



Empirical Analysis of Policy Lapse Behavior Among Life Insurance Customers at PT Prudential Binjai

Aspan Sofyan Siregar*, Imsar, Atika

Universitas Islam Negeri Sumatera Utara, Indonesia

*aspansofyan02@gmail.com

Abstract

This study aims to analyze the factors that influence the lapse of life insurance policies on customers of PT Prudential Insurance Binjai Branch. Lapse is the termination of an insurance policy due to the customer's inability to pay premiums after the grace period, which is a big challenge for the insurance industry. The research method used is a qualitative approach with data collection techniques in the form of observation, in-depth interviews, and documentation. The results showed that the main factors causing policy lapse were unstable economic conditions, lack of insurance literacy, changes in personal financial needs, and social and cultural influences. Some customers experienced a decrease in income due to job changes or family conditions, so they decided not to continue paying premiums. In addition, a lack of understanding of the long-term benefits of insurance makes customers more vulnerable to lapse decisions. The impact of policy lapse is significant for the company, including loss of premium income, reduced customer retention rates, and potential damage to the company's reputation. Although lapse can reduce claim payment obligations for the company, the negative impact on cash flow is often greater. This research provides insights for insurance companies in designing strategies to reduce lapse rates. Some recommendations that can be implemented include increasing insurance education to customers, offering more flexible products according to customer financial needs, and strengthening communication and relationships with customers to remain committed to paying premiums. With a more proactive approach, companies can increase customer satisfaction and loyalty and ensure business sustainability in the midst of intense insurance industry competition.

Keywords: Lapse Behavior; Customers; Life Insurance

Introduction

Insurance products are one of the financial instruments that provide various benefits, especially in ensuring the sustainability of individual and business life. One of the most popular insurance products is life insurance, which is designed to provide financial protection to the insured family in the event of death or inability to work productively (Purnomo and Brandon, 2024). As a financial product with a long-term contract, life insurance requires a commitment to periodic premium payments within an agreed period. Therefore, the decision to purchase and maintain a life insurance policy becomes crucial for individuals in managing their future financial risks.

In Indonesia, the insurance industry is experiencing rapid development, especially with the increasing public awareness of the importance of financial protection. In addition, the emergence of sharia-based insurance companies is also supported by the significant Muslim population, who want financial institutions that comply with sharia principles (Monica and Yusrizal, 2023). PT Prudential Life Assurance (Prudential Indonesia), which is part of Prudential plc, has been operating in Indonesia since 1995 and has been the market leader in unit-linked life insurance products since its introduction in 1999.

With more than 168 years of experience in the life insurance industry globally, Prudential Indonesia continues to grow and expand its services to meet the needs of the Indonesian people. Although the life insurance industry is experiencing significant growth, insurance companies face major challenges in retaining their customers, especially due to the high policy lapse rate. Policy lapse refers to the termination of an insurance contract before the policy expires, which can be caused by various factors such as inability to pay premiums, changes in financial needs, or customer dissatisfaction with the services provided (Rohman et al., 2023).

This lapse behavior not only affects policyholders who lose protection benefits, but also has financial consequences for insurance companies, including a decrease in premium income, an increase in new customer acquisition costs, and a potential decrease in public trust in the insurance industry as a whole (Nasution and Rahma, 2022). Previous studies have highlighted various factors that can influence late premium payments or premature policy termination. For example, research conducted by Zar et al., (2020) found that late premium payment is one of the main problems in the insurance industry, but there are still research gaps in understanding the specific factors that cause customers to fail to fulfill their obligations.

In addition, several other studies have also shown that macroeconomic factors, such as inflation and recession, as well as individual factors, such as the level of financial literacy and experience with insurance companies, can contribute to high policy lapse rates (Smith and Baker, 2021). This study aims to empirically analyze the factors that influence life insurance policy lapse behavior at PT Prudential Indonesia Binjai branch. By understanding the factors that encourage customers to terminate their policies, companies can develop more effective strategies to manage lapse risk, increase customer satisfaction, and strengthen the company's financial stability.

In addition, the results of this study are expected to contribute to the development of marketing strategies and risk management in the life insurance industry in Indonesia, as well as a reference for insurance companies in formulating policies that are more responsive to customer needs. With the increasing competition in the insurance industry as well as the increasing public demand for more flexible and affordable financial services, this study becomes increasingly relevant in helping insurance companies understand the dynamics of lapse behavior and identify appropriate solutions to overcome this problem. Therefore, this study is not only important for PT Prudential Indonesia, but also for the insurance industry more broadly in an effort to improve business sustainability and people's financial well-being.

Method

This research uses a qualitative approach with a descriptive research type to understand the factors that influence policy lapse behavior at PT Prudential Insurance Binjai Branch. The data in this study comes from primary data obtained through direct interviews with insurance customers who experience policy lapse and company representatives who understand related policies. Informants were determined by purposive sampling technique, namely selecting two customers and one company representative who had a direct relationship with the phenomenon under study. The research instrument used was an interview guideline to explore information about the reasons why customers terminate the policy and the steps taken by the company in handling lapse policy cases. Data collection techniques were carried out through observation of customer behavior patterns, in-depth interviews to gain further understanding, and documentation related to policy lapse rates and company mitigation strategies. Data analysis was conducted through three main stages, namely data reduction by filtering and categorizing relevant information, data presentation in narrative form to

identify patterns or trends, and conclusion drawing by ensuring data validity through triangulation of information from various sources. The results of this study are expected to provide a deeper insight into the factors that influence policy lapse and its impact on insurance companies.

Result and Discussion

Based on interviews with customers of PT Prudential Insurance Binjai Branch, it was found that the main reason for policy lapse is a significant change in financial conditions. According to Riyanti, I experienced a job change that led to a decrease in income, as well as a change in family conditions that affected my overall finances. Therefore, I felt the need to adjust my budget and made the difficult decision to close this policy (Interview, June 26, 2024). In addition, an interview with another customer, Ansahril, showed that the absence of negative experiences with PT Prudential Insurance Binjai Branch services was a factor that did not influence his decision to lapse.

So far, I have had no negative experiences with the services of PT Prudential Insurance Binjai Branch that have influenced my decision to terminate the policy (Interview, June 26, 2024). In addition to economic factors, this study also found that the level of customer understanding of insurance benefits contributed to the lapse decision. A study by Smith and Jones (2022) states that low insurance literacy can cause customers to lack understanding of the importance of maintaining their policies, making them more prone to lapse in difficult economic conditions. An interview with a company representative, Dino Ariandi, revealed that policy lapse has an impact on the company's finances.

The impact of lapse for companies varies greatly, both in terms of financial and operational. Loss of premium income can disrupt the company's cash flow, while increasing lapse rates can also reflect a lack of customer retention (Interview, June 26, 2024). This research also confirms that social and cultural factors play a role in policy lapse behavior. According to a study by Li et al., (2021) social environmental factors and family influences can affect an individual's decision to maintain or terminate an insurance policy. By understanding these factors, insurance companies can design more effective strategies to reduce lapse rates, such as improving insurance education for customers and offering more flexible financial solutions to maintain their policies.

1. Factors Affecting Life Insurance Customers at PT Prudential Insurance Binjai Branch to Lapse

Factors causing lapses among life insurance policyholders at PT Prudential Insurance Binjai branch include:

a. Economic Factors

An unstable economic condition is one of the main factors that can cause life insurance policyholders to lapse. Decreased income, rising living costs, or job loss can cause policyholders to experience financial difficulties and be forced to reduce the priority of insurance premium payments. In a difficult economic situation, customers may have to decide to allocate their financial resources to basic needs, such as food, housing, and healthcare costs, making life insurance premium payments a lower priority.

b. Knowledge Factor

The level of customers' knowledge about life insurance can also influence their decision to lapse. Customers who have a low understanding of the benefits and importance of life insurance tend to be less motivated to maintain premium payments. Additionally, negative perceptions of the insurance industry, such as distrust in claims or poor service quality, can drive customers to stop paying their life insurance premiums.

c. Social and Cultural Factors

The social and cultural environment in which the customer is situated can also influence their decision to lapse. Social norms, societal perceptions, and the influence of friends or family can shape customers' behavior in managing finances and fulfilling their life insurance premium payment obligations. Customers who are in a social environment that does not support the importance of life insurance or views lapses as normal tend to find it easier to decide to stop premium payments.

d. Factors of Changing Preferences and Needs

As time goes by, customers' preferences and needs can change. For example, a life insurance customer who previously purchased a product for children's education protection may no longer need that protection because the children have grown up and become independent. In such cases, the policyholder might decide to lapse the policy.

e. Competitive factors

In the insurance industry, it can also trigger a lapse. If another insurance company offers a product with more attractive features or more affordable premiums, the policyholder may decide to switch to the competitor's product, thereby stopping the premium payments on the previous insurance product. The decision of life insurance policyholders to lapse is the result of a complex interaction of various interrelated factors. A deep understanding of these factors can help life insurance companies design effective strategies to prevent and manage lapse risks, as well as assist policyholders in maintaining premium payment discipline and ensuring the continuity of their life insurance protection.

The results of the interview conducted by the author with the branch head of PT Prudential Insurance Binjai branch. What is the impact of customers lapsing for your company?. The impact of lapses on my company can vary, both in terms of financial and operational aspects (Interview with Mr. Dino Ariandi). From the results of the interview, the researcher concluded that a high lapse rate can negatively impact the company's finances and customer satisfaction.

The Impact of Lapse on PT Prudential Insurance Branch Binjai Lapse in the context of insurance refers to a situation where the insurance policy is no longer active because the policyholder failed to pay the required premium. Here are some of the impacts:

1) Loss of Premium Income

When a policy lapses, the insurance company loses revenue from the premiums that should have been paid by the policyholder. This can affect the company's cash flow, especially if it happens to many policies at the same time.

2) Decrease in Customer Retention

Lapse can be an indicator that the company fails to retain its customers. The decline in customer retention can damage the company's reputation and increase the cost of acquiring new customers.

3) Liability Reduction

Although losing premium income, insurance companies can also experience a reduction in liabilities or financial obligations because they do not need to pay future claims for policies that have lapsed. However, this reduction in liabilities is usually not proportional to the loss of premium income.

4) Additional Administrative Fees

The process of managing lapsed policies requires additional costs, such as expenses for contacting customers who are late in payment, collection efforts, and other administrative tasks. This can increase the operational burden of the company.

Conclusion

Lapse in life insurance, particularly at PT Prudential Insurance Binjai Branch, reflects a significant challenge for the company in retaining customers. The main factors causing lapses include unstable economic conditions, lack of customer understanding of the benefits of insurance, and social and cultural influences. Lapse has a direct impact on premium income and customer retention rates, which can affect the company's reputation and business sustainability. Therefore, companies need to understand the factors that influence lapse and implement more effective strategies, such as improving communication, providing more suitable products, and educating customers on the importance of maintaining their insurance policies.

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