CHAPTER I
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Introduction:

Humankind is exposed to many serious perils such as property losses from fire and windstorm and personal losses from disability and premature death. Although it is impossible for the individual to foretell or completely prevent their occurrence, it is possible, and highly important to provide against their financial effects. The function of insurance in its various forms, is to safeguard against such misfortunes by having the losses of the unfortunate few, shared by the contribution of many, who are exposed to the same risk. ¹ While the essence of life insurance lies in sharing of such losses and creates the substitution of certainty for uncertainty. ²

Hence Life Insurance is a Contract providing for the payment of a sum of money to the person insured or failing him, to the person entitled to receive the same, on the happening of a certain event. ³ It may not be out of place to quote the few lines of Sir Winston Churchill, the Ex-Prime Minister of Britain, who was said to have

². ibid P.2.
made the following statement while emphasising the need for the Life insurance.  

'If I had my way I would write the word insurance upon the door of every cottage and upon the blotting book of every public man, because I am convinced, for the sacrifices which are incompletely small, families and estates can be protected against catastrophes which would otherwise smash them up for ever'.

The above lines clearly indicate the index of confidence that one can have in the life insurance. The life insurance can be considered as the social device for making accumulations to meet uncertain losses or catastrophes resulting from the premature death or disability of a person. 

The family is generally dependent on its bread winner for its basic necessities of food, clothing and shelter. The life span of the bread winner and his regular income to the family make the family secured. Needless to mention, the death of the supporter may leave the family in very difficult situation and sometimes may

land them in stark poverty. Uncertainty of death is inherent in human life. It is this uncertainty or in other words the risk, which gives rise to the necessity for some of protection against the financial loss arising from the death.

There is nothing more uncertain than life and nothing more certain than life insurance. Hence the possession of an adequate amount of life insurance causes the average policyholder to eat better, sleep better, feel better and as a result of these to work better.

Life Insurance as Savings:

Life insurance is not only a provision against death but also stands to help the mankind in his old age too. Because the latter always causes financial problems for the man and his wife, in view of the reduction in the regular income and continuation of the expenses. When the man who is insured, survives a specified age, he may get a lumpsum amount from the insurer under a particular plan. This amount can be invested by him in such a way to compensate the loss of income.

6. The Business of Life Insurance: Miles M. Dawson, (1911), P.4
7. Life Insurance, Huebner and Black, P.26 (1972)
Hence Life insurance is considered as a mixture of savings and insurance cover. While emphasising this need, our late prime minister Smt. Indira Gandhi was said to have made the following statement.

'Life Insurance is an ideal form of saving both from the direct interest of the individuals and from the interest of the nation. In our country where social security measures are confined to small groups, Life Insurance fulfills an important function in enabling people to meet its life's challenge'.

The uncertainty of future income and its continuance, makes everybody to have the desire to save out of his present income.

This is shown in Table 1.1 where it could be observed the desirability of saving more for the future is expressed by many cross sections of the society, be it by income wise, occupation wise or education wise.

Though there are facilities in the banks to save over a long period, they do not have any device to compel their customers to save on a regular basis. The needy customer may withdraw the money from his account whether
<table>
<thead>
<tr>
<th>Household Income (Rs.)</th>
<th>Desirable must save</th>
<th>Desirable Essential to some extent</th>
<th>Not desirable</th>
<th>Not ascertained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 3000</td>
<td>97.5</td>
<td>0.2</td>
<td>1.9</td>
<td>0.4</td>
</tr>
<tr>
<td>3000 to 9999</td>
<td>96.9</td>
<td>1.2</td>
<td>1.9</td>
<td>-</td>
</tr>
<tr>
<td>10000 and above</td>
<td>98.3</td>
<td>0.3</td>
<td>1.3</td>
<td>0.1</td>
</tr>
</tbody>
</table>

**Occupation Wise**

1. Professional        | 94.0                | 0.6                               | 5.2            | 0.2            |
2. Managerial          | 99.3                | 0.2                               | 0.2            | 0.3            |
3. Clerical            | 99.3                | 0.7                               | --             | --             |
4. Sales               | 98.5                | 0.2                               | 1.1            | 0.2            |
5. Farming             | 98.8                | 0.7                               | 0.4            | 0.1            |
6. Service Work        | 98.4                | 0.1                               | 1.5            | --             |
7. Skilled, Unskilled  | 98.8                | 0.1                               | 0.7            | 0.4            |
8. Others              | 98.8                | 0.1                               | 0.7            | 0.4            |

**Education Wise**

1. No Education        | 96.9                | 0.2                               | 2.2            | 0.7            |
2. Upto Primary        | 98.2                | 0.2                               | 1.3            | 0.3            |
3. Primary to Matric   | 97.7                | --                               | 2.3            | --             |
4. Matriculation      | 96.7                | 1.1                               | 1.8            | 0.4            |
5. Graduate (Non tech) | 97.9                | 1.7                               | 0.4            | --             |
6. Graduate (Tech)    | 86.8                | --                               | 13.0           | 0.2            |
7. Post Graduate       | 98.6                | 0.3                               | 1.1            | --             |

Importance of the study:

In view of the importance of protection given to the Policyholder life and his savings, the Life Insurance Corporation of India, has established the policyholders service Department in all of its branches and divisional Offices, at various places.

The LIC Policyholders service department offers a variety of services to the policyholders right from the time of signing the contract of insurance till such time, the contract comes to an end. These services are enjoyed by him in the capacity of a policyholder.

The LIC policyholders service department in the North Arcot District also has many objectives and aims in extending its valuable services to the LIC policyholders like age admission, assignment, nomination, policy lapses and revivals, policy loans, surrender of policies, settlement of claims and alterations in policies. Of these services mentioned above, the researcher has chosen Vellore and Ranipet branches in the district, for a micro level study in the policy lapses and revivals because of its importance both from insurer and insured and as well as its imperfectness in tightening these lapses of policies.
This is an indepth study to find out the causes of lapses in the branches of Vellore and Ranipet in the district besides, bringing into light the revival activity in the branches.

A study of this nature would bring to light the significance of the continuation of the policy without allowing it to lapse, both by the Life Insurance Corporation and by the policyholder and also the need for the continuation of the protection offered to the policyholders by way of revivals of those lapsed policies.

Need for the Study:

The need for such a study arises in view of the greater implications a policy lapse has, on the policyholders and as well on the insurer. The life insurance stands as a monument of protection to the policyholder against his uncertain death and undependable old age, besides providing him a savings proposition. Such a protection and privilege should not be lost in the middle by way of lapse of the policy which arises due to non-payment of premiums by the policyholder. A loss both to the Insurance Corporation and to the policyholder,
the former loses the revenue income which he would have otherwise earned and the latter the protection, being deprived of the financial protection, which he would have otherwise enjoyed.

One of the favourite areas of LIC lies in reducing high lapses on policy which has not scaled great heights since lapses are an inherent part of the business of life insurance and, therefore experiencing of lapses cannot be prevented. ¹

Policy lapses and revivals:

A policy is said to be lapsed if the premium on the policy a. is not paid within 30 days or one Calendar month in case of mode of payment is quarterly, half-yearly and yearly;

2. is not paid within 15 days if the mode of payment is monthly; in both cases calculated from the next day after the due date fixed for payment.

However, a policyholder who has paid premiums on his policy for a minimum period of three years from the date of commencement of policy is given a concession

in this regard. He can pay this unpaid premium within a period of six months from its due date, with interest. Till such time, the policyholder continues to enjoy the facilities offered by the Corporation, subject to the terms and conditions stated in the policy.

A policy which has lapsed for non payment of premiums within a period of three years its commencement is completely lost and nothing would be payable out of the premiums paid, to the policyholders.

A policy which has lapsed for such non-payment of premiums but after three years of its commencement, is called a paid-up lapse and some amount out of the premiums paid, calculated under the terms and conditions of the policy, would be payable at the time of maturity of the policy or at the time of death of the policyholder, whichever happens earlier.

Revival of a policy takes place when the policyholder after making the policy lapsed, wishes to make the repayment of the premiums unpaid and continue the protection offered to him by the Corporation.
The policyholder may revive the policy within a period of five years from the date of the first unpaid premium and before the date of maturity of the policy. While procuring a good business is a must for the life insurance corporation, it is much more important to see that the good business so procured does not lapse early considering the organisational efforts and financial implications in procuring such business.\(^1\)

For the procurement of the new business and for the issue of the policy, a large number of field force and in-house workers are employed. Hence expenses are necessarily incurred and it runs to several crores of rupees. It is said a new policy is issued spending out more than the first year premium income received on the policy and hence allowing it to lapse is a great financial loss to the Corporation.\(^2\)

In the event of early lapses of those policies, not only the expenses incurred would go waste, but also the cost of service per unit of business would be pushed up inequitably. Besides, the cost is also incurred to

\(^1\) FII Journal Vol.3 (1977), P.167.
\(^2\) ibidP.168.
bring back to the books the business thus lost, which if not fructifies, is most unjustifiable, since the amount spent is only out of the other policyholders money.

Moreover, cost is also incurred for the maintenance of records of the lapsed policies and thus it causes a lop-sided distribution of expenses which means a higher proportion is spent on business lapsed than on the policies in force.3

**Statistical Study:**

There are three methods of presenting the picture relating to lapsed policies. They are:

1. Ratio of lapses to Average business in force;
2. Ratio of lapses to total New Business; and

The first method is to calculate the ratio of lapses to the average business in force in a particular year. The other and the more scientific method is to take the new business of the particular year and follow it up during that year and the next two years thereafter, and to examine what ratio of it lapses during each of these years. Adding

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3. ibid P:167.
these ratios, the total lapse ratio pertaining to that particular year can be obtained.

These two methods are shown in Tables No.1, 2 and 1.3.

In the above two methods, lapse ratio is used as a measure to ascertain the total amount of lapses. Yet there is another side through which an estimation can be made about the lapse. This is by taking the conservation ratio, which is calculated by finding out the ratio of renewals premiums of a particular to that of total premiums of the previous year. The conservation ratios of past few years is shown in Table 1.4. The renewals premiums and also the total premiums were also given. It could be observed that LIC is quite compatible in retaining the regular income, even though to some extent, lapse is inevitable.
TABLE 1.2

LAPSE RATIO TO THE AVERAGE BUSINESS IN FORCE:

(AT ALL INDIA LEVEL)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974-75</td>
<td>5.4</td>
</tr>
<tr>
<td>1975-76</td>
<td>5.4</td>
</tr>
<tr>
<td>1976-77</td>
<td>5.3</td>
</tr>
<tr>
<td>1977-78</td>
<td>5.4</td>
</tr>
<tr>
<td>1978-79</td>
<td>4.6</td>
</tr>
<tr>
<td>1979-80</td>
<td>3.8</td>
</tr>
<tr>
<td>1980-81</td>
<td>4.5</td>
</tr>
<tr>
<td>1981-82</td>
<td>4.1</td>
</tr>
<tr>
<td>1982-83</td>
<td>4.3</td>
</tr>
<tr>
<td>1983-84</td>
<td>4.5</td>
</tr>
<tr>
<td>1984-85</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Chairman Review 1982-83; 1983-84; 1984-85.
**TABLE 1.3.**

LAPSE RATIO TO THE TOTAL NEW BUSINESS WITHIN THE FIRST YEAR AND WITHIN THE THREE YEARS.  
(ALL INDIA LEVEL)

<table>
<thead>
<tr>
<th>Year</th>
<th>within the first year %</th>
<th>within the three years %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>29</td>
<td>40.5</td>
</tr>
<tr>
<td>1960</td>
<td>22.1</td>
<td>38.2</td>
</tr>
<tr>
<td>1970</td>
<td>15.7</td>
<td>27.3</td>
</tr>
<tr>
<td>1975</td>
<td>17.7</td>
<td>30.1</td>
</tr>
<tr>
<td>1976</td>
<td>18.4</td>
<td>29.8</td>
</tr>
<tr>
<td>1977</td>
<td>17.4</td>
<td>27.2</td>
</tr>
<tr>
<td>1980</td>
<td>18.2</td>
<td>25.2</td>
</tr>
<tr>
<td>1981</td>
<td>19.8</td>
<td>26.8</td>
</tr>
<tr>
<td>1982</td>
<td>17.2</td>
<td>25.7</td>
</tr>
</tbody>
</table>

**SOURCE:** Yogakshema July, 81. P.14.  
FII Journal Vol.3. (1977)  
FII Journal Vol.10 (1985)
### TABLE 1.4

*(AT ALL INDIA LEVEL)*

Conservation Ratio: Ratio of renewals premiums to that of Total premiums of the previous year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Renewals premiums of the current year</th>
<th>Total premiums of the previous year</th>
<th>Conservation Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-82</td>
<td>854.01</td>
<td>888.07</td>
<td>96.16</td>
</tr>
<tr>
<td>1982-83</td>
<td>933.24</td>
<td>1,006.59</td>
<td>92.71</td>
</tr>
<tr>
<td>1983-84</td>
<td>1,044.63</td>
<td>1,108.19</td>
<td>94.26</td>
</tr>
<tr>
<td>1984-85</td>
<td>1,186.59</td>
<td>1,228.92</td>
<td>96.56</td>
</tr>
</tbody>
</table>

*Source:* Chairman Review 1982-83; 1983-84; 1984-85.
Analysis of Income:

The insurer has always an optimistic outlook. He believes in future. Hoping all policies issued will be kept alive, he fixes the selling price namely the premium and incurs a large amount of establishment and management expenses. If the calculations turns out to be otherwise, he will be put in an embossing position. The position wherein there will be reduction in regular income without any such reduction in expenses.

Hence any reduction in regular income mentioned above, will adversely affect the rate of cash flow into the corporation and as a result the investment pattern, since the latter decides the profitability of the corporation.

These aspects are shown in Table 1.5. It is understood from the table that almost 50% of the income of the corporation is received from the policyholders who have already entered into contract for the payment of their premiums in future in return for the assurance given by the corporation to cover the risk of death. Moreover the first year premium which
<table>
<thead>
<tr>
<th></th>
<th>1983-84</th>
<th>1984-85</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs. in Crores</td>
<td>%</td>
</tr>
<tr>
<td>First Year premium</td>
<td>191.25</td>
<td>9.30</td>
</tr>
<tr>
<td>Renewal premiums</td>
<td>1044.63</td>
<td>50.83</td>
</tr>
<tr>
<td>Income from Investments</td>
<td>812.62</td>
<td>39.56</td>
</tr>
<tr>
<td>Single premium and</td>
<td>.56</td>
<td>.03</td>
</tr>
<tr>
<td>annuities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other incomes</td>
<td>5.50</td>
<td>0.28</td>
</tr>
<tr>
<td></td>
<td>2054.56</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**SOURCE:** Chairman's Review: 1983-84; 1984-85.
represents nearly 10% of the income is also a quite good amount worthy of analysis. Perhaps LIC may try to compensate any loss in former by introducing more of new business i.e. by increasing the first year premium. But this may not appear to be a sound proposition or a logic in view of the objectives of the insurance which provides risk cover or protection till the life time of the assured or for a selected period.

While lapses of Policy cause reduction in income of the Corporation, the revival of such policies compensates such loss by way of collection of premium, besides providing life cover to the Policy holders.

Hence any study on Policy lapses would not be complete without revival aspect of such policies.
Objectives of the Study:

1. To make an analytical study of the data pertaining to policy lapses and revivals, available at the Vellore and Ranipet branches.

2. To have a field study of the Policyholders serviced by Vellore and Ranipet branches, whose policies have lapsed and to find out the causes of lapses, besides their views regarding the steps to be taken to reduce lapses and activate revivals.

3. To suggest suitable measures to reduce lapses and activate revivals on the basis of the above.

Scope of the Study:

1. The Life Insurance Corporation has six branches in the District of North Arcot, namely Vellore, Ranipet, Tiruvannamalai, Vaniyambadi, Arakonam, and Gudiyattam, the latter two being started very recently. The research is limited only to the study of policy lapses and revivals in Vellore and Ranipet branches, since Vellore branch is the single largest branch.
catering to the urban population and Ranipet the single largest branch, catering to the rural population in the district of North Arcot.

2. The period of study is from September 1985 to March, 1986, since the researcher has short time only to cover the above period.

3. The study covers only regular Endowment Policies (Table 14 as per LIC Manual) and Money-Back Policies (Tables 73 to 76 as per LIC Manual). Hence Policies issued under Salary Savings Schemes are not covered.

Methodology:

1. Random sampling technique, was adopted to pick out the names of the policyholders to be interviewed for the purpose of the field study. About 50 Policyholders who were serviced by Vellore and Ranipet Branches and whose policies were found to be lapsed during the period of study, were selected. It also included 12 policy-holders whose policies were revived.

2. With the aid of the questionnaire, the researcher conducted a personal interview of the policyholders and obtained the necessary information for the purpose of the study.
3. The primary data available at the branches and the secondary data were used in the study.

4. In view of the nature of the data supplied by the branches, only arithmetic mean, percentages and correlation were used as statistical techniques in the study.

**Limitations:**

1. Primary data only was available at the Ranipet branch and full information covering all policies measures was not available.

2. The information regarding the number of policies serviced by the branches was not available and hence the data as supplied by the branch office records and officials, was taken for the purpose of study.