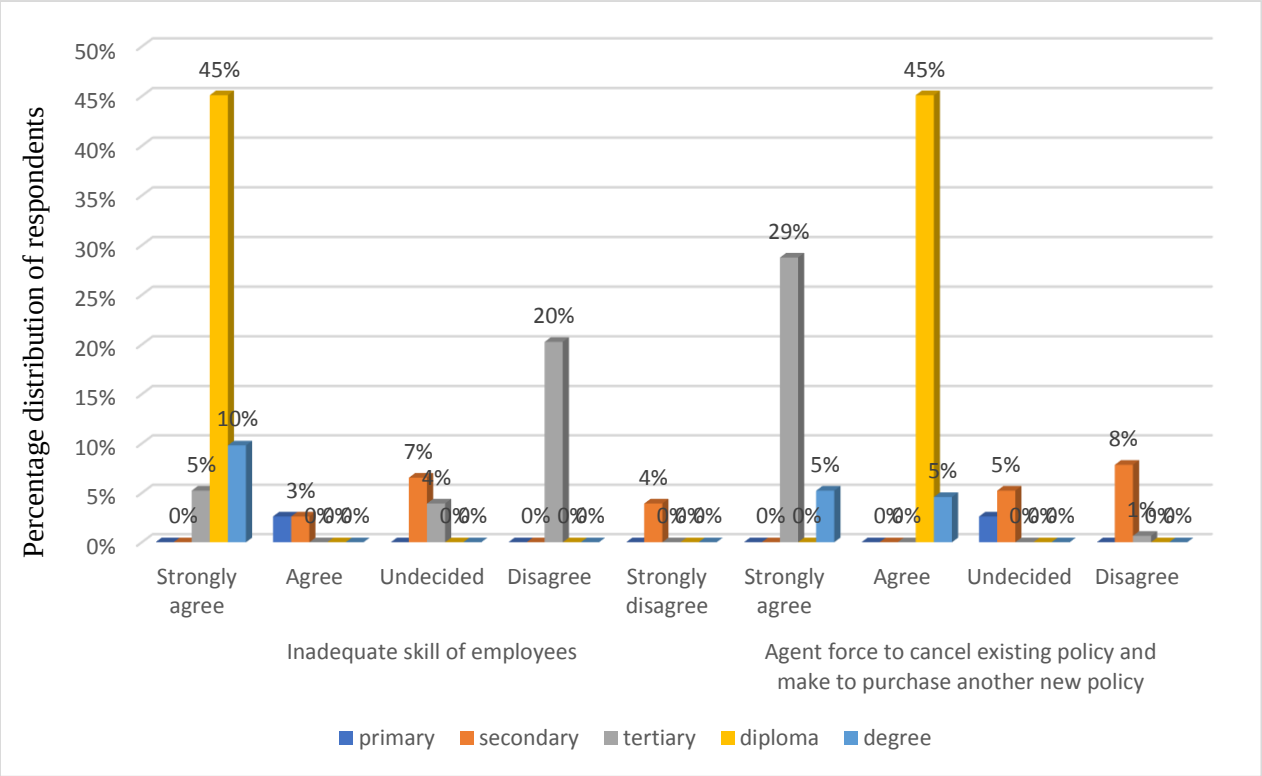

Figure 4.8: Graphical analysis of Policyholders level of education against Agent related factors

Figure 4.8 reveals that 45% of the policyholders with diploma qualifications strongly agreed that they lapsed their policies because they felt the insurance agents were inadequately skilled and 45 % of the Diploma holders agreed to lapse their policies due to agents force to lapse the policy and purchase a new one. 20% of those with tertiary education where undecided as to whether or not inadequate skills of insurance agents contributed to the lapse of the policies and 29% of those with tertiary education strongly agreed to lapsing their policies due to agents forcing them to lapse their policies to purchase a new one.

4.4.1.4 Agents related factors against policyholder's marital status

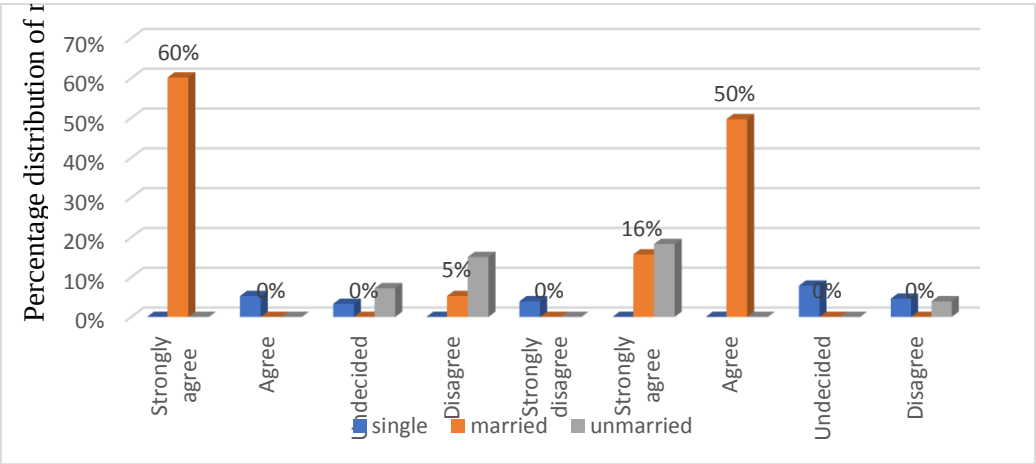

Figure 4.9: Graphical analysis of Policyholders Marital status against Agent related factors

Figure 4.9 shows that 60% of the married strongly agreed that they lapsed their policies because they felt that the insurance agents where inadequately skilled and 50% of the Married policyholders agreed to lapsing their policies due to agents force to lapse the policy and purchase a new one.

4.4.1.5 Agent related factors against employment type

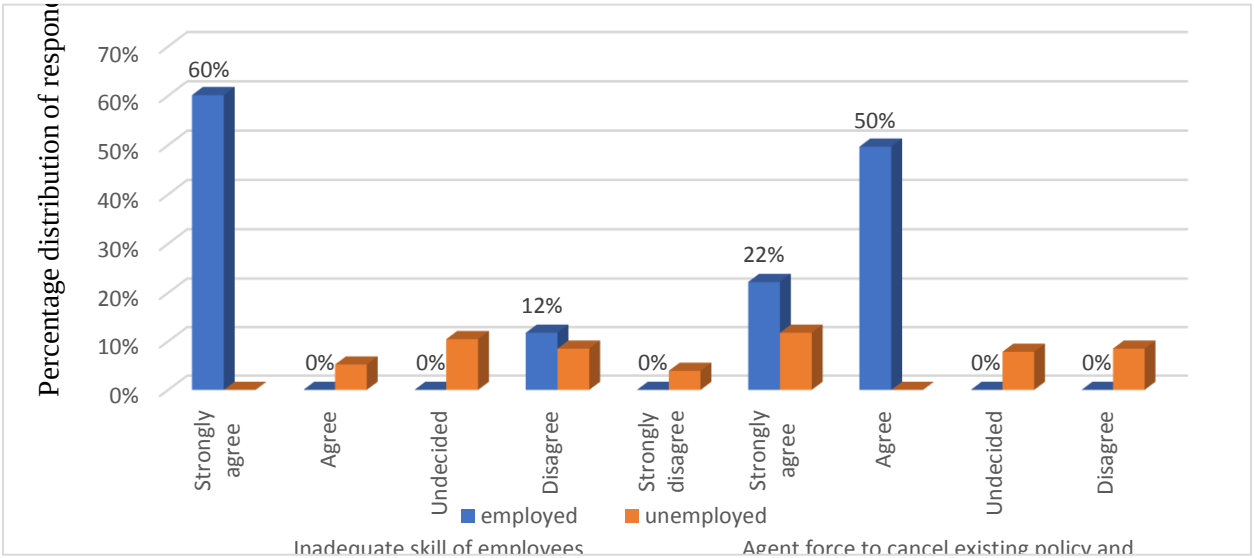

Figure 4.10: Graphical analysis of Policyholders employment status against Agent related factors

Figure 4.10 reveals that 60% of the employed policyholders strongly agreed to have lapsed their policies due to inadequate skills of the insurance agents and 50% of the employed policyholders agreed to lapsing their policies to agent's force to lapse the policy in order to purchase a new one.

4.4.2 Insurer related factors

This section presents the Insurer related factors that lead to life insurance policy lapses. In relation to the policyholder's social demographic characteristics. There were three insurer related factors namely; poor customer service, poor rapport with customers and loss of customer confidence due to bad word of mouth.

4.5.2.1 Insurer related factors against Age of the policy holder

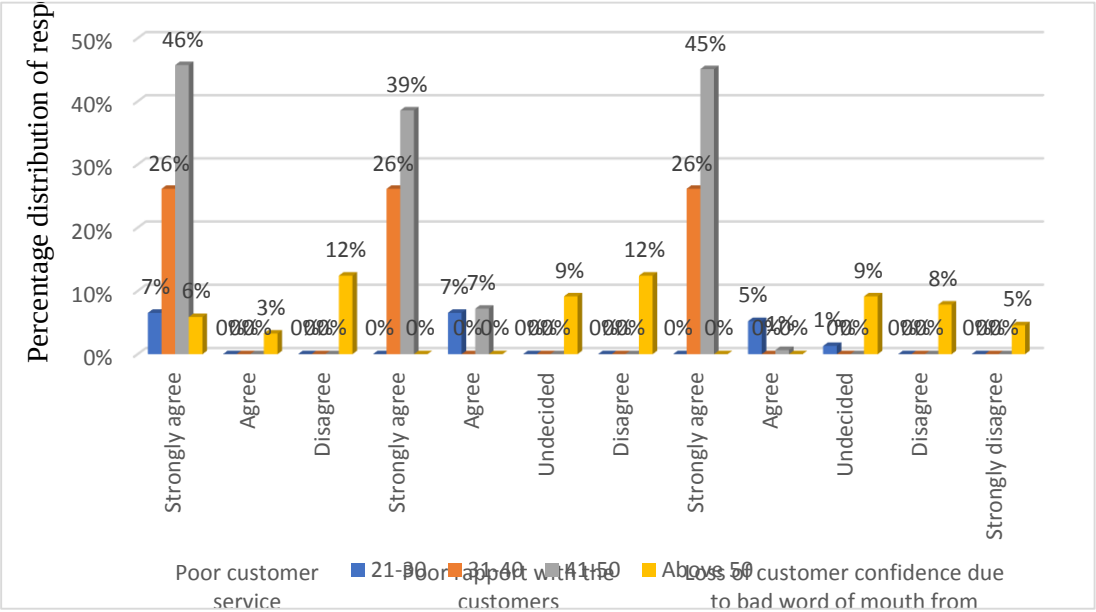

Figure 4.11: Graphical analysis of Policyholders age against insurer related factors.

Figure 4.11 shows that 26 % of policyholders aged between 31-40 and 46% of policyholders aged 41-50 strongly agreed to lapsing their policies due to poor customer service,26% in the age range of 31-40 and 39% in the age range of 41 to 50 strongly agreed to lapsing their policies due to poor rapport of the insurer and 26% of those aged between 31-40 and 45% of those aged between 41 to 50 strongly agreed to lapsing their policies due to bad word of mouth from other policyholders.

4.4.2.2 Insurer related factors against gender of the policyholder

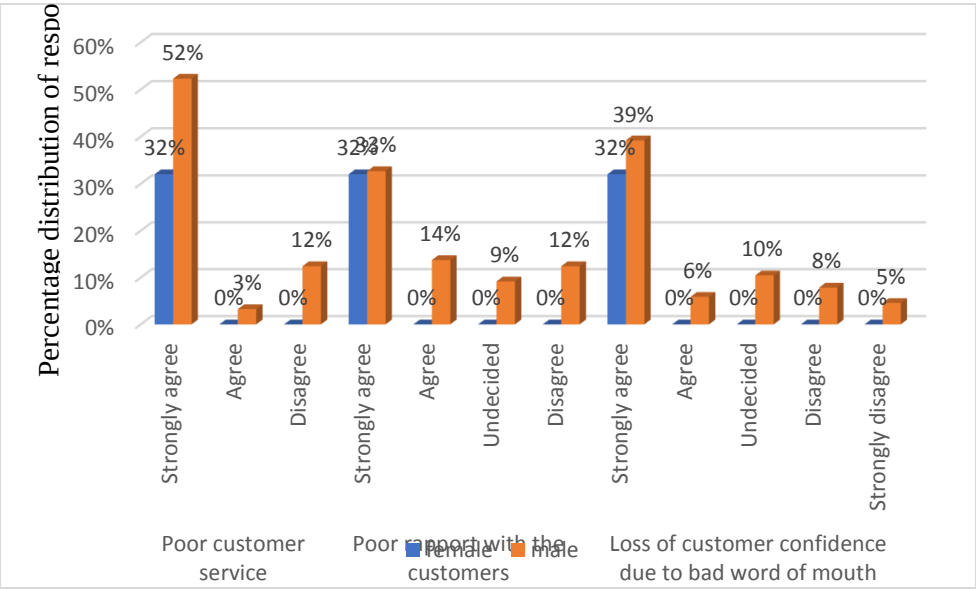

Figure 4.12: Graphical analysis of Policyholders age against insurer related factors.

Figure4.12 shows that that 32% of the females and 52% of males strongly agreed to lapsing their policies because of poor customer service, 32% of females and 33% of males strongly agreed to lapsing their policies because of poor rapport and 32% of females and 39% of males strongly agreed to lapsing their policies due to bad word of mouth from other policy holders.

4.4.2.3 Insurer related factors against policyholder's level of education

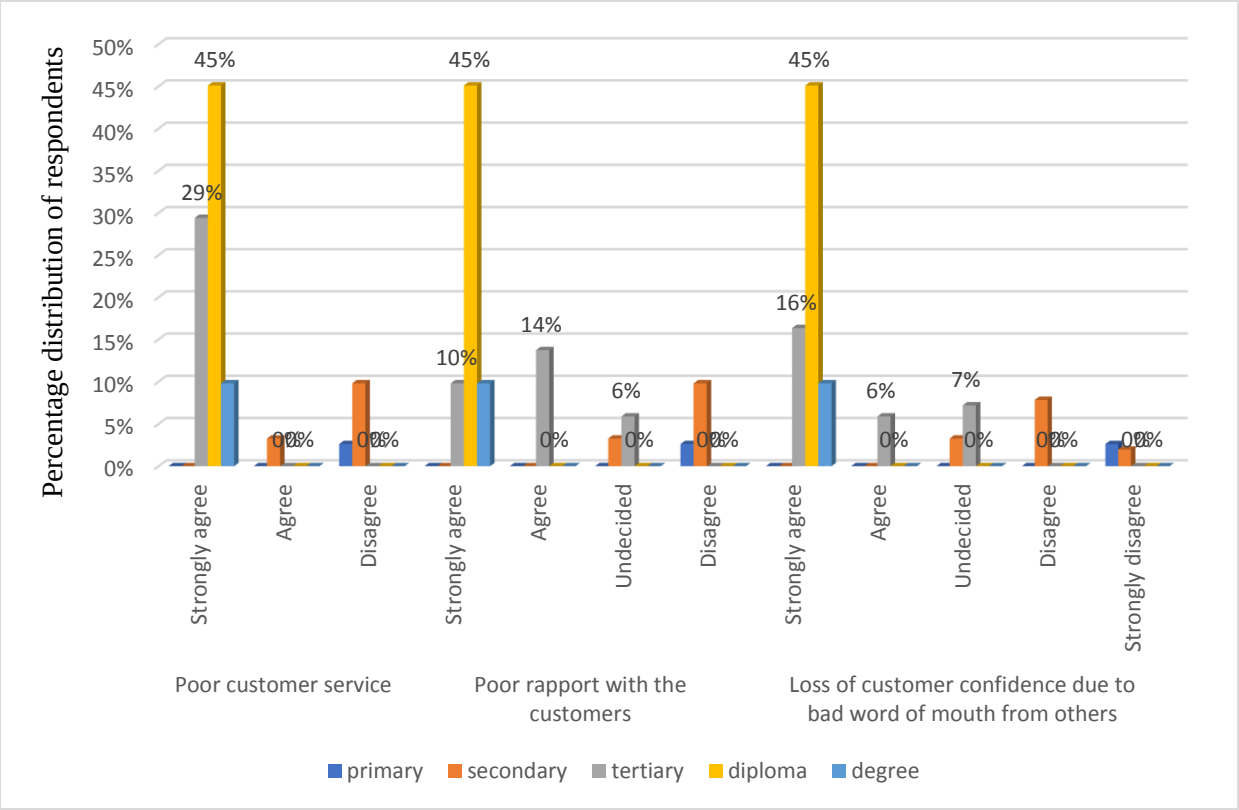

Figure 4.13: Graphical analysis of Policyholders educational level against Insurer related factors.

From figure 4.13 we note that 45% of the policyholders who were also diploma holders strongly agreed to lapsing their policies due to poor customer service, poor rapport, and bad word of mouth from other policyholders.

4.4.2.4 Insurer related factors against policyholder's marital status

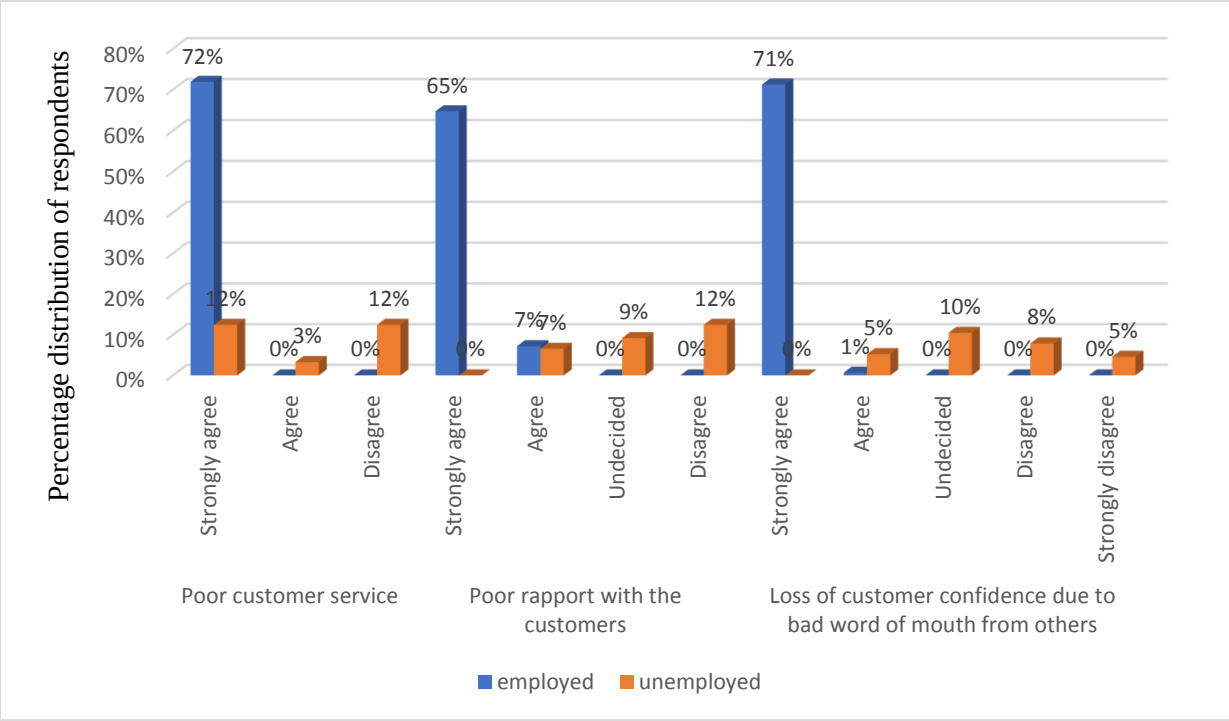

Figure 4.14: Graphical analysis of Policyholders Marital status against insurer related factors.

Figure 4.14 shows that 65% of the Married policy holders strongly agreed to lapsing their policies because of poor customer service, poor rapport and bad word of mouth from other policyholders.

4.4.2.5 Insurer related factors against policyholder's employment Status

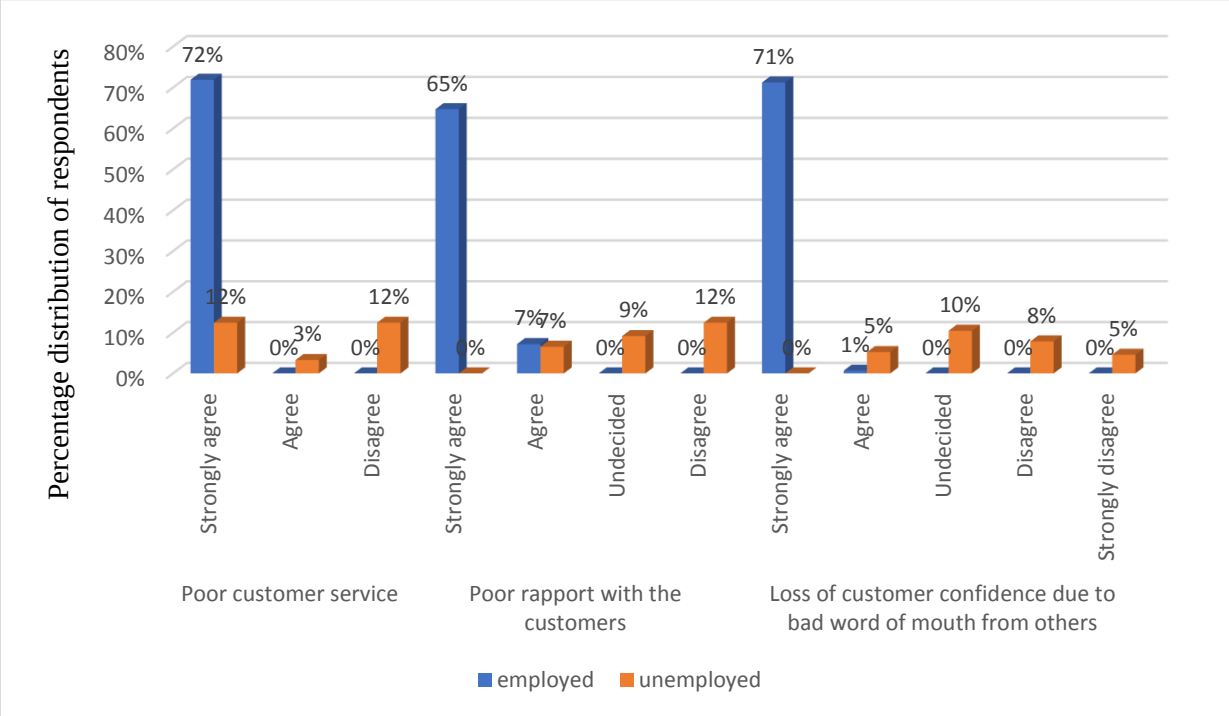

Figure 4.15: Graphical analysis of Policyholders employment status against insurer related factors.

From figure 4.15 we note that 72% of the employed policy holders strongly agreed to lapsing their policy due to poor customer service, 65% of the employed policyholders strongly agreed to lapsing the policy due to poor rapport and 71% of the employed policyholders strongly agreed to lapsing the policy due to bad word of mouth from other policyholders.

4.4.3 Product related factors

This section presents product related factors that led to life insurance policy lapses in relation to the policyholder's social demographic characteristics. There were three product related factors namely; complex policy revival procedures, low benefits and low bonuses.

4.4.3.1 Product related factors against policyholder's age

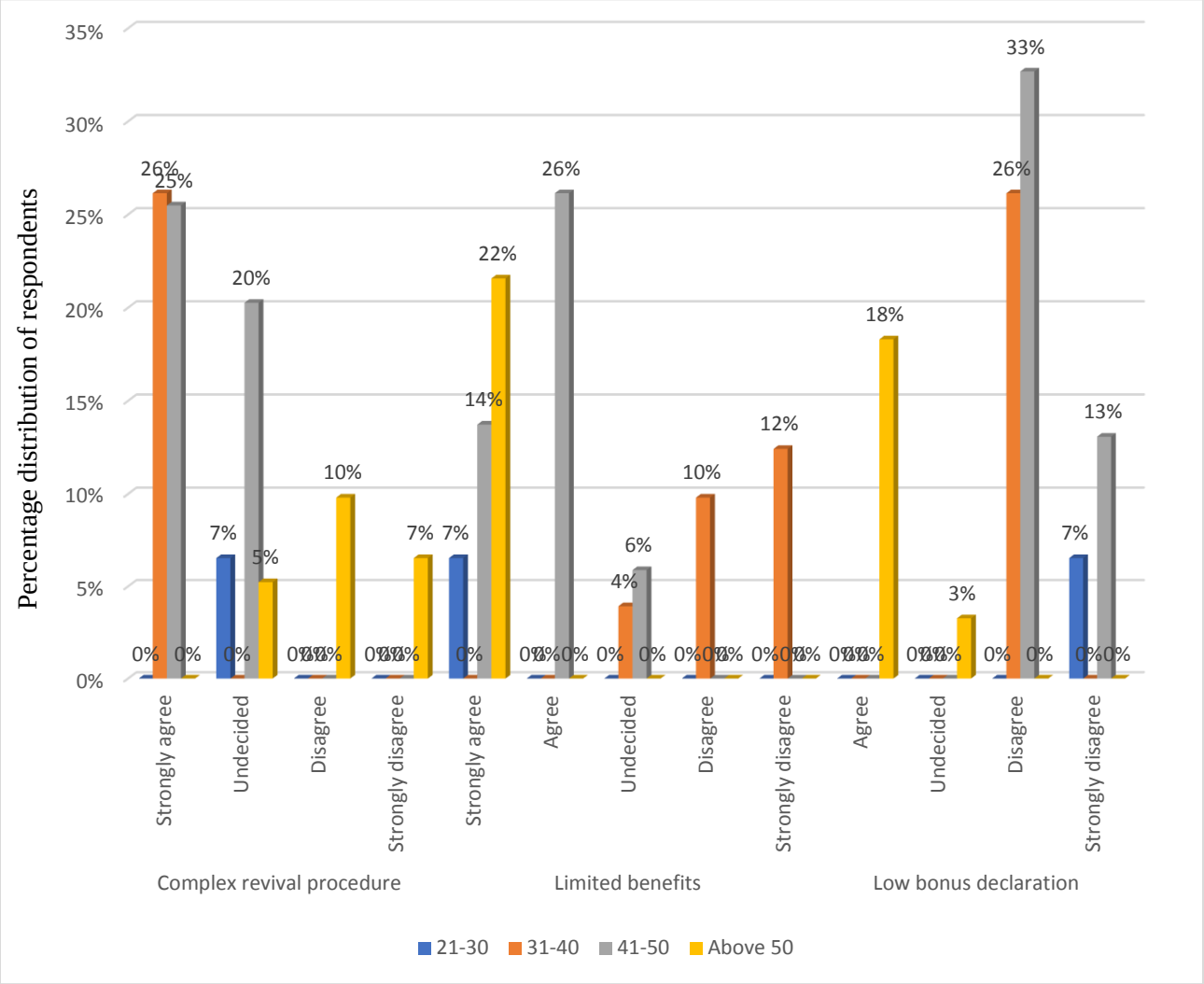

Figure 4.16: Graphical analysis of Policyholders age against product related factors.

Figure 4.16 shows that policyholders aged between 31-40 and 41-50 strongly agreed to lapsing their policy due to complex policy revival procedures. 22% of those above the age of 50 years also agreed to lapsing their policies due to complex policy revival procedures.26 %of those between 41-50 agreed to lapsing their policies due to limited insurance benefits.26% of policyholders aged between 31-40 and 33% of those aged between 41 -50 disagreed to lapsing their policies due to low bonus declarations.

4.4.3.2 Product related factors against policyholder's gender

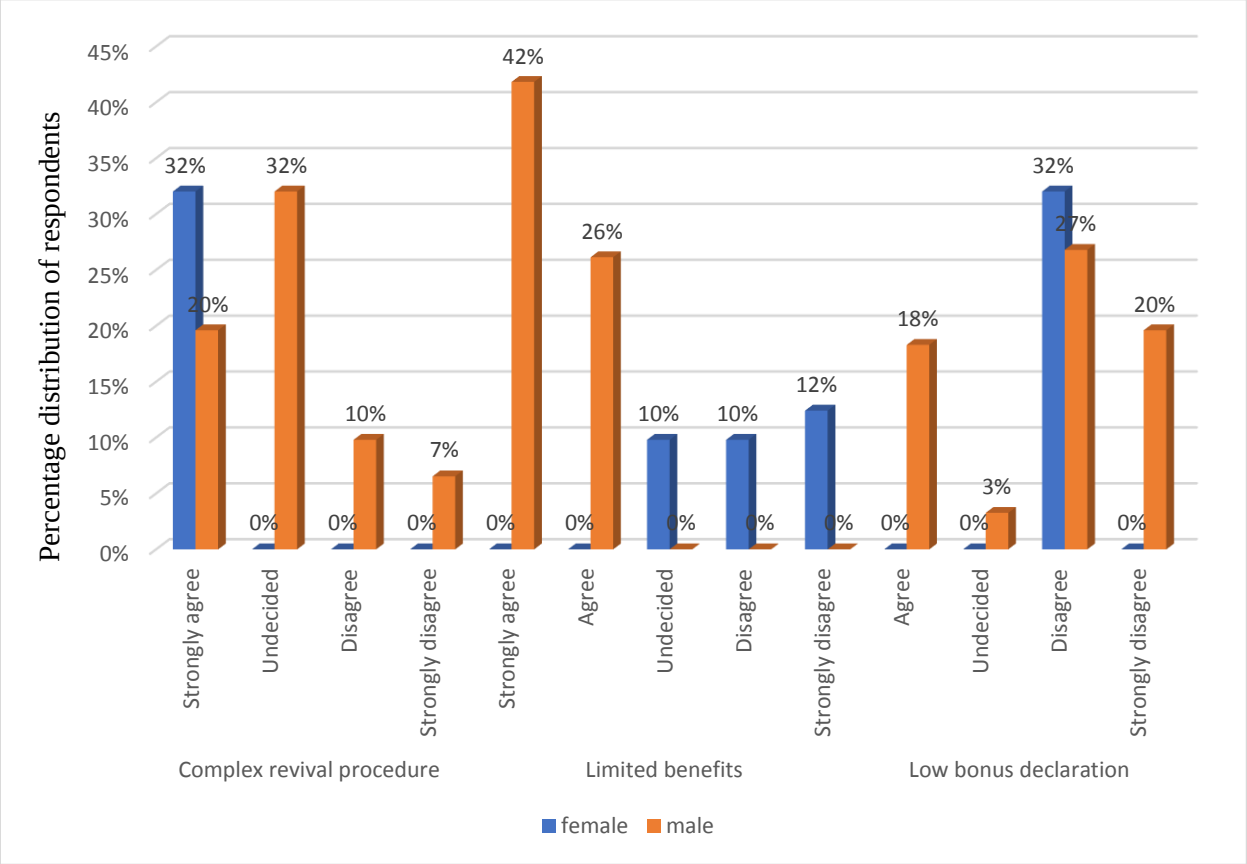

Figure 4.17: Graphical analysis of Policyholders gender against product related factors.

Figure 4.17 reveals that 32% females and 20% males strongly agreed to lapsing the policy due to complex policy revival procedues,32% of males were undecided on whether complex policy revival procedures influenced them to lapse their policies or not. 42% of the males agreed to lapsing their policies due to limited benefits being offered by ZSIC 26 % agreed to lapsing the policy due to limited benefits being offered by ZSIC.32% of the females and 27 % of the males disagreed to lapsing their policies due to low bonus declaration by ZSIC.

4.4.3.3 Product related factors against policyholder's level of education

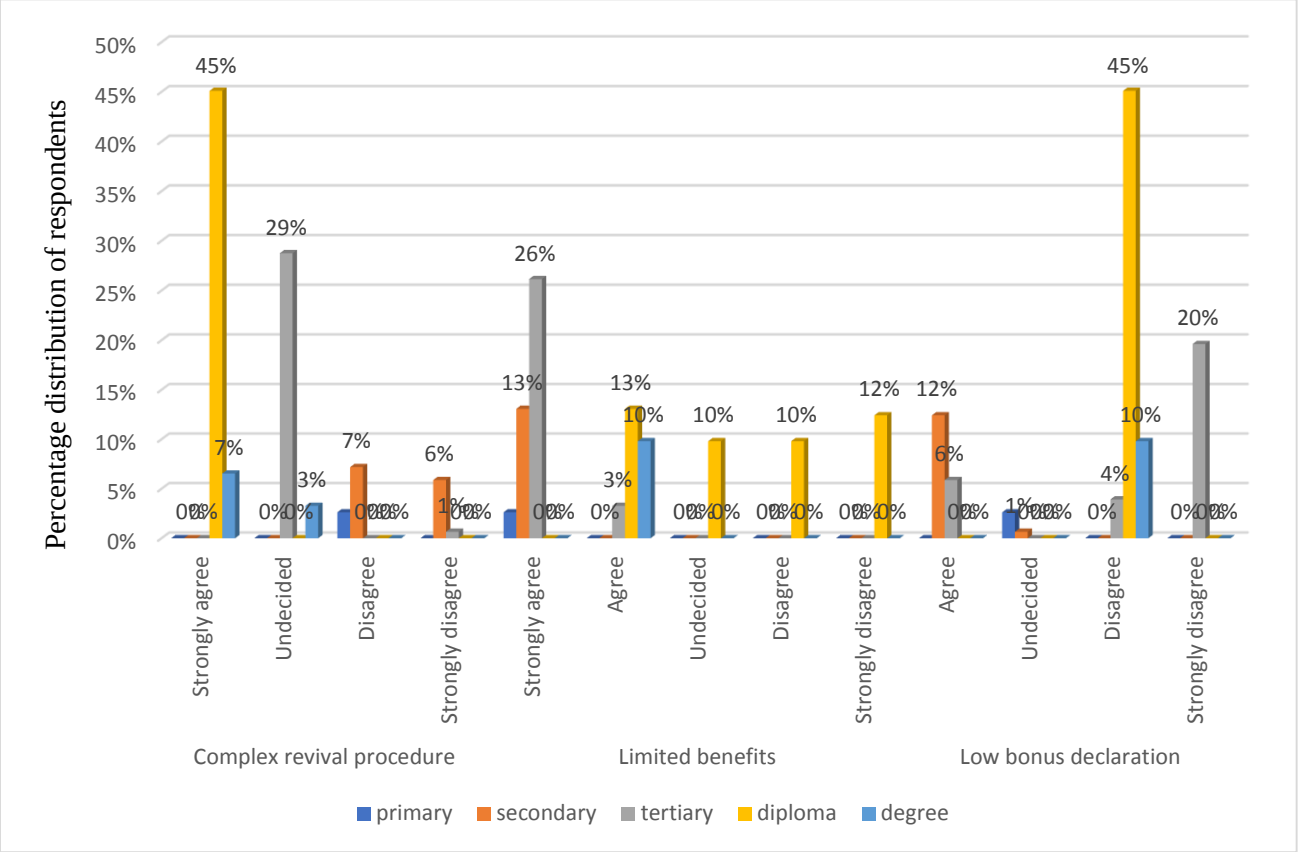

Figure 4.18: Graphical analysis of Policyholders Level of education against product related factors.

Figure 4.18 shows that 45 % of the policyholders with diplomas strongly agreed to lapsing their policies due to complex policy revival procedures, 29% of the tertiary education holders were undecided as to whether complex policy revival procedures influenced them to lapse their policies.13% of secondary school education holders and tertiary education holders strongly agreed that they lapsed their policies due to limited benefits being offered by ZSIC and 45% of the Diploma holders disagreed to lapsing their policies due to low bonus declarations by ZSIC.

4.4.3.4 Product relayed factors against marital Status

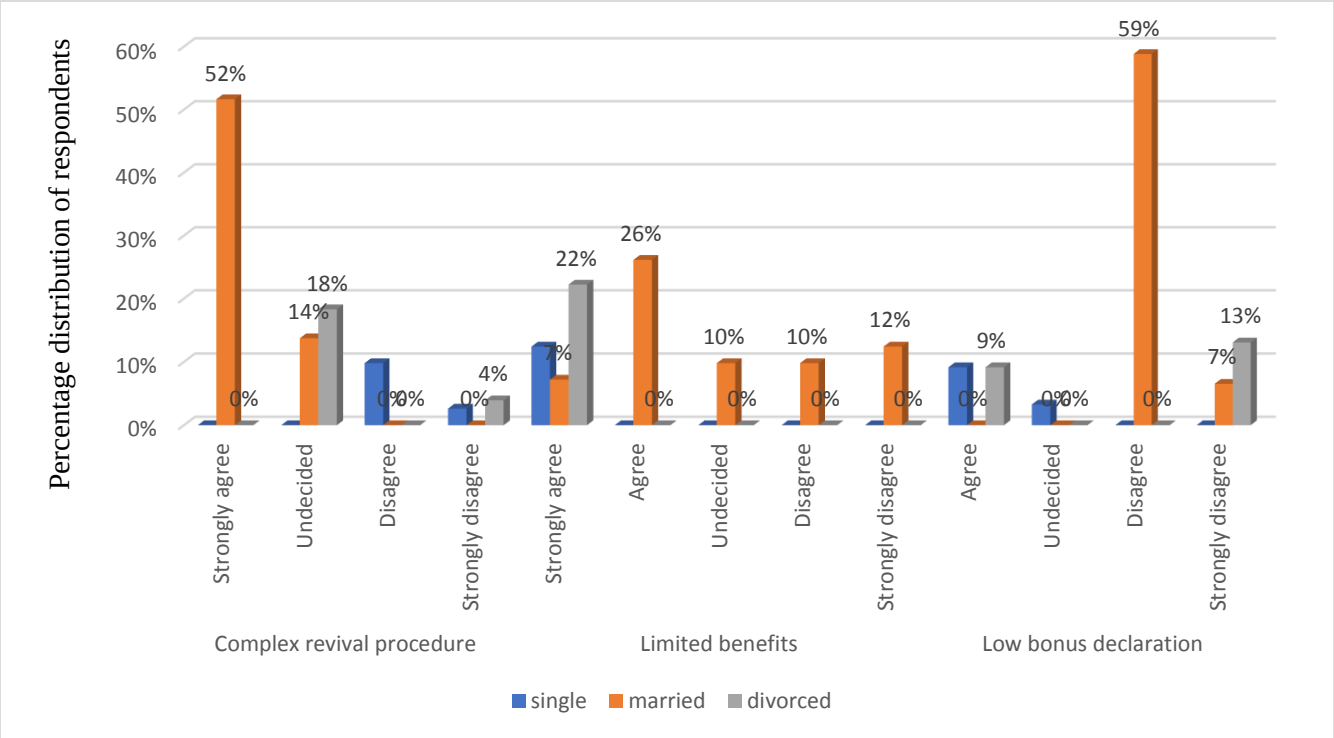

Figure 4.19: Graphical analysis of Policyholders Marital status against product related factors.

Figure 4.19 shows that 52% of the policyholders strongly agreed to lapsing their policies due to complex policy revival procedures.26 % of the married agreed and 12% strongly agreed to lapsing the policy due limited benefits being offered by ZSIC Life Limited. 59% of the married policy holders disagreed to lapsing their policies due to low bonus declarations.

4.4.3.5 Product related factors against policyholder's employment

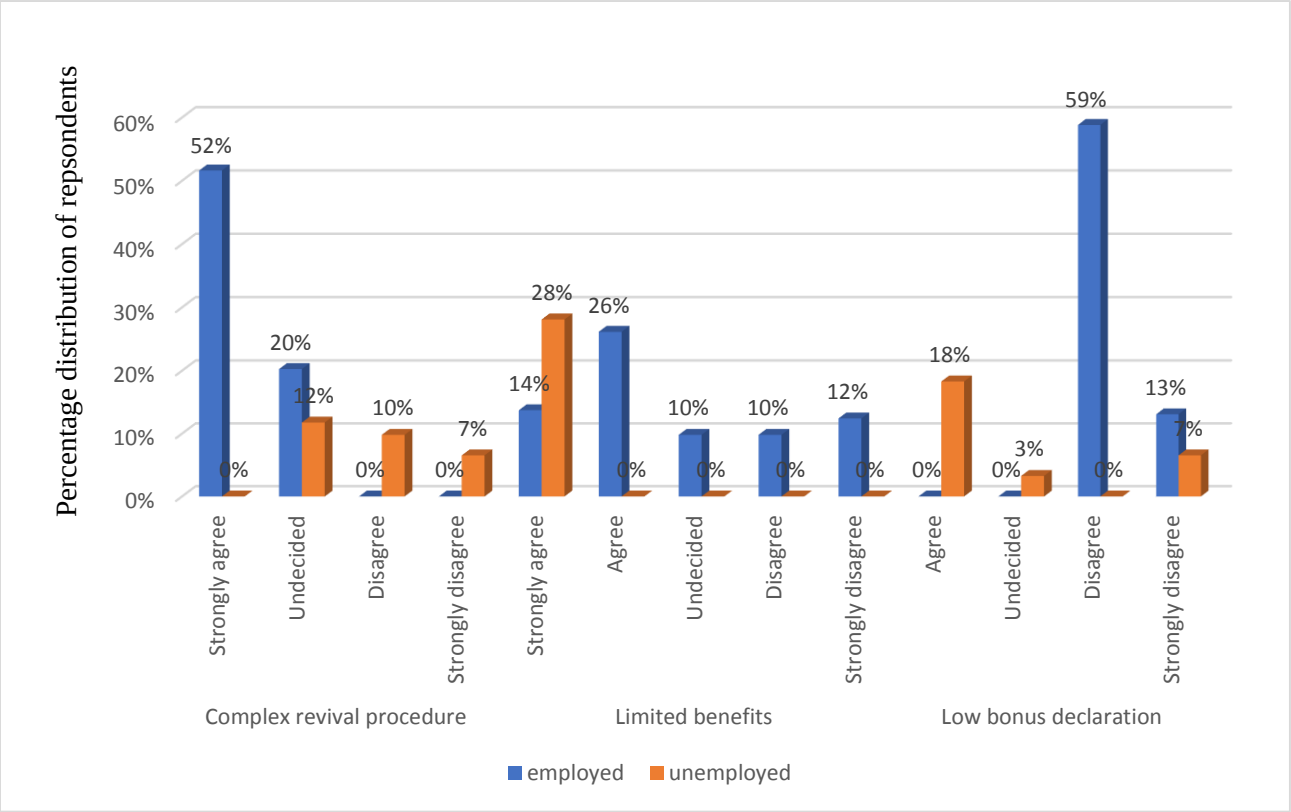

Figure 4.20: Graphical analysis of Policyholders employment status against product related factors.

Figure 4.20 reveals that 52 employed policyholders strongly agreed to lapsing their policies due to complex policy revival procedures.28%bof the unemployed and 26 of the employed policyholders strongly agreed to lapsing the policy due to limited benefits being offered by the ZSIC and 59% of the employed disagreed to lapsing the policy due to low bonus declaration by the ZSIC.

4.4.4 Policy holder related factors.

This section presents the policyholder related factors that lead to life insurance policy lapses. In relation to the policyholder's social demographic characteristics. There were two policyholder related factors namely; financial burden and low awareness about financial protection.

4.4.4.1 Policyholder related factors against policyholder's age

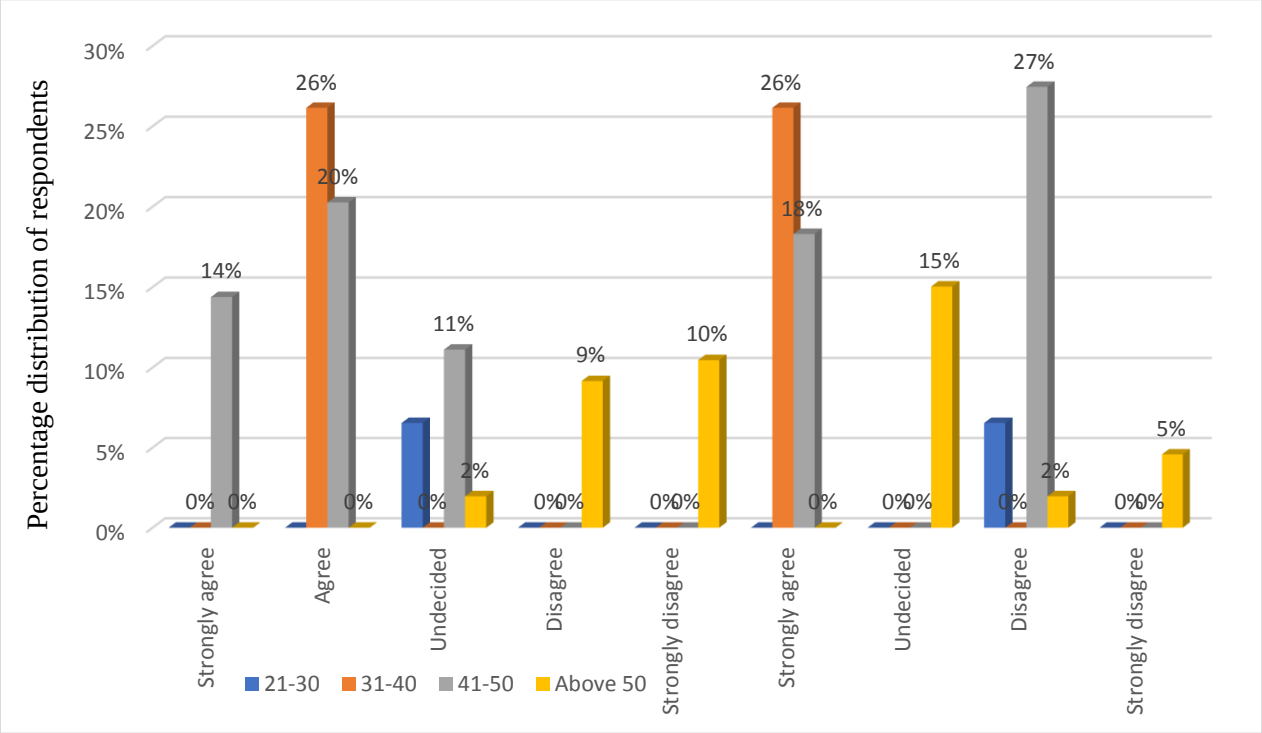

Figure 4.21: Graphical analysis of Policyholder's age against policyholders related factors to policy lapses.

Figure 4.21 reveals that 14% of those aged between 41-50years strongly agreed to lapsing the policy due to financial burden.26% of those aged between 31-40 and 20% of those aged between 41-50 agreed to lapsing their policies due to financial burden.26% of those aged 31 to 40 and 18% of those aged 41-50 strongly agreed to lapsing the policy due to low awareness about the financial protection offered by life insurance policies. It was also noted that 27% of policyholders aged between 41-50 disagreed to lapsing their policies due to low awareness of the financial protection provided by life insurance policies.

4.4.4.2 Policyholder related factors against policyholder's gender

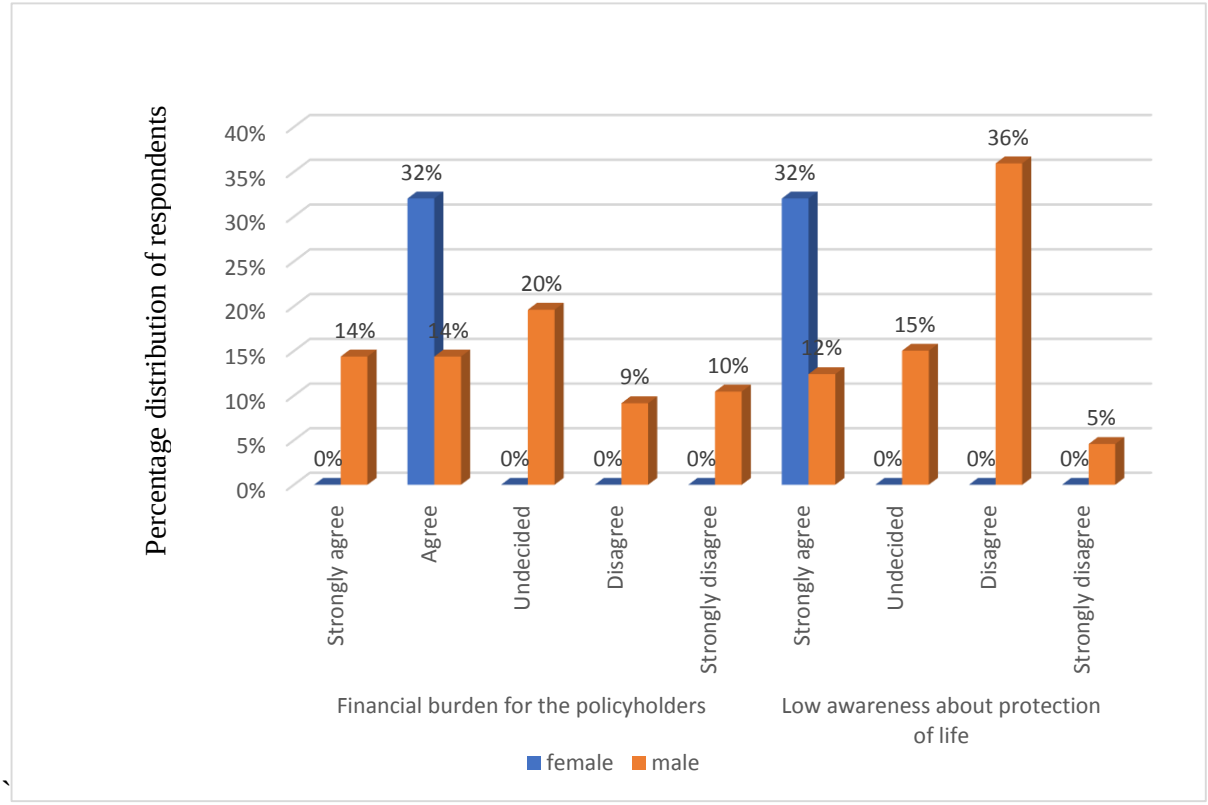

Figure 4.22: Graphical analysis of Policyholder's gender against policyholders related factors to policy lapses.

Figure 4.22 shows that 14% of the males strongly agreed to lapsing their policies due to financial burden, 32% of females and 14% of males agreed to lapsing their policies due to financial burden and 20% were undecided as to whether financial burden influenced their decision to lapse the policy**.**32% of the females and 12% of the males strongly agreed to lapsing their policies due to low awareness about financial protection provided by life insurance policies.36% of the females did not agree to lapsing their policies due to low awareness about financial protection provided by policy lapses.

4.4.4.3 Policyholder related factors against policyholder's level of education

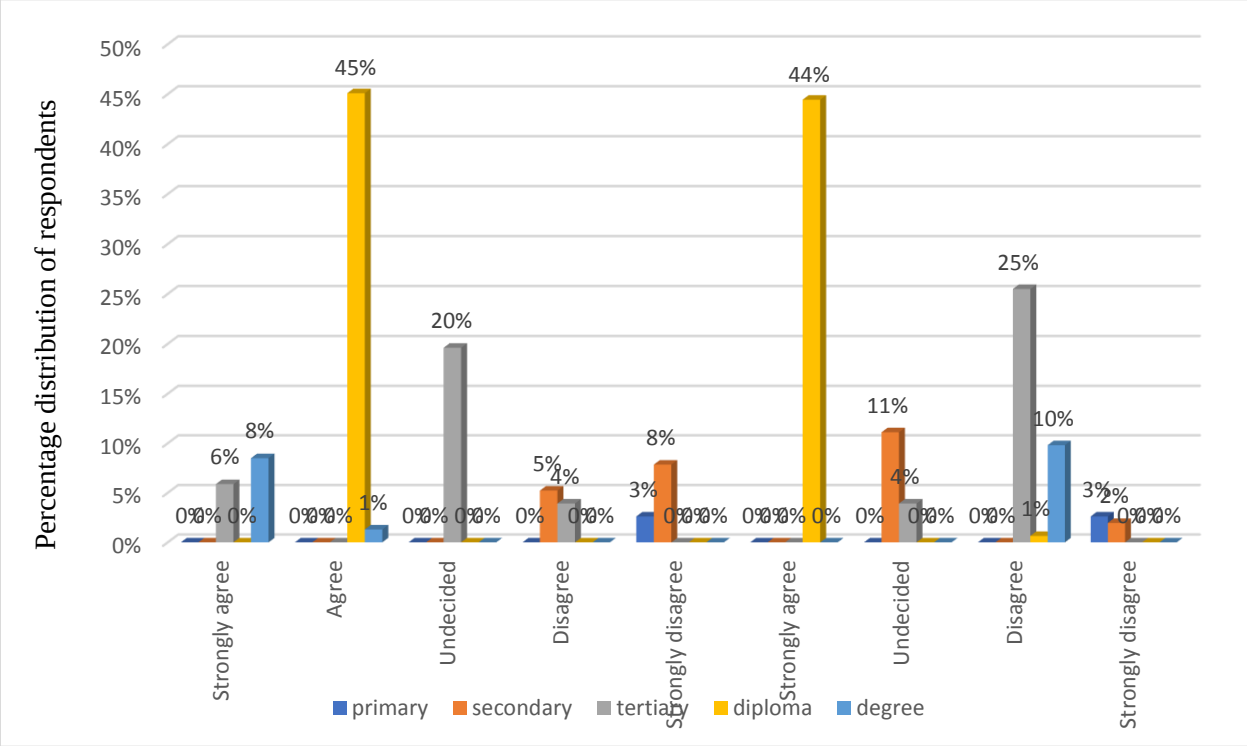

Figure 4.23: Graphical analysis of Policyholder's level of education against policyholders related factors to policy lapses.

Figure 4.23 shows that the policyholders with diplomas agreed to lapsing their policies due to financial burdens and 20% where undecided.44% of the diploma holders also strongly agreed to lapsing their policies due to awareness about protection provided by life insurance companies.25% of those with tertiary education disagreed to lapsing the policy due to low awareness of protection provided by life insurance policies.

4.4.4.4 Policyholder related factors against policyholder's marital status

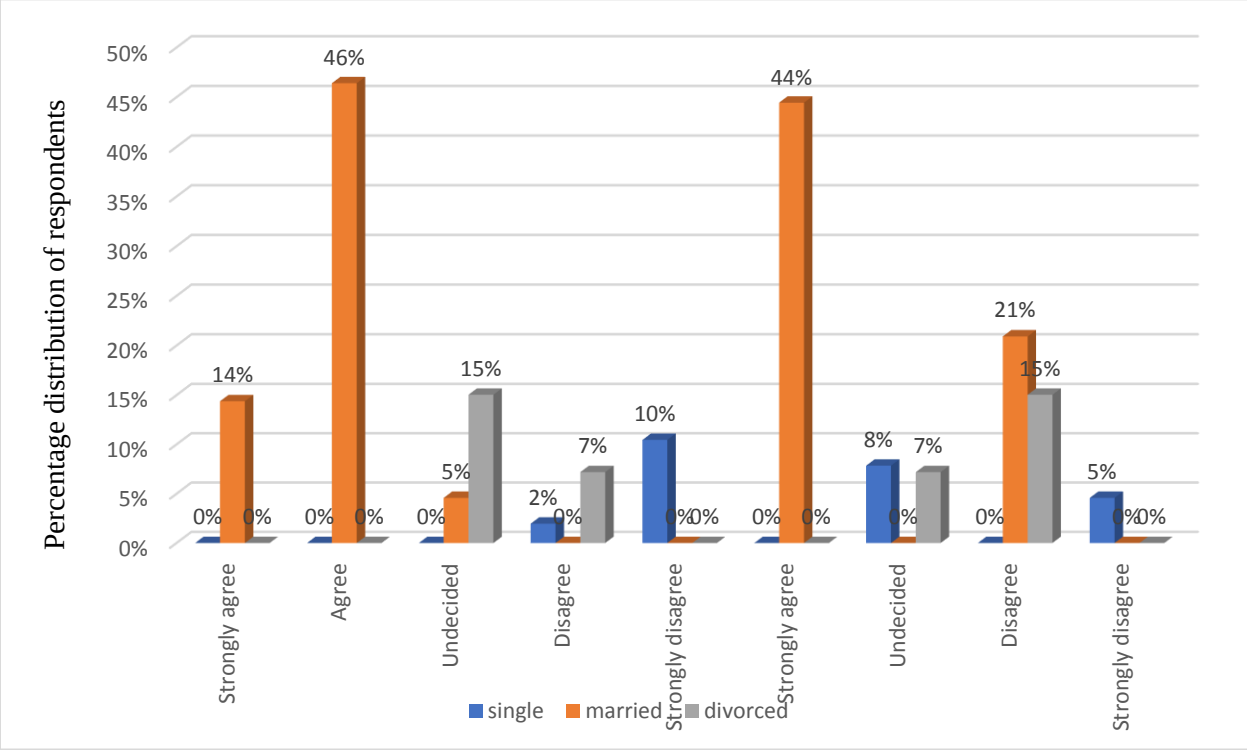

Figure 4.24: Graphical analysis of Policyholder's marital status against policyholders related factors to policy lapses.

From figure 4.24 we note that 14% of married policyholders strongly agreed and 46 % of married policyholders agreed to lapsing their policies due to financial burden.44% of married policyholders strongly agreed to lapsing their policies due to low awareness about bout financial protection offered by life insurance policies.

4.4.4.5 Policyholder related factors against policyholder's employment type

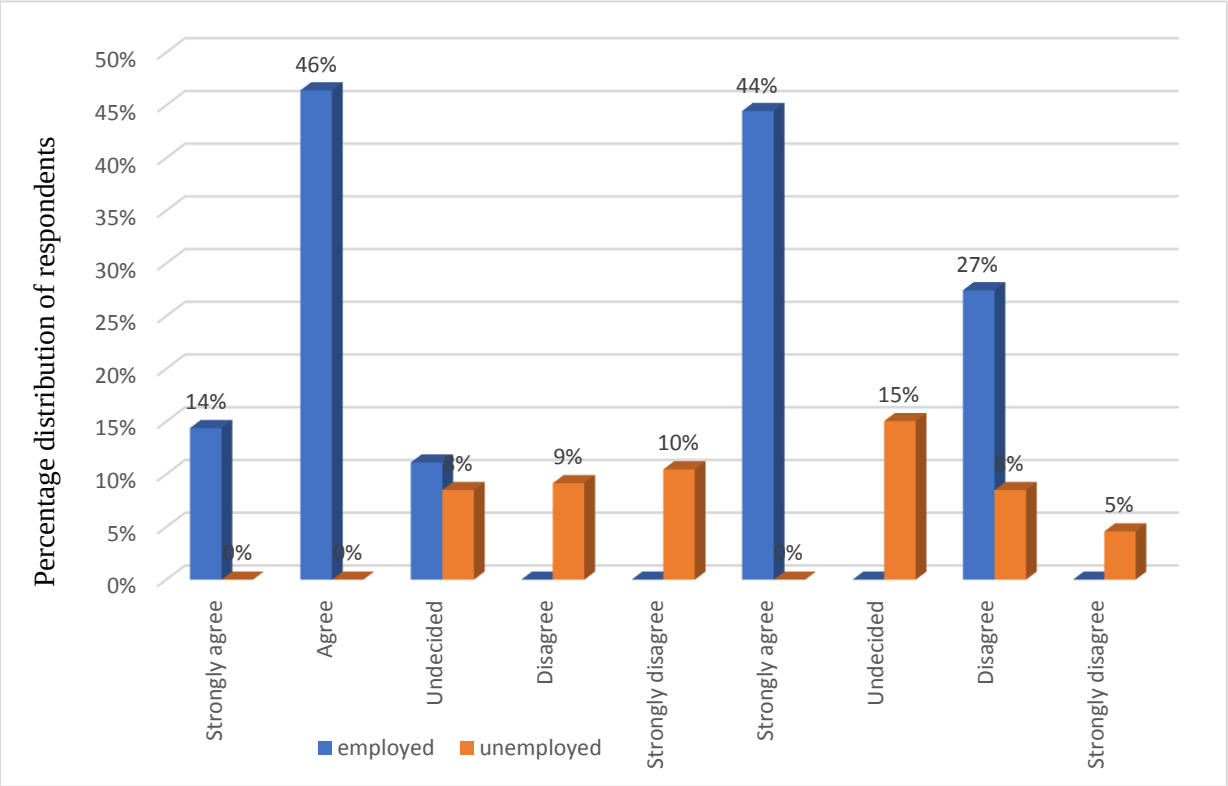

Figure 4.25: Graphical analysis of Policyholder's employment status against policyholders related factors to policy lapses.

Figure 4.25 shows that 46% of employed policyholders agreed to lapse their policies due to financial burden and 44% agreed to lapsing their policies to low awareness about the protection offered by life insurance policies.

4.3 Discussion of results

This section discussed the results presented in the previous chapter. The discussion aims to address the main of the objectives of the study which are;

1. What are the factors that lead to lapsing of various Life Insurance policies at ZSIC Life Limited?
2. Which policyholder's social demographic characteristics are an important moderating factor in the policy lapsing decision?

4.3.1 Factors that led to life insurance policy lapses

The factors that led to life insurance policy lapses where segmented in four groups namely; Policy holder related factors, insurer related, Product related and Agent related factors.

4.3.2.1 Policy holder related factors

Among the policyholder related factors, the study found that the following factors led to policyholders lapsing their policies.

1. Policyholder's financial burdens
2. Policyholder's low awareness about financial protection

Financial burden had a mean score of 2.55 meaning that it significantly contributed to policy lapses. Low Awareness about financial protection offered by life insurance policies had a mean score of 2.56. Meaning that low awareness about financial protection offered by life insurance policy contributed to life insurance policy lapses. These findings provide evidence of the emergence fund hypothesis as argued by Outreville (1990), the emergency fund hypothesis argues that "Financial distress forces policy holders to lapse their policies in order to access the surrender value".

4.3.2.2 Insurer related factors

There were three insurer related factors that led to life insurance policy lapses namely;

1. Poor customer care
2. Poor rapport
3. Loss of customer confidence due to bad word of mouth by other policyholders

Poor customer care had a mean score of 1.41 meaning that the policyholders strongly felt that poor customer services significantly contributed to the lapse of policies. Poor rapport had a mean score of 1.69 meaning that poor rapport significantly contributed policy lapses. Sandhu (2014) emphasized on the importance of good customer care and good rapport in life insurance policy retention. In his article titled "the Seven missing ingredients in life insurance customer retention programs", Sandhu (2014) argued that there is need for insurers maintain good customer care and rapport in order for the insurer to stay up to date with the clients insurance needs as the client's insurance needs keep changing over time and not only communicating with clients when during policy renewals or to follow up on premiums when the client misses some premium payments.

Loss of customer confidence due to bad word of mouth from other policyholders had a mean score of 1.69 meaning that policyholders strongly felt that bad word of mouth strongly contributed to lapse. When a policyholder is happy with the insurer's products and customer service, the policyholder is likely to remain royal to the insurer and not lapse their policy but also spread a good word to other would be customers and existing policyholders there by promoting business retention and preventing policy lapses. According to Coviello (2012) customer satisfaction is a central determinant of customer retention in Life Insurance.According to Dispensa (1997), a satisfied consumer will repeat the purchase of the product and convey positive messages about it to others. Day (1997) found that customer satisfaction is likely to strengthen the customer's resolution to buy the product more often and satisfied customers are more likely to urge others to try the product and unsatisfied customers are more likely to discourage others from purchasing the product.

Lu yu *et al* (2018) in his study of the life insurance lapse behaviour of the Chinese insurance industry emphasized that insurer's reputation matters a lot in the policy holder's decision to purchase or lapse a policy.

4.3.2.3 Product related factors

There were three product related factors that led to life insurance policy lapses namely;

1. Complex policy revival procedures
2. Limited benefits being offered by the ZSIC
3. Low bonuses being offered by the ZSIC

Complex policy revival procedures had a mean score of 2.25, meaning that policyholders had agreed to lapsing the policy due to complex policy revival procedures. According to Nyaguthii (2013) policyholders want prompt and hassle-free policy revival procedures as they perceive life insurance as a guard against the uncertainties of the future. Further they demand flexible solutions and convertibility options related to investment options and consequently they desire that the services should be personalized involving efficient handling of these changing preferences Nyaguthii (2013)

Low bonuses had a mean of score of 1.8 and low benefits had a mean score of 2.25, this means that policyholders agreed to lapsing the policies because of limited benefits and low bonuses. This is evidence of the interest rate hypothesis which argues that policy holders will lapse the policy in order to explore other investments with better financial returns (kuo *et al*, 2003).Sandhu (2014) argues that poor product design and benefits may lead to policy lapses and recommends insurers to have frequent review of their product to ensure that the products meet the ever changing needs of their clients to maintain high client retention.

4.3.2.4 Agency related factors

There were two agent related factors that led to policy lapses namely;

1. Agent forces to cancel policy and purchase new one
2. Improper agency training

Agent forcing policyholders to lapse had a mean score of 1.9 and improper agent training had a mean score of 2.03 meaning that policy holders agreed to lapsing policies because of the above two factors. Eling et al (2011) in his study of determinants of policy lapses in Germany market found evidence of insurance agents influencing policy holders to lapse their policies and sign a new one in order for the agent to collect a new premium commission. He also found that insurance agents had a close relationship with young policyholders and older policy holders. This was so because of the insurance business opportunities that are in these two groups. Shodganga (2012) says insurance agents play a very crucial role in keeping life insurance policies in force but found evidence of insurers being more active at inception of the policy as they get the premium commission and inactive overtime after collecting the premium commission, he emphasizes the need for insurers to be properly trained on the need for them to contact with their clients.

4.3.2 Social demographic characteristics of policyholders who lapsed their policies

4.3.2.1 Policyholder's Age

The research tested the hypothesis as to whether age was a significant moderator of life insurance policy lapse. Since the P-value was less than 0.05, we rejected H0 which stated that age does not influence policy lapse and concluded that age influences policy lapses therefore age is a significant moderator of the decision to lapse a policy.

The age range of policyholders who lapsed their life insurance ranged between 21 years to above 50 years. The majority (48.8%) of respondents were in the age range of between 41-50 years followed by respondents between the age of 31-40 years recording a 26.1%. respondents above 50 years recorded 21.6% and the minority (6.5%) were in the age range of 21-30 years.

From the above findings, it is reasonable to say that age is a significant factor in policy lapses and that the most prominent age range in policy lapses is the age range between 41 to 50 years, this could be attributed to the fact that majority of individuals that fall in this age range are usually in stable employment, married with a lot of family responsibilities which may be a source of financial distress which may lead to life insurance policy lapses.

On the other hand, policy holders in the age range of 21-30 years where the most few, this could be attributed to the fact that most individuals in this age range are still young and majority of them are males who are still single without family responsibilities to give them financial stress.

These findings are consistent with the findings of Mojekwu (2011) who claimed that age of a policy holder is significant in the lapse decision making and Lian *et al* (1993) who claimed that high persistency was found among young and in much older policyholders.

4.3.2.2 Gender of policyholders

We tested the hypothesis H0: Gender is not a significant moderating factor; since P-value is less than 0.05, we reject H0, and concluded that gender is a significant moderating factor in life insurance policy lapses.

68% of the respondents were males and 32% females respectively. This implies that males consume more of insurance products than females perhaps because of the fact that in the Zambian cultural context, the majority of males are bread winners and head of the family making all the financial decisions. It also safe to conclude that gender is an important moderator in life insurance policy lapses and that males are the most prominent in policy lapses.

Kagraoka (2005) found evidence of reduced lapse rates in females and increased lapse rates in males. Mihaud *et al* (2010) found policyholder's gender not to be statistically significant in the policy lapse decision while Jayetileke (2017) found a low lapse rate among female policyholders and a high lapse rate among male policy holders, these findings are consistent with the findings of this study.

4.3.2.3 Policyholder's level of educational level.

The majority (45.1 %) of the respondents are Bachelor Degrees holders from various universities, followed by vocational training/ college graduates at 29.4% and those with Secondary at 13.1%, 9.8% for those who have achieved other forms of education such as skills training and lastly respondents with primary level of education recorded 2.6%.This could be attributed to the fact that ,since most people who have been to university, college and vocational training institutions understand the value of insurance and so most of them take up life insurance policies, it is the more

reason why we have most of them lapsing their life insurance policies, however it is difficult to relate level of education to life insurance policy lapses. Truett (1990), Gao (2003) and Li *et al* (2007) all reported a positive relationship between education and demand for life insurance and this is consistent with the findings of this study.

4.3.1.4 Policyholder's marital Status

The study tested the hypothesis; H0: Marital status is not a significant moderator in policy lapses Since P-value is less than 0.05, we rejected H0, and concluded that marital status is a significant moderator in policy lapses. However, the observed value for the married is significantly higher than the expected value meaning that married marital status is more prominent in policy lapses.

From the analysed data, we note that 65% of the policyholders where married followed by divorcees/widows at 22% and lastly singles at 13%. This could be attributed to the fact that married individuals have more family responsibilities which lead them to financial distresses which lead to lapse of life insurance policies by married policyholders. The second are the divorced/widows, this could be attributed to the fact that when individuals are a couple, they share financial responsibilities but when one is widowed or divorced, the individual carries the whole financial burden on their own hence the risk of lapsing their life insurance policy. Therefore, the study concluded that marital status is an important moderator in policy lapses and that "Married" marital status is most prominent marital status in policy lapses.

4.3.1.5 Policyholder's employment type.

The study tested the hypothesis: H0: Employment type is not a significant moderator in policy lapses, since P-value was less than 0.05, we reject H0, and conclude that employment status is a significant moderator in policy lapses.

72% of the policyholders where in formal employment and 28% in informal employment. This could be attributed to the fact that those in formal employment are more exposed to debt because of having guaranteed income as opposed to those who are in informal employment who are more thrift oriented.

4.3.1.6 Life Insurance policy type

Life insurance policies are generally categorised as term life insurance policy or whole life insurance policy. Term life insurance policies are purely protection policies and whole life policies provides protection and investment benefits. the most dominant life insurance packages was Chikwama at 41.8% , seconded by Funeral Expense at 26.1%, 12.4% represented by classic, followed by two respective life insurance packages, kwacha plus and Swift Save that were represented equally at 9.8%.Chikwama is an investment policy, Lapsing in investment policies could be attributed to the fact that policyholders can draw the surrender value once the policy lapses hence the temptation for the policy holders to lapse their policies and try to access the surrender value. Therefore, it is safe to say that a policy type is an important factor in policy lapses and that investment policies are the most prominent in policy lapses. According to Eling et al (2011) and Francois (1990) policyholders with investment policies may lapse their policies to access the surrender value of the policy.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the conclusions of the research work, and provides recommendations based on the findings of the study. The following were the main objectives of the study.

a) To establish the Agent, Insurer, Product and Policy holder related factors leading to the lapse of various life insurance policies at ZSIC Life Limited.
b) To determine policyholder's social and demographic characteristics that are an important moderating factor in the policy lapsing decision.
c) To recommend a model for reducing Life Insurance policy lapses at ZSIC Life limited

5.1 Conclusions

The study concluded that there were two Agent related factors that led to Life Insurance policy lapses, The first one being Agency forces to Lapse insurance policy and the second one being improper Agency training. It was observed that some agents were forcing policy holders to lapse their policies and purchase a new one so that the agent can be entitled to a commission as they already received the commission on the existing policy. It was also noted that some agents were not adequately trained to assess and identify the ever-changing insurance needs of the policyholders hence the policy holders lapsing the policies. There were three insurer related factors that led to Life Insurance policy lapses namely, Poor Customer care, Poor rapport, and Bad word of mouth. Insurers have a tendency of forgetting about their clients once they sign up. Insurers only remember the policy holder when its renewal time or when premiums are due instead of maintaining good customer care and rapport to keep tracking the policyholder's insurance needs. Some policyholders agreed to lapsing their policies due to bad word of mouth about the insurer's inability to settle claims when they mature. Three product related factors were identified, these are; Complex policy revival procedures which discouraged policy holders from reviving their lapsed policies, limited benefits and bonuses being offered by the life Insurance products which made the policies less attractive as time went by. The study also concluded that Financial problems

and low awareness about the importance of life Insurance policies were policyholder related factors that led to Life Insurance policy lapses.

When it comes to policyholder's social and demographic characteristics that are an important moderating factor in the policy lapsing decision,the study concluded that Age, gender, marital status, policyholder's level of education and policyholder's employment type are important moderating factors in the policyholder's lapsing decision. It was noted that policy holders with age range 41 to 50 were most likely to lapse their policy probably because majority of individuals in this age range are married and have family commitments that give them financial distress. Males were found to be the dominant gender in policy lapses probably because of being the head of the homes and having a lot of financial responsibilities. When it comes to marital status, married policyholders were the most dominant in policy lapses probably due to family commitments. Policy holders with tertiary education were most dominant probably because they know the value of life insurance policies hence most of them purchasing the policies and being the most dominant in policy lapses.

5.3 Recommendations

Considering the findings and conclusions of the study, this section gives the recommendations to ZISC life for the effective management of the policy lapses. There is need for ZSIC Life to effectively use its customer data to trace and manage policyholders who are likely to lapse their policies. ZSIC life also needs to effectively communicate with policy holders to ensure that policyholders are aware of the importance of keeping the policy running as well as understanding the available options to salvage the policy should the policyholders be faced with financial problems and risk to lapse the policy. ZSIC life also needs to effectively manage its Sales agents to ensure that the agents have sufficient training on how they can understand the policy holder's ever changing insurance needs as well as not influencing policy holders to lapse one policy and get a new one so that the agent can collect a new commission. Lastly ZSIC Life needs to ensure that there is a balanced organizational culture in terms of Sales and Customer retention and not having a sales bias organizational culture.

5.3.1 Root cause diagnosis.

ZSIC life can use the root cause diagnosis tool in appendix 3 to make an insightful root cause analysis as they implement the recommended operating model that creates and preserves value in customer retention. The "why and So what "questions should be asked on the Organisational culture, the product, distribution channels, Customer servicing and Organisational governance.

5.3.2 Interventions

a. Organisational Culture that appreciates the importance of customer retention.

ZSIC Life should not place a greater focus on new sales and less priority on customer retention. ZSIC Life should find a balance between sales and customer retention because Customer retention is critical to any insurance business – equally as important as new policy sales. While new policy sales are often achieved through expensive marketing and business development costs, retaining existing customers offers a more profitable avenue for returns. ZSIC Life should ensure that retention forms part of the board agenda to facilitate Strategic priority and depth of discussion on customer retention. To attain an organisational culture that prioritises customer retention, there is need for sustained and periodic awareness to board and executive management on the importance of retention. The communication should focus on business impact and link to organisational strategy. The awareness should extend to the lower ranks in the organisation and effectiveness can be measured through corridor pulse interviews. Incentives are a key driver to drive this change and should start from board level, executive management downward to functional teams. The organisational culture assessment tool in appendix 4 can be used to assess ZSIC life organisational culture in terms of policy retentions.

b. Effective use of Customer data

ZSIC Life needs to employ Smart customer handling to improve the customer relationship and to understand the customer's propensity to lapse based on the customer's economic profile and Life stage. This will help ZSIC Life to know what sort of Insurance products policy holders prefer at what stage of life. Granular data analysis will also help ZSIC life to identify the social demographic characteristics of policyholders who lapse their policies as well as the insurance products with high lapse rates.

c. Effective Engagement with customers

ZSIC Life needs to institute customer satisfaction management systems (CSMS) to manage and evaluate customer's total experience. CSMS will help ZSIC Life to identify elements of customer satisfaction such as levels of over or under fulfilment, emotional involvement, and the feeling of receiving fair treatment. The ZSIC Life customer care team need to explain the lapse risk to customers at on boarding. Explaining circumstances that may lead to a policy lapse and actions that may be taken by a policy holder to avoid lapsing of the policy is critical in preventing policy lapses. As part of the continuous customer engagement process, ZSIC Life should be sending random questionnaires to assess the customer's financial health or assess any changes in the customer's insurance needs. Customers whose response suggest a change in their financial position or in their insurance needs should then be contacted directly and be offered insurance options that fit their budget or their insurance needs before they lapse their policies.

d. Effective Management of Agents

ZSIC Life needs to identify the insurance agents with high numbers of policy lapses and train them on how they can be able to understand the clients changing insurance needs. This will help the insurance agents to offer the clients with products that respond to the client's needs. ZSIC Life should also use incentives to motivate and penalise agent's performance when it comes to policy lapses. Applying punitive measures will help to manage the moral hazard of insurance agents forcing policy holders to replace old policies with new ones so that the agent can collect new commission. ZSIC Life should ensure that its Agents are fully aware of retention issues and the consequences of good and bad retention out comes.

e. Model for reducing Life insurance policy Lapses at ZSIC Life limited

Following the findings of the study, The researcher recommends that ZSIC life should implement the following model in order to reduce policy lapses among the ZSIC Life policy holders.

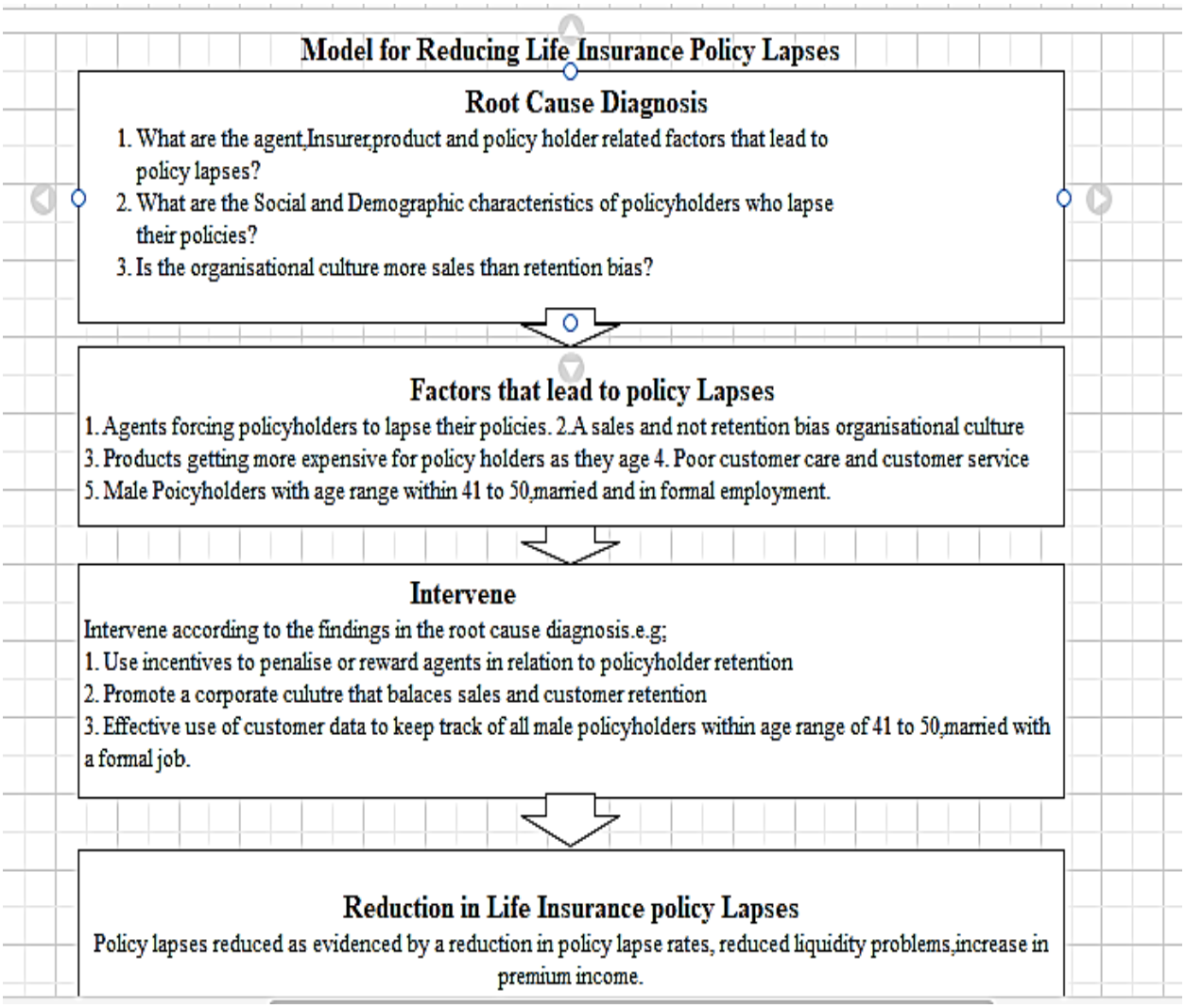

Figure 5.1 Model for reducing Life Insurance policy lapses

Source: Author's Construction

5.4 Areas of further research

The researcher recommends that a study should be done to investigate the extent to which policy lapses affect the financial performance of the Zambian life insurance industry and to investigate why formerly employed employees are more likely to lapse the policy compared to those in the informal sector. These areas need further research if they are to be fully understood. Full understanding of these areas is critical for the success of the life insurance industry. Studies on how other Insurance industries that went through similar experiences need to be studied and selected recommendations applied locally by the insurance players and regulators. Further research needs to be carried out on how regulatory authorities and the industry players responded to policy lapses in countries like South Africa, Nigeria, Kenya and Ghana to adopt relevant recommendations.

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APPENDICES

Appendix 1. Consent Letter

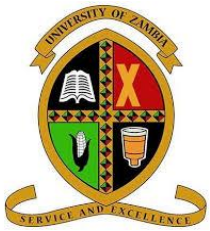
Telephone interview guide for ZSIC life clients whose policies lapsed

Dear Respondent,

My name is Webster Mtonga and I am calling you from ZSIC LIFE limited head office, before I proceed, I would like to know if it is fine with you, for me to ask you a few questions? I am studying for a Master of Business Administration in Strategic Business Management with the Graduate School of Business at the University of Zambia. In partial fulfilment of the requirements for the award of the Master of business Administration in Strategic Business Management Degree, I am conducting a study entitled "**Investigating factors to life insurance policy lapses at ZSIC Life Limited."**

Please note that the information is strictly for academic purpose only and will not be disclosed to any other party.

Appendix 2: Questionnaire



Questionnaires

Investigating the Factors that lead to Life Insurance Policy Lapse at ZSIC Life Limited.

Telephone Interview Guide for ZSIC Life Clients Whose Policies Lapsed in the period June2017 to June 2019.

Dear Respondent,

My name is Webster Mtonga and I am calling you from ZSIC LIFE limited head office, before I proceed, I would like to know if it is fine with you, for me to ask you a few questions? I am studying for a Master of Business Administration in Strategic Business Management with the Graduate School of Business at the University of Zambia. In partial fulfilment of the requirements for the award of the Master of Business Administration in Strategic Business Management Degree, I am conducting a study entitled: "*Factors that lead to life insurance policy lapses at ZSIC life limited."*

Please note that the information is strictly for academic purpose only and will not be disclosed to any other party.

Please respond as accurately as you can.

SECTION A: BACKGROUND INFORMATION

What is your age range?

21 to 30 ☐

31 to 40 ☐

41 to 50 ☐

Above 50 ☐

Gender

Male ☐

Female ☐

Educational level

Primary ☐

Secondary ☐

Vocational/Collage ☐

University ☐

Others ☐

Kindly advise on your marital Status

Single ☐

Married ☐

Divorced ☐

Widowed ☐

Kindly advise on your employment status

Public Sector ☐

Private Sector ☐

What type of product did you lapse?

Chikwama ☐

Funeral expenses ☐

Swift Save ☐

Kwacha Plus ☐

Classic ☐

SECTION B: FACTORS FOR THE LAPSATION IN LIFE INSURANCE POLICIES.

What led to lapsing of the policy?

Rate the extent to which you agree or disagree with the following statements on the reason you lapsed your life insurance policy on a scale of 1 to 5

Where: 1= Strongly Agree, 2= Agree, 3= Undecided, 4= Disagree and 5= Strong Disagree

	1	2	3	4	5
Limited Benefits	☐	☐	☐	☐	☐
High Premium rate	☐	☐	☐	☐	☐

Poor Customer Service	☐ ☐ ☐ ☐ ☐
Mis-selling of the Product	☐ ☐ ☐ ☐ ☐
Delay in Renewal Notice	☐ ☐ ☐ ☐ ☐
Improper Training to the Agents	☐ ☐ ☐ ☐ ☐
Lack of faith about company's past performance	☐ ☐ ☐ ☐ ☐
Previous experience about delay in claim settlement	☐ ☐ ☐ ☐ ☐
Low awareness about protection of life	☐ ☐ ☐ ☐ ☐
Complex revival procedures	☐ ☐ ☐ ☐ ☐
Poor rapport with the customers	☐ ☐ ☐ ☐ ☐
Financial burden for the policyholders	☐ ☐ ☐ ☐ ☐

Loss of Customer confidence due to bad word of mouth from others ☐ ☐ ☐ ☐ ☐

Frequent change of customer address ☐ ☐ ☐ ☐ ☐

Wrong prospecting of customers ☐ ☐ ☐ ☐ ☐

No transparency in the procedures ☐ ☐ ☐ ☐ ☐

Inadequate skill of employees ☐ ☐ ☐ ☐ ☐

Low bonus declaration ☐ ☐ ☐ ☐ ☐

Procrastination in paying premium ☐ ☐ ☐ ☐ ☐

Agent force to cancel existing policy and make to purchase another new policy ☐ ☐ ☐ ☐ ☐

Customer feel it is useless investment ☐ ☐ ☐ ☐ ☐

I sincerely appreciate for Your Cooperation

Appendix 3: Route Cause Analysis tool

Root Cause Analysis tool

S/N	Area of Interest	Type of Question	Key Success Factors
1.	Organisational Culture	a. Is there periodic reporting on retention out comes for senior management and the board? b. How material are retention out comes in executive compensation? c. Is the organisational culture more sales than retention bias?	a. Strong awareness of retention at senior executive. b. Periodic internal communication to reinforce importance of retention. c. Organisational culture should balance efforts on sales and retention
2.	Product	a. Which product/portfolios have more policy lapses? b. How competitive is our product on the market? c. What do customers and advisers say about our product design.	a. Comprehensive Market intelligence b. Product should be highly competitive. c. Analytic capabilities and broad stake holder input for an effective product pricing strategy

		d. What do customers and our advisers say about our product pricing?	
3.	Distribution	a. Which agents have most of their policy holders lapsing their policies? b. Are the insurance agents aware about retention issues? c. Are there agent incentives for retention? d. Does agent performance management pay adequate attention to customer retention?	a. Agent performance dashboard that include retention metrics b. Use incentives to reward and penalise retention performance.
4.	Customer operation and Servicing.	a. Is there a dedicated "Save team" responsible for identifying and saving policies that are about to lapse? b. How big is the Save team? c. What is the training and	a. Granular data and insight into sources of leakages b. Dedicated well trained Save team with Save offers readily available and empowered to use own own judgement within boundaries.

		incentive structure of the Save team? d. Does the save team have save offers readily available? e.g. premium holidays, premium discounts and lower cover. e. Is the save team empowered to use own judgement within boundaries? f. How comprehensive is the list of lapse triggers? g. How effective is the proactive engagement process?	
5.	Customer data and analytics	a. What are the social demographic characteristics of policy holders that are lapsing? b. Is there adequate data on why people are lapsing? c. How frequently is this data captured?	a. Systematic capture of customer data including reasons for lapsing. b. Structured process to feedback customer data to initiatives. c. Dedicated resources focused on modelling and analytics.

6.	Organisation and Governance	a. Is there senior executive ownership of retention? b. Are there adequate number of resources dedicated to retention?	a. There should be senior executive ownership of retention. b. Clearly defined roles and responsibilities. c. Periodic reporting to senior management and board on retention outcomes.

Source: Author's construction

Appendix 4: Organizational culture health Check tool

s/n	Indicator	Action	Priority
1.	Board agenda priority	a. Frequency of retention board reporting. a. Are the retention board reports for decision making or information discussion? b. Consistency of reporting and messages.	Put on the watch list
2.	Compensation linkage	a. Material part of executive compensation. b. Incentives to be linked to business development	Put on the watch list
3.	Corridor Pulse	a. Corridor disclosures of retention (Posters, intranet and internal campaigns) b. Periodic random interviews to test awareness of issue and implications of employees actions	Immediate action is needed
4.	Market retention disclosures	a. Frequency of discussion in annual reports, results presentations. b. Strategic priority and depth of discussion.	Immediate action is needed
5.	Resources	a. Experienced dedicated owner of retention. b. Number of dedicated resources to retention	Immediate action

Source: Author's construction