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Policyholder Surrender Behavior in the Nepalese Life Insurance Market During the COVID-19 Pandemic

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Abstract

The Nepalese life insurance industry is facing a significant challenge due to its high surrender rate, which became particularly alarming during the COVID-19 pandemic. In this context, this study aims to explore the different reasons behind the life insurance policy surrenders and examine the association between the policy holding period and the demographic characteristics of policyholders. Primary data were collected during 2020-2021 through a questionnaire survey from 445 policyholders who had already surrendered the policy. The survey was conducted in eight major cities in Nepal. The findings reveal several key insights into policyholders' surrender behavior. The most influential factors contributing to surrender include advice from family and friends, lack of knowledge about the policy, and insufficient information provided to policyholders. The study concludes that economic factors are the most significant driver of surrender behavior, followed by knowledge gaps, social influences, company-related factors, and, to a lesser extent, agent-related factors. Notably, no demographic variables were found to have a significant association with surrender reasons. The study recommends implementing tighter financial underwriting procedures, enhancing customer education and awareness about policies, and fostering stronger customer relationships to mitigate the incidence of policy surrenders.

Keywords: Economic reasons, life insurance surrender, policyholders

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Introduction

The surrendering of life insurance policies raises several questions for insurance industries since the objective of purchasing life insurance policies is to keep them until maturity (The Geneva Association, 2012). In the insurance industry, surrender is a common occurrence. However, if the market experiences a higher-than-average surrender rate, it is important to pay close attention because this can negatively impact the insurance sector in several ways, including lowering insurer income, impairing projected cash flow, or creating liquidity issues. A higher surrender rate is a sign of mistrust toward the insurance industry as a whole as well as the insurance companies themselves (Carver, 2011; Eling & Pankoke, 2016). Lapse risk, together with market and credit risks, has emerged as one of the three primary risks life insurers must deal with, alongside surrender risk since the 1980s (Albert et al., 1999).

Excessive lapse adversely impacts costs, mortality experience, and investment returns, each of which negatively affects the financial stability and well-being of an insurance company (Fier & Liebenberg, 2013). Outreville (1990) notes a high surrender rate during economic recessions. Due to various reasons, the insurance industry continues to suffer deep cycles and periodic crises (Owadally et al., 2018). Regulators formulate various measures to protect the rights of policyholders and improve their lapse risk management by performing stress tests (Carver, 2011).

In the Nepalese life insurance market, policy surrender has been observed at an increasing rate which is harmful to both insured and insurers. Policy surrenders are harmful to the insured as they lose life insurance coverage, incur financial losses due to low surrender value, and forfeit long-term benefits like maturity payouts and tax advantages. For insurers, high surrender rates disrupt financial stability, increase operational costs, harm their reputation, and undermine the risk pooling mechanism critical for sustainable operations. There is a dearth of scientific studies about the causes of policy surrender and its impacts on the insurance market in the Nepalese context.

The first wave of Coronavirus Disease 2019 (i.e., COVID-19) began in March 2020 and lasted for approximately 9 months up to November 2020. The second wave started in March 2021 and ended in May 2021. The second wave was disastrous. The rare event of COVID-19 disturbed and adversely influenced life. The pandemic outbreak experienced extensive economic upheaval, triggering financial crises in every household. The impact of the pandemic was two-fold, primarily for life insurers and insureds. First, insurers were impacted as they had to look at a critical analysis of surrender drivers and the underlying dynamics. The life insurance industry is influenced by longevity, life expectancy, and the catastrophes faced by policyholders. Surrender directly impacted insurers' liquidity and eroded profitability (Kuo et al., 2003; Prestele, 2006), and costs incurred for acquiring business were non-recovered (Pinquet et al., 2011). Second, insurers' projected profits disappeared due to the premature lapse of policies. Those who surrendered the policy were paid during the surrender process, exposing the insurer to increased liquidity risk. In the short term, policyholders get funds to manage their liquidity crisis, but in the long run, they lose their life protection instrument.

Before 2001, only two life insurance carriers served the market. The number reached five in 2001, nine in 2008, and 19 in 2017. The life insurance market has become more competitive from its oligopoly status. After the introduction of more insurers, the surrender rate was experienced more by the market. During the 2010-2019 lapse rate, profitability, revival rate, and surrender rate were reported at 23.91%, 2.64%, 88.82%, and 3.83%, respectively (Koju et al., 2020). Due to the COVID-19 pandemic, the Nepalese economy suffered from unemployment, declining income, and shutdown of business (Karn, 2021). As a result, many people might have opted to surrender life insurance policies to meet their expenses.

Previous studies by Tian and Dong (2024) and Bhatia et al. (2024) established relationships between policyholders' surrender behavior with macroeconomic variables but few studies have investigated the relationship between family economics, social factors, knowledge, company-related factors, and agent-related factors. There is a dearth of literature that explores the association between surrender behavior with household-level economic factors, socio-psychological factors, the image of the company, and the agent-customer relationship.

The Nepalese life insurance industry has experienced a high surrender rate over the past decade, with a notable increase during the COVID-19 pandemic. This study aims to explore the reasons behind policy surrenders and examine the relationship between demographic characteristics and surrender causes. The key factors considered include socio-psychological, knowledge-related, company-related, and agent-related influences. The focus is on understanding why policyholders in Nepal, especially during the pandemic, choose to surrender their policies and how demographic factors contribute to this behavior.

The rest of the study is organized into four sections. The second section reviews relevant studies, followed by the third section, which outlines the study's methodology. The fourth section presents the results and discussion, while the fifth section concludes the study with recommendations and implications.

Literature Review

Theoretical Review for Policyholder Surrender Behavior

Various theories explain why the life insurance policy is terminated before the maturity date and what factors may influence such a decision. A few of the relevant theories are discussed here.

The emergency fund hypothesis (EFH) theory links life insurance policy loans and surrender activity to an urgent need for funds during a time of crisis or need. It argues that the urgent need for the fund (economic reasons) is the main reason for surrender (Dar & Dodds, 1989; Outreville, 1990; Kuo et al., 2003; Cox & Lin, 2006; Kiesenbauer, 2012; Nolte & Schneider, 2017).

Perceived risk theory states that risk is a multidimensional concept, containing components, each with attached influence on a consumer's overall perceived risk, that vary across persons (Mitchell, 1999). The policy replacement hypothesis assumes that policy owners may cancel a life insurance policy to replace the policy with a new policy that has better terms, conditions, or pricing (Outreville, 1990; Russell et al., 2013).

Policyholders evaluate the utility of continuing versus surrendering their policy which is supported by utility theory (Von & Morgenstern, 1944). If a policyholder encounters a sudden financial need, the immediate utility from the surrender value may outweigh the future benefit of the insurance coverage (Brown & Finkelstein, 2007). According to the Rational Choice Theory (Becker, 1976), individuals make decisions based on maximizing personal advantage. The theory is suitable in the context of life insurance policy surrender, policyholders rationally assess the costs and benefits of keeping or surrendering a policy. When the surrender value or alternative investments appear more advantageous, they may surrender the policy.

Sometimes policyholders might irrationally surrender policies due to overestimation of their ability to manage risk on their own or because of immediate financial pressures, even when long-term benefits outweigh the short-term gains. Life insurance surrender decision sometimes seems like an overconfidence or loss aversion decision which is supported by the Behavioral Economics Theory of Kahneman and Tversky (1979). These theories provide a lens through which to understand policyholder behavior regarding life insurance policy surrender, with influences from both rational and behavioral factors.

These theories provide a framework for understanding the factors influencing life insurance policy surrender. The emergency fund hypothesis links economic needs to surrender behavior, while perceived risk theory and the policy replacement hypothesis connect to socio-psychological and knowledge-related factors. Utility theory and rational choice theory emphasize the rational assessment of financial benefits, and behavioral economics theory highlights irrational decision-making. Together, these theories align with the study's objective to examine how economic, social, psychological, and informational factors influence policyholders' surrender decisions in Nepal.

Empirical Review

The decision to surrender a life insurance policy is influenced by several factors that vary across different policyholders. This study explores the key reasons behind life insurance policy surrenders, with a focus on factors such as economic constraints, knowledge gaps, social influences, company-related factors, the role of agents, and demographic characteristics. A study by Eling and Kochanski (2013) shows that the reasons behind the life insurance surrender and lapse may be more than one.

Economic Reasons: A significant factor driving policyholders to surrender their life insurance policies is the economic need to address short-term financial crises. Researches by Gemmo et al. (2016), and Cole and Fier (2020) suggest that people often surrender their policies to manage immediate financial needs. The proceeds from the policy surrender are frequently used for crucial expenses such as education or purchasing a home. Several studies (Aris et al., 2009; Irina & Martin, 2016) have highlighted those economic reasons, particularly a lack of savings or alternative investment opportunities, are primary determinants of policy surrender. Social pressures also impact a person's saving intentions, as Ningsih et al. (2018) and Widyastuti et al. (2016) found that social norms and attitudes toward saving significantly influence individuals' financial decisions, including the decision to surrender insurance policies.

Knowledge-related Reasons: Another factor affecting policy surrender is the lack of knowledge about the life insurance product itself (Capraro et al., 2003). Policyholders often make decisions based on incomplete or misunderstood information, leading them to abandon policies prematurely. Subashini (2017) identifies product mismatches, mis-spelling, and inadequate understanding of policy terms as major reasons for surrender. Policyholders may not fully grasp the long-term benefits of their policies, contributing to decisions that may not align with their financial interests. Policyholders' satisfaction can be contingent upon the level of brand awareness (Du et al. 2020).

Social Reasons: Social factors, including pressure from family, peers, and societal norms, can strongly influence the decision to surrender a life insurance policy. Ningsih and Sudarma (2018) point out that social pressure can significantly affect an individual's saving intentions, which in turn impacts their willingness to maintain life insurance policies. Similarly, Widyastuti et al. (2016) emphasize that attitudes towards saving and subjective norms positively influence saving behaviors, suggesting that external social factors may drive policyholders to surrender their life insurance policies in favor of other financial priorities.

Company-related Reasons: The image of the insurance company plays an important role in a policyholder's decision to continue or surrender their policy. Research in service marketing suggests that a strong corporate image fosters customer loyalty, while a negative image can lead to dissatisfaction and surrender (Gronoroos, 1984; Gummesson & Gronoroos, 1988; Bitner, 1991). Corporate image influences customer loyalty by shaping their overall perception of the company's reliability and the quality of its services (Kelley & Davis, 1994; Nguyen & LeBlanc, 1998; Andreassen & Lindestad, 1998; Yu, Cheng & Lin, 2010). A poor company image or inadequate customer service can thus contribute to higher surrender rates. Insurers with lower lapse rates can provide cash-value products with superior performance (Carson & Dumm, 1999).

Agents-related Reasons: The role of agents in life insurance decisions is also critical in influencing surrender behavior. Studies (Chakrabarty & Bass, 2014; Garegnani et al., 2015; Downe et al., 2016; Popoola et al. 2017) have shown that agents who engage in mis-selling, forced selling, or fail to build strong relationships with customers can increase the likelihood of policy surrenders. Tseng (2020) emphasizes the importance of agents in fostering trust and a positive relationship between customers and the company, suggesting that poor agent performance or lack of loyalty can lead to customers deciding to surrender their policies.

Demographics of Respondents: Demographic factors such as age, marital status, occupation, and income level also play a significant role in the decision to surrender life insurance policies. According to the Canadian Institute of Actuaries (2014), characteristics like age and gender (Eling & Kochanski, 2013), sum insured, and policy duration influence surrender rates. Vidyavathi et al. (2022) found that younger individuals, in particular, may be more likely to surrender their policies due to immediate financial pressures or changing life priorities. Similarly, low income levels, childcare expenditures, and the absence of public health insurance increase the likelihood of policy surrenders (Shima et al., 2012; Fier & Liebenberg, 2013; Shim, Min & Choi, 2021). The financial stability reflected in marital status and occupation can also affect a policyholder's decision to continue or surrender their life insurance policy.

Despite extensive research on life insurance policy surrender, there remains a significant gap in understanding the specific dynamics of policyholder behavior in the Nepalese context, particularly during times of crisis such as the COVID-19 pandemic. Additionally, while demographic variables such as age, marital status, and occupation have been found to influence surrender decisions, there is a lack of comprehensive research examining how these variables interact with other determinants such as agents' roles and corporate image in the Nepalese market. Therefore, this study tries to fill this gap by exploring the significant factors affecting policy surrender and developing strategies to mitigate policy surrender, particularly focusing on the specific challenges faced by policyholders in Nepal.

Research Methods

The study was conducted in eight major cities of Nepal, including the capital city, Kathmandu, as well as Pokhara, Biratnagar, Birgunj, Janakpur, Banepa, Bharatpur, and Dhangadhi to represent the cities located in three ecological reasons viz. mid-hill, inner Terai and Terai. The population of the study consisted of policyholders who held endowment products and surrendered their policies from 2020 to 2021. Since the study population is indefinite, the sample size was determined using Yamane's (1967) table and Cochran's (1963) formula, both of which recommended a sample size of 385. However, 445 samples were collected due to data gathering from eight different clusters. Stratified sampling (across nine life insurance companies), cluster sampling (from eight cities in Nepal), purposive sampling (based on the willingness of participants to share information), and quota sampling (ensuring at least 30 responses from each company) were employed in the data collection process.

A total of 27 relevant reasons for policy surrender were identified and classified into five categories, as presented in Table 1. These categories include economic-related variables (Singh, 2010), societal and psychological variables (Hirshleifer, 2001; Shiller, 2005; Seppälä, 2009; Nolte & Schneider, 2017, Born & Sirmans, 2019, Garfin et al., 2021.), knowledge-related variables, corporate image-related variables (Nguyen et al., 2018), agent loyalty-related variables (Crosby et al., 1990), and corporate image-related variables (Hafipah et al., 2018). The variables are validated by consulting with the insurance experts, managers of insurers, and agents. A structured questionnaire was used for data collection, and descriptive statistics and a Chi-Square test were used for the analysis of data.

Table 1
Variables under Study

SN	Economic Related	Social Related	Knowledge Related	Agents Related	Company Related
1	Financial needs	Advice from family & friends	No knowledge	No follow up	Lack of counseling
2	No funds to pay	Other companies	Less information	Agents diverted	Low service
3	Decrease in income	Migration abroad	Lack importance	False information	Low bonus rate
4	Other investments opportunity	Fear of bad incidents	Fear of not return	Fraud by agent	Terms condition
5	Low sum assured	No response	No idea about loan facility	Bad relation	Image bad
6	Long gap does not pay a premium		No response	No response	No response
7	Fine to revive the policy				
8	Increase in income				

Note. Based on the Literature

Result and Analysis

Descriptive Statistics

The descriptive statistics of the policy holding period, term of policy, premium, and sum assured showed that the average term of the policy is 14 years and the policy holding period is 5 years. It means policies are surrendered 9 years before the maturity date on average (see Table 2).

Table 2
Descriptive Statistics

Descriptions	Min.	Max.	Mean	SD
Policy holding period (PHP) (in a year)	2	14	5	2
Term of policy (T) (in a year)	5	28	14	3
Premium (NRs. 000)	3.5	630	39	51
Sum Assured (NRs. 000)	50	10,000	515	692

Demographics and Policy Holding Period

Surrender behavior is directly related to the policy holding period. A higher holding period means less negative financial impact to both the insurer and the insured and vice versa. Table 2 indicates that the mean holding period is five years, while the maximum holding period is 14 years. The surrender behavior of respondents in terms of the policy holding period (PHP) has been examined with the demographic social and economic variables. The demographic description and value of the t-test and F-test have been presented in Tables 3 and 4 respectively.

Table 3
Demographic Description of Respondents and P-value of T-test

Demographic Characteristics		Frequency		t-test	
		N	%	t-value	p-value
Sex	Male	254	57.08	-0.064	0.949
	Female	191	42.92		
Marital Status	Unmarried	30	6.74	1.28	0.199
	Married	415	93.26		

The policy holding period has no relationship with the sex and marital status of the respondents as p- the value is higher than % in both cases.

According to a p-value of the ANOVA test (F- test), the policy holding period has no relationship with the age, ethnic group, education, and occupation of the respondents based on the p-value of the F- test ($p > 0.05$). The result of p- the value of the chi-square test and ANOVA test in Tables 2 and 3 specify that the surrender period is not related to the demographic and social characteristics of policyholders.

Table 4
Holding Period of Policy and Demographic Factors

Demographic Characteristics		Frequency		ANOVA test	
		N	%	F value	p-value
Age Group	<30	190	42.70	0.34	0.56
	31-40	115	25.84		
	> 40	44	9.89		
Ethnicity	Janajati	172	38.65	2.00	0.136
	Marginalized	79	17.75		
	Brahmin /Chhetri	194	43.60		
Education level	Up to Secondary	190	42.70	0.446	0.641
	Intermediate	115	25.84		
	Bachelors and above	140	31.46		
Occupation	Service	175	39.33	1.814	0.164
	Business	114	25.62		
	Others	156	35.06		

Note. Field Survey (2021)

Board Reasons for Policy Surrender

The reasons for policy surrender were categorized into five broad groups, each containing between four to eight specific reasons, amounting to a total of 27 reasons for surrender (see Table 5).

Table 5
General Reasons of Surrender and Total Frequency of Responses

General Reasons	Number of Specific Reasons	Total Response		No Response	
		N	%	N	%
Economic Reasons	8	445	100	0	0
Knowledge-related Reasons	4	370	83	75	17
Social Reasons	5	335	75	110	25
Company-related Reasons	5	302	68	143	32
Agents -related Reasons	5	279	63	166	37
Total	**27**	**445**	**100**		

Table 5 indicates that the most dominant reason for surrender is economic (financial), as all respondents acknowledged this factor. The second most common reason is related to knowledge, with 83% of respondents agreeing. Interestingly, 32% of the 445 respondents disagreed that company-related factors contributed to their decision to surrender, while the least significant factor was the behavior of agents, cited by only 63% of respondents.

Specific Reasons for Policy Surrender

The 27 reasons for policy surrender were divided into four quartiles and are presented in Table 6. In the first quartile, two reasons are related to knowledge and company factors. The most common reason for surrender, cited by 42% of respondents, was social influence, specifically the advice of family and friends. Another notable reason was "lack of follow-up by agents," which, while not the most influential, is still significant among the 27 reasons. This finding is particularly interesting, as agents are generally considered the most influential factor in policy surrenders. It was concluded that a lack of knowledge about life insurance as an essential risk management tool plays a critical role in policyholders' decisions to surrender their policies. This highlights a key issue in the insurance industry: who is responsible for educating policyholders? The responsibility falls on the agents.

Among the 27 reasons identified for policy surrender, the most significant factors were “suggestion of family and friends” (42%), followed by “lack of knowledge of life insurance policy” (33%), and “insufficient information” (28.21%). Interestingly, “financial crises” ranked fourth at 27%. Of the top three reasons, knowledge-related factors appeared twice, with social reasons coming in second, while economic reasons were ranked fourth. Agent-related factors were placed seventh.

In the second quartile, economic, agent-related, and social reasons appeared twice, while knowledge-related factors appeared once and were considered the least significant (12.36%). The economic reasons were the most relevant, with almost 18.65% agreement. In the third quartile, the most notable reason for surrender was a “low bonus rate” from the company. Although this could be categorized under economic reasons, it was placed under company-related factors due to its specific nature. The remaining reasons in this quartile were mostly related to personal finance (four reasons), with only one reason linked to agents.

The last quartile contained five reasons, two of which were knowledge-related, and agent-related reasons ranked fourth, with 22% of respondents citing them. The least significant reasons, with only 1.3% frequency of responses, were “increase in family income,” “negative image of the company,” and “poor relationship with agents.”

Table 6
Reasons of Surrender and Frequency of Responses

Quartile	Rank	Reasons of Surrender	Factor of Surrender	Frequency	
				N	Percent
1st Quartile	1	Advice from family & friends	Social	185	41.57
	2	Lack of knowledge of policy	Knowledge	146	32.81
	3	Insufficient information about the policy	Knowledge	126	28.31
	4	Financial needs	Economic	120	26.97
	5	Lack of counseling by the company	Company	119	26.74
	6	Poor service of the company	Company	99	22.25
	7	Not follow-up by agents	Agents	97	21.8
2nd Quartile	8	No funds to pay premium	Economic	83	18.65
	9	Decrease in income in the family	Economic	75	16.85
	10	Agents suggested me	Agents	73	16.4
	11	Other companies suggested me	Social	70	15.73
	12	I feel that agents provided false information about the policy	Agents	66	14.83
	13	Migration abroad soon	Social	57	12.81
	14	Feel less importance of insurance	Knowledge	55	12.36
	15	Low bonus rate	Company	47	10.56
3rd Quartile	16	Other investments opportunity	Economic	43	9.66
	17	Low sum assured	Economic	41	9.21
	18	Long years of not renewal	Economic	39	8.76
	19	Huge fine charged for renewal	Economic	38	8.54
	20	Terms and condition	Company	31	6.97
	21	Fraud by agent	Agent	28	6.29
4th quartile	22	Distrust of getting death or maturity claims	Knowledge	24	5.39
	23	Fear of bad incidents	Social	23	5.17
	24	No idea of loan facility	Knowledge	19	4.27
	25	Poor relationship with an agent	Agents	15	3.37
	26	Negative image of the company	Company	6	1.35
	27	Increased in family income	Economic	6	1.35

Association Between Reasons of Surrender and Demographic Attributes

Table 7 shows the results of the Chi-Square test of the association between respondents' demographic attributes (sex, age, marital status, ethnicity, education, and occupation) and five reasons for policy surrender: economic, social, knowledge, agent-related, and company-related factors. The p-value of the test indicated that out of 30 pairs of association, 14 were found to be statistically significant, while 16 were insignificant. The findings suggest that occupation is significantly associated with all five factors of surrender, education is significantly linked with three factors, and both age and ethnicity are associated with two factors each. In contrast, sex and marital status were only significantly associated with one factor each.

Table 7

Association Between Demographic Characteristics and Reasons for Policy Surrender

Demographic Attributes of Respondents	P-value of Chi-square Test / Factors of Policy Surrender				
	Economic	Social	Knowledge	Agents	Company
Sex	0.251	0.322	0.788	0.005*	0.42
Age	0.016*	0.578	0.009*	0.295	0.866
Marital status	0.001*	0.041	0.081	0.651	0.722
Ethnicity	0.006*	0.252	0.026*	0.506	0.397
Education	0.001*	0.001*	0.120	0.001*	0.286
Occupation	0.001*	0.001*	0.004*	0.001*	0.001*

Note. * 5% level of Significance

Discussions

This study examines the factors influencing life insurance policy surrenders in Nepal, with a particular focus on economic, social, knowledge-related, agent-related, and company-related variables. The findings suggest that economic reasons, especially financial crises, play the most significant role in the decision to surrender, followed by knowledge-related factors, particularly a lack of understanding about life insurance. Social factors, such as the influence of family and friends, also emerged as crucial, while agents' behavior and company-related issues were less significant in comparison. Demographic characteristics such as occupation, education, and age were found to have a significant impact on surrender decisions, with younger individuals being more likely to surrender their policies due to immediate financial pressures.

This study is the first of its kind to explore the phenomenon of life insurance policy surrender in the Nepalese context. The findings highlight the key role of economic factors, with financial crises being the most frequently cited reason for policy surrender. This aligns with previous studies (Gemmo et al., 2016; Cole & Fier, 2020) where economic pressures were shown to drive individuals to make surrender decisions). Interestingly, our research also reveals the significant impact of knowledge-related factors, such as a lack of understanding of financial literacy, and life insurance products, echoing the findings of Lusardi (2008), Hung et al. (2009), and Agarwal et al. (2009) who identified financial illiteracy as a key driver of insurance surrenders. The lack of adequate knowledge about life insurance as a tool for risk management is a major concern in the insurance industry, and agents have a pivotal role in addressing this gap.

Social influences, particularly advice from family and friends, emerged as another important reason for policy surrender, confirming the findings of Hirshleifer (2001), Shiller (2005), Seppälä (2009), and Nolte and Schneider (2017), who observed the impact of social pressure on financial decision-making. The role of agents was found to be less significant than anticipated, with many respondents citing a lack of follow-up by agents as a reason for surrender. This result is contrary to conventional expectations, where agents are typically seen as the primary influence on policyholder behavior (Tseng, 2020). However, it suggests that agents may not be fulfilling their role effectively in Nepal, contributing to the decision to surrender policies.

The company-related factors also played a role, particularly the company’s image and low bonus rates, which were found to influence surrender decisions. This supports the work of Parsa and Sadeghi (2015), who identified that the image of the company plays a crucial role in consumer decisions. The findings further suggest that policyholders' demographic characteristics, such as occupation and education, significantly affect their decision to surrender their policies, which is consistent with the study of Fier and Liebenberg (2013) where younger individuals, particularly those with lower education levels, were more likely to surrender their policies.

Lastly, the findings emphasize the psychological factors influencing policyholder decisions. The fear and uncertainty caused by external shocks, such as the COVID-19 pandemic, can exacerbate cognitive biases, leading individuals to make surrender decisions based on immediate financial concerns rather than long-term benefits. This supports the Psychometric Theory proposed by Kahneman and Tversky (1979), which suggests that cognitive biases play a significant role in decision-making under uncertainty.

Conclusion and Implications

This study investigates the various organizational, demographic, and psychological factors influencing life insurance policy surrenders, highlighting the critical role of both insurance companies and agents in mitigating these occurrences. The findings underscore that economic factors are the predominant drivers of policyholder surrender behavior, surpassing other potential causes. The impact of the COVID-19 pandemic, which significantly affected household incomes, was a key factor in motivating policyholders to surrender their policies, even when these policies were not initially intended to provide immediate financial relief.

Other contributing factors include social influences such as advice from family members, neighbors, and friends; knowledge gaps regarding the policies; insufficient information about policy benefits; and financial stress due to personal or family crises. Moreover, poor service quality, lack of counseling from insurance companies, and insufficient follow-up from agents during times of crisis further exacerbate surrender rates. While economic factors were found to be the most significant, issues such as distrust in receiving claims, fear of negative incidents, and poor relationships with agents and companies also contribute to the decision to surrender policies. These findings suggest that insurance companies must address both economic and non-economic factors to reduce policy surrender rates effectively.

This study is the first of its kind which tries to identify major reasons for policy surrender in the Nepalese context, and makes a significant contribution to the literature on the motives behind policy surrender and risk perception. By exploring policyholder behavior during the pandemic, the study offers insights into how external shocks and changes in consumer behavior can impact long-term insurance strategies. These insights can guide the redesign of business processes, allowing insurance companies to better align their practices with evolving consumer needs and expectations.

The implications of this research are far-reaching. Insurance companies can use these findings to address firm-specific challenges, improve agent training, and enhance the quality of customer service to reduce surrender rates. Regulatory bodies can also utilize this information to develop policies that encourage better communication between insurers, agents, and policyholders. Furthermore, understanding the factors influencing policy surrender will assist insurers in creating more effective risk management strategies, ensuring the sustainability of their operations and enhancing their relationships with policyholders. By addressing both the economic and psychological factors that contribute to policy surrender, insurers can build a more resilient and trust-based relationship with their customers, ultimately reducing the negative impact of surrenders on their long-term business success.

Limitation and Further Research

Although this study is a pioneer, it has many limitations. First, the data were collected from eight cities of Nepal, thus the rural, and semi-urban people's opinion insights, have been left out. Second, because of the cross-sectional design, the policyholder behavior has been measured at one point in time. The study is not free from these all biases and limitations that are inherent to the survey study. Finally, the long-term impacts of policy surrender on financial stability, both for insurers and policyholders, have not been studied in depth. The study on the pandemic period may not give similar views during the non-pandemic period. Future research should address the problems of the surrender to the entire life insurance industry integrating the secondary data with the primary data based on the opinion of the different stakeholders of the industry. Researchers should also explore the role of technology, such as digital tools, in reducing surrender rates through improved customer engagement. Finally, a comparative study among the provinces, and between the rural and urban areas will be fruitful to the policymakers.

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Conflict of Interest

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