

## LAPSATION OF POLICY: A THREAT FOR LONG - TERM INSURANCE POLICIES IN SRI LANKA: AN EMPIRICAL INVESTIGATION BASED ON KURUNEGALA DISTRICT

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Long term insurance (LTI) is a contract which remains alive through the periodic payment of premiums as stipulated in the contract. The growth momentum in the LTI business in Sri Lanka was gradually increasing in absolute terms in 2012. While the market is growing steadily at 6.56 percent, the penetration (of total industry premium as % of GDP) level remains low at 0.49% in 2012 reflecting a decrease compared to 0.54% recorded for 2011. One of the most important factors that contribute to the low penetration rate is the lack of interest and awareness in investing in LTI. This has resulted in a high rate of lapse and low persistence. According to Insurance Board of Sri Lanka, new insurance policy lapses as a percentage of new policies issued had increased to 18.72% in 2012 compared to 15.6% recorded in 2011. Both lack of interest in investing in LTI and the high rate of policy lapse have retarded the development and the growth of LTI business in Sri Lankan market. This study therefore, attempted to find out the main contributory factors to the lapsation of LTI policy based on the Kurunegala district in Sri Lanka. 174 respondents, whom LTI policies been lapsed within last three years, were selected from two Divisional Secretariats namely, Kuliyaipitiya West, and Kurunegala using multi-stage sampling techniques. Each individual was interviewed, personally and in-depth, with the help of a semi-structured interview schedule. The ordered Logistic regression techniques were used for statistical analysis. The preliminary results suggest that there is a significant relationship between the lapsation rate and both company-related (service quality, trust and faith, and malpractices) and client-related (income, health and awareness) factors. Further, it revealed that inadequate money on the due date of the premium payment is the basic root cause of the policy lapsation. This is followed by the irritated trust and faith of the business. Insurance companies therefore need to invest more in public enlightenment and manpower development so as to give LTI business its pride of place in the economy.

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