PRODUCT FEATURES, PROBLEMS AND PROSPECTS OF INSURANCE RETIREMENT PLANS IN SRI LANKA

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Abstract

The insurance retirement plans can play a significant role providing financial security for the people at their old age in the context of the rapid increase of the ageing population in Sri Lanka. The reduction of income at the old age is a serious problem to the person and his family. The life insurance provides old age funds along with the protection of the family by issuing various policies including retirement plans. At present, different types of retirement plans are offered by the life insurance companies in Sri Lanka and it was examined that the benefit options and the cover provided by the insurance companies varies company to company.

The statistical data of the Insurance Regulatory Commission of Sri Lanka indicates that, the penetration of the Gross Written Premium (GWP) of the long term insurance as a percentage of Gross Domestic Product (GDP) remains in the low level around 0.5% during few years. According to the views of the insurance managers of life insurance companies, approximately 10% of the total life insurance policies sold consist of retirement plans. Accordingly, the objective of this paper is to

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analyze the product features and the life insurance managers' views about the problems and future prospects of insurance retirement plans offered by the insurance companies in Sri Lanka, examine the demand for the retirement plans offered by the insurance companies and to identify the factors affecting for the low level of sales of the same products by the long-term insurance companies in Sri Lanka and to make the recommendations for further development of the product and the sales .

Twenty five managers form five insurance companies to represent top seven premium generators in long-term insurance were selected using purposive and snowball sampling techniques to collect the data about the product features, problems and future prospects of insurance retirement plans offered by the insurance companies in Sri Lanka. It was revealed that, most of the available retirement plans of insurance companies are not matching with the need of the customers. Some companies provide monthly pension as retirement benefits only for a predetermined certain period of time and other companies provide lump sum payment. Only one company has life time pension option. Only few companies provide guaranteed benefits and many of the companies cannot guarantee the future retirement benefits due to not having stable financial instrument for the long term investment. Some companies are offering many additional covers and others are not providing such benefits. Many companies have given prominence to endowment plans and term assurance. It was observed that, customers are willing to purchase retirements plans. But product features do not match with the customers' needs. Managers of the insurance companies have identified the demand for retirement plans. But they are not properly promoting the product.

Key words: Insurance retirement plans, customer demand, problems, future prospects

1. Introduction.

The population ageing will become one of the greatest challenges creating many socioeconomic implications at individual, family and societal level during the coming few decades due to rapid increase in ageing population in Sri Lanka. Insurance provides safety and security against the loss on a particular event. The loss to the family at a premature death and payment in old age are provided by insurance. In other words security against premature death and old age sufferings are provided by insurance. The provision for old age is required when the person is surviving more than his earning period. The reduction of income at the old age is a serious problem to the person and his family. The life insurance provides old age funds along with the protection of the family by issuing various policies. Insurance retirement plans can be treated as one of the important financial security system to provide financial support along with the protection of the family and health care during the period of inability to work due to old age.

Insurance market in Sri Lanka consists of 28 insurance companies registered and out of these, two companies were registered as composite insurers, carrying on both life insurance and general insurance business, thirteen companies registered to carry on long term (life) insurance business and the balance thirteen companies registered to carry on general insurance business (IRCSL, 2017). At present, different types of retirement plans are offered by the life insurance companies in Sri Lanka and it was examined that the benefit options and the cover provided by the insurance companies varies company to company.

According to the statistical review of the Insurance Regulatory Commission of Sri Lanka, total Gross Written Premium (GWP) has grown by 15.07% to Rs. 164,623 million in 2017 compared with Rs. 143,067 million in 2016. During the year 2017, long term insurance business had generated total Gross

Written Premium (GWP) worth Rs. 71,504 million showing a growth of 12.65% compared to the year 2016. The penetration of total Gross Written Premium (GWP) as a percent of GDP in 2017 was 1.24% and the penetration of GWP of long term insurance premium as a percent of GDP in 2017 was 0.54%. The life insurance industry mainly depends on the contribution of the insurance agents. During the year 2017, total number of agents were 44,866 and they have collectively contributed to 87.94% of the total GWP of the long term insurance. Other distribution channels of long term insurance were brokers, direct marketing, banc assurance and others and those channels have contributed to GWP in long term insurance business respectively, 0.79%, 4.52%, 5.97% and 0.78%. The total number of employees servicing the insurance industry amounted to 16,896 and out of which more than 60%of the total employees servicing the insurance companies are located in the Western Province. Retirement plan is one of the products offered by the insurance companies apart from the other major types of life insurance plans such as term assurance, whole life and endowment plans.

2. Research Problem

Demographic ageing is one of the most important key issues in the 21st century and it has many socioeconomic implications at the individual, family and societal levels. The number of older people in Asia is expected to increase by 66 percent in 2030 and Sri Lank is one of the rapid ageing societies in South Asia (UNFPA, 2017). World Bank (2008) estimates that by 2050, the share of Sri Lankan population over 60 years of age will reach to 28.5 percent. The demographic transition in Sri Lanka expect an increase in the ageing population where one out of every four persons will be an elderly person in another two decades' time. This will result in creating demand for insurance products especially on health and pension (IRCSL, 2017).

According to the Insurance Regulatory Commission in Sri Lanka (IRCSL) 2017, the demand for insurance in Sri Lanka is relatively dependent on the level of disposable income of the customers. The low level of disposable income coupled with lack of awareness, inefficiencies in insurance policy management, availability of certain social security benefits and community based society has not positively moved the penetration level and remains stagnant around 1% during the last decade. The IRCSL or long-term insurance companies do not publish product-wise information regarding the number of life insurance policies issued and the product-wise premium income earned. However, according to the views of the insurance managers of life insurance companies, approximately 10% of the total life insurance policies sold by their companies consist of retirement plans. Accordingly, the problem of this study include, why there is low demand to purchase retirement plans offered by the insurance companies and what are the problems of existing retirement plans and the prospects for future growth of the demand for insurance retirement plans in Sri Lanka.

3. Research Objectives

The objective of this paper is to analyze the product features and the life insurance managers' views about the problems and future prospects of insurance retirement plans offered by the insurance companies in Sri Lanka, in order to identify the demand for the retirement plans offered by the insurance companies and to identify the factors affecting for the low level of sales of the same products by the long-term insurance companies in Sri Lanka. Further, one of the other objectives of this research is to make some recommendation to further development of the product and sales of the same product.

4. Literature Review

The aim of this section is to briefly discuss the theoretical and empirical finding on the factors determining the demand for life insurance. Insurance retirement plan is one of the products promote by the life insurance companies in order to provide living benefits for their customers particularly during their retirement age as a lump sum payment or series of payment for a predetermined period of time or for a life time of the customer. In the context of the rapid increase in ageing, people will have to face for variety of socioeconomic implications during their older ages. Emmitt & Therese (2003) examine that people are living longer however, they are retiring earlier. Some people have financial strength in retirement. But majority of retired people are not having such financial strength at their retirement life. Irina Kerr (2001) examine that, retirement and financial security are very important national issues and the nation's response to today's social, demographic and economic pressure will profoundly affect the quality of everyone's retirement life. Rejda (2008) has identified risk of premature death, risk of poor health, risk of unemployment and risk of insufficient income during retirement as major personal risks and the majority of workers experience a substantial reduction in their money income when they retire, which can result in a reduced standard of living. Insurance retirement plans offered by the insurance companies are the most important tools to replace the loss of income during retirement (Dican& Cater, 1992).

Harrington and Niehaus (2003) classify personal risks into six categories such as earning risk, medical expense risk, liability risk, physical assets risk, financial assets risk, and longevity risk. Earning risk refers to the potential fluctuation in a family's earnings, which can occur as a result of a decline in the value of an income earner's productivity due to death, disability, ageing, or change in technology. Insurance cannot eliminate or reduce the uncertainty of the individual as to whether the event will occur, nor does it alter the probability of the occurrence, however insurance does reduce the probability of financial loss connected with the event (Emmitt & Therese, 2003). Therefore, life insurance is one of the unique saving and investment instrument and important personal risk management technique

According to the life-cycle hypothesis of Ando & Modigliani (1963), individuals plan their saving behavior over the long-term. Since, income varies over the individual's life cycle, savings differs depending on the individual's age. Life insurers provide traditional life insurance policies such as term life, a policy lasting a specified period, whole life, a policy without expiration, combined with an invested saving plan, universal life, a policy allowing the policy holder to use interest to cover premium, as well as other life policies with additional features to the aforementioned options (cited at Vantage, 2014). The rapid increase in the population of retirement age also plays favorably to the industry as we can expect to see a higher volume of annuities and other investment products.

The basic theoretical conceptualization of the demand for pure life insurance, in the form of annuities, is Yaari's model (1965). The optimal solution for the household is to subscribe to an annuity. Life insurance becomes more affordable when income grows. Beck and Webb (2002) state that, an individual's consumption and human capital typically increase along with income, creating a greater demand for life insurance. Generally the income that would be losing as a result of death, retirement, disability or unemployment can be replaced up to certain extend through life insurance. Therefore, life insurance is a common approach for replacing such income. Curaket. al., (2013) investigate that, although life insurance serves as a method of individual risk management against death risk, most of the life insurance products are saving instruments with pension insurance and repayment of mortgage. Gandolfit and Miners (1996) predicts that, demand for life insurance could vary among men and women based on difference in lifetime. Marital status has also been found as an influencing factor for the demand for life insurance from both the individuals and households. Mantis & Farmer (1968) expected that, married men would spend more money on life insurance than single men. But the result of the analysis has indicated negative relationship between marriage and the demand for life insurance. Interest rate is one of the most important factors affecting the demand for life insurance. A higher level of real interest rate increases life insurers' investment income and the profit. In turn life insurers can offer greater profits to their life insurance policy holders. On the other hand, rise in interest rates might reduce the demand for life insurance as higher returns on investment may lead to switch customers to other alternative investment sources (Lenten and Rulli, 2006 cited at Jordan Kjosevski, 2012). On the other hand rise in inflation discourages the peoples' motive for savings leading to negative impact on the demand for life insurance Outreville (1996), Beck and Webb (2002).

5. Research Methodology

Positivism research philosophy is appropriate for this research as the problem and the objectives of this study are directly related to the socioeconomic phenomenon and therefore positivist approach is adopted in this study. Since the research objectives are focusing on the demand for insurance retirement plans and problems and prospects of insurance retirement -plans offered by the insurance companies in Sri Lanka, to explore the knowledge in these issues it is necessary to get the views and opinions of the life insurance managers.Accordingly, primary data collection technique was used to collect the required data to analyze the product features, demand, and the life insurance managers' views on insurance retirement plans offered by the insurance companies.

The population of this study is the life insurance managers of insurance companies is Sri Lanka and a sample of twenty five managers from the five insurance companies were selected using purposive and snow ball sampling methods. The researcher believed that, the views of the insurance managers are important when identifying the problems and prospects of retirement plans offered by the insurance companies in Sri Lanka. The five insurance companies were selected based on the market share of Gross Written Premium (GWP) and the five companies were selected to represent top seven premium generators in long term insurance to collect the data from the managers of those five companies. These five companies are denoted as 'Insurance Company A' 'Insurance Company B', 'Insurance Company C', 'Insurance Company D' and 'Insurance Company E'. Face to face interviews and the focused group interview methods were used to collect primary data from the insurance managers. Focused group interview method was applied to collect primary data from the managers of two insurance companies and face to face interview method was used to collect primary data from the managers of three insurance companies. Use of qualitative research techniques aims to get a better understanding through firsthand experience, truthful reporting, and quotations of actual conversations of the deep discussion with insurance managers of five insurance companies which are on the top in life insurance market in Sri Lanka.

In this study, qualitative data analysis technique was used to analyze the data collected from the managers using semi-structured focused group and face-to-face interviews. Since, in-depth and open ended questions were asked from the managers, their answers were audio recorded and the audio recorded answers were transcribed to reproduce as a written document using actual words. In this task the researcher took into account the tone in which it was said and participant's non-verbal communications. In-house transcribing was done on the same day after the interview to maintain the accuracy. Accordingly, product features of different retirement plans are analyzed under separate heading and the managers' views are discussed to examine the problems and future prospects of insurance retirement plans in Sri Lanka.

5. Retirement plans of Insurance Companies

5.1 Product Features, Problems and Prospects of 'Insurance Company A'

5.1.1 Product Features

Insurance Company A is one of the leading company in the long term insurance market in Sri Lanka and it has more than three decades experience in the transaction of life insurance products in the country. The company has introduced a range of life insurance plans in order to cater the customer requirements. The company operates with island wide regional and branch networks and the company remains as a reputed insurance organization with many structural changes including legal entity. The retirement plan of the Company A promotes the product through the distribution channels mainly through agents. The product features and the life insurance managers' views are discussed in this analysis and those are listed below.

Age Limit: The minimum age limit for the enrollment in this pension plan is 18 years and the maximum age limit is 65 years. Minimum retirement age is 45 years and the maximum retirement age is 70 years. At the commencement of the policy, the customer has the option to select his retirement age and the premium paying term.

Premium payment**:** The premium depends on the expected monthly pension for the insured, age of the insured at the commencement of the policy and the premium paying term. The minimum premium paying term is 5 years and the maximum term is 40 years. Customer has the option to select the premium paying term.

Retirement Benefits: The main benefit of this policy is the guaranteed monthly pension paid by the Company to its policy holder. Minimum pension payment period is 5 years and the maximum term is 20 years. Explaining about the flexibility of this retirement plan, one of the managers of the focused group stated *"Policy holder has the opportunity to select the retirement age and pension receiving term. Minimum age of receiving pension is 45 years and the maximum age is 90 years. For example, if the customer joins with this pension plan at the age of 50 years he can pay the premium until he reaches 70 years. Then the pension payments will be started at the age of 70 years. If the customer has selected pension receiving term as 20 years, the Company will pay the pension to the insured until he/she reaches 90 years".*

It is revealed that, the customer has the option to select the pension receiving term as 5, 10, 15 or 20 years. Accordingly, the policy holder has the option of choosing a pension receiving period between 5-20 years. The monthly income can be made available to a beneficiary in case of the sudden demise of the policyholder during the income receiving period.

Answering the question of "What are the benefits available, if the life assured dies during the premium payment period?, one of the managers of the group stated *"If the customer dies during the premium payment period, in such a circumstances the surrender value or the premium paid amount whichever is higher will be paid".* Further he stated that, "*If the life assured dies after commencement of pension payment, the balance amount is paid as pension to the spouse or nominee of the insured. However, spouse cannot be covered by this policy"*

Bonus: A bonus is provided to the holder at the end of the pension payment period. The bonus is declared for an equal sum of 100 times of the guaranteed monthly pension. According to the information given by the managers, this bonus cannot be withdrawn until the last pension payment is made.

Inflation Guard: The retirement plan has an in-built inflation guard. Accordingly, the monthly pension is guaranteed to be increased by 5% annually on compound interest rates. However, the premium remains constant all over premium paying term.

Additional Benefits: Company provides number of additional benefits with their retirement plan. However, these additional benefits are optional covers and the insured should pay extra premium to enjoy the benefits of these additional covers. It was revealed that, following covers could be obtained by the policy holder as additional benefits;

Critical Illness Cover: The Critical Illness Cover (CIC) could be obtained by the policy holder with the retirement to cover the expenses relating to consultation and hospital charges for 20 critical illnesses specified by the Company up to a maximum of Rs. 1 million. The benefit under this cover is paid in the event of the insured person is diagnosed for the first time for a critical illness mentioned in the policy document within 30 days from the commencement of the pension policy.

Hospitalization Cover: The Hospitalization Cover provides daily financial benefits maximum for a period of 180 days due to hospitalization of the insured. The minimum benefit amount per day is Rs. 500 and the maximum amount per day is Rs. 5,000. In case of admission to the Intensive Care Unit, the cover will be doubled. The benefit amount will depend on the premium payments for this additional cover.

Family Protection Cover: The Family Protection Cover is an additional life cover which provides financial benefits for a maximum of 10 times the sum assured (sum assured equals to 100 times of monthly pension) up to a maximum of Rs. 10 million in case of death due to accident or natural causes of the policy holder.

Extended Permanent Disability Benefit (EPDB): The Extended Permanent Disability Benefit provides a regular payment in case of permanent disability due to accident or sickness. This sum can be equal to the total sum assured (100 times of the monthly pension) up to a maximum of Rs. 25 million. In case of permanent disability, the premium is waved and the policy continues until retirement benefit is received. The total Extended Permanent Disability Benefit (EPDB) taken will be given to the life assured in monthly or quarterly installments spread across 10 years. If the death of the life assured occurred during the premium paying term, the balance of EPDB will be paid to the beneficiary.

Surrender Value: The policy holder can surrender this pension policy after payment of premium at least for one year. Managers stated that, since, the bonus is not declared annually for this pension policy, the surrender value is much less than the other types of life insurance plans.

Policy Lapsation and Revival: The pension policy becomes lapsed due to non-payment of due premium for six months. However, the policy holder has the option to revive the lapsed policy within 5 years after lapsation. In such circumstance, the entire arrears premium and the interest thereon should be paid by the policy holder. One of the managers of the focused group stated that, "If the policy lapsed before completion of premium payment for three years, there is no cash value of the pension policy.

Demand for the pension plan: During the interviews, almost all life insurance managers in the focused group agreed that there is a good demand for the pension plan offered by the company. One of the managers of the group stated *"Since, the vast majority of the labour force involved in non-pensionable private sector and self-employment, there is a very good demand and a very good potential market for insurance retirement plans in Sri Lanka. This demand is further increased due to the fact that a less number of care givers available in the families to look after the elderly people in* *the country"*. Furthermore he added that, *"the customers are mostly preferred for the living benefits like pension at retirement age than death benefits"*. They said that approximately 15% of the total number of life insurance policies sold consists of pension policy.

5.1.2 Problems identified and actions recommended by the Insurance Company A

In this research it was revealed that, the payment of life time pension is the biggest problem faced by the Insurance Company A. Expressing the views on this matter one of the managers of the focused group stated *"The main problem is that it is difficult to give the pension for life time. Because, at present the life expectation of the people in our country is high. People are living for 80 or 90 years. The government can give a pension. Because the government is giving pension by collecting direct or indirect taxes. We have no such options. No long term investment instruments. The interest rates of the market are always fluctuating. At present we can decreasing trend of the interest rates. So, how can we guarantee the pension for life time"*. It was revealed that, non-availability of long term investment instruments and the non-stability of the interest rates of the financial market are mainly responsible for not offering life time pensions for the customers. According to the views of all the managers of the focused group, the company will be able to attract more customers if they offer life time pension for their customers. At present, the Company A provides monthly pension only for a fixed term between 5 – 20 years which is decided by the insured.

Further, they suggested giving a lump sum for the customer after the premium payment period. That will be at the maturity date of the pension policy as an alternative for the monthly pension. This type of option is not available at present for the customers of the Company A. Furthermore, they suggested a pension for the customer immediately after the payment of a single premium. This is somewhat like an immediate annuity. Above mentioned three options are not available with the Company A at present.

In addition to the above options, they suggested that, the government should promote these types of voluntary private pension schemes and the government should give tax relief for insurance retirement plans. Expressing the views on this matter one of the managers of the focused group stated "*the government should give concessionary tax relief for the insurance retirement fund. No sufficient tax benefit to the customer for the premium payments and there are no long term investment instruments. Financial market is also not stable. So, the government should make necessary actions to stable the interest rates of the financial market condition in the country*

5.2 Product Features, Problems and Prospects of 'Insurance Company B'

5.2.1 Product features

The Insurance Company B has more than 30 years' experience in the field of life insurance business. The company operates with island wide regional and branch network offering different types of life insurance products through its own distribution channels. The product features and the life insurance managers' views of the Insurance Company B are discussed in this analysis and those are listed below

Age Limit: Minimum age limit for the entry to Company's retirement plan is 18 years. Standard upper age limit is 60 years. However, the managers of Company Bstated that, the upper age limit for the enrollment in this retirement plan is changing from time to time.

Premium payment: The premium can be paid monthly, quarterly, half yearly, annually or as a single payment. The minimum premium is Rs.1000and the premium should continuously be paid until the policy reaches maturity. Managers of the company stated that top-up payments are also allowed. It means if the customer having an extra income, he can deposit additional money to his retirement fund.

Retirement Benefits: According to the information given by the managers of Company B, there are mainly two options available for the customers. Those two options include a lump-sum payment or a series of payments. If the customer wishes to obtain the total retirement benefits as a lump-sum payment, then the company will pay the total amount in policy holder's retirement fund at maturity as a lump-sum payment. If not, the Company will pay retirement benefits as a monthly pension according to the customer's preferred option.

Additional Benefits: The Company does not provide additional covers for this retirement plan. One of the managers of the Company stated *"We do not offer supplementary covers. Because, this is a retirement policy. Our main objective is to give maximum benefits for the retirement age of the customer. If the company provides additional covers for this retirement plan, then additional premium should be charged. Ultimately the retirement benefits will be low. However, Total Permanent Disability Benefit is added to the policy. This benefit is in-built in the policy. In case of total disability of the policy holder due to accident or sickness the company pays the premium to the policy holder's account and the policy remains in force until maturity or until the death of the assured whichever occurs first. In case of such total disability, we pay 125% of the amount which the customer has already paid as premium or the account balances whichever is higher. No any other supplementary covers are issued for this retirement plan".*

Surrender value: Customer has the opportunity to surrender his retirement policy after payment of the premium for one year and when he required. In such circumstance surrender value varies according the premium paying term. Expressing views on this matter one of the managers in the group stated *"Customer can surrender the policy. In such case company will pay 95% of the account balance if the policy is surrendered after payment of the premium for 5 years. Surrender value after payment of the premium for the 1st year is 55%".*Further, it was revealed that the surrender values for the second year, third year and fourth is 65%, 75% and 85% of the retirement account balance of the policy holder respectively

Policy lapsation and revival: At the focused group discussion, one of the managers stated "*This retirement policy does not lapse due to nonpayment of premium. If the customer is not paying the premium, the policy remains in force until maturity and the available benefits will be received by the policy holder at the maturity. Further, the policy holder can revive the policy by paying the arrears of premium at any time during the policy period".*

Demand for the pension plan: During the discussions, members of the focused group stated that there is a demand for the retirement plan offered by the company. One of the managers stated *"However, it is not a greater demand. If the people aware about this product they will buy it. Therefore, our sales agents have to convince the customers to by this product*". He further stated that, *"since the monthly pension is entitled only for the fully government sector employees, there is a good demand for the retirement plans offered by insurance companies".* According to their statistical data, 8% - 10% of the total life insurance premium income consists of retirement plans.

5.2.1 Problems identified and actions recommended by the Insurance Company B

The managers participated in the focused group discussion stated that, there was no any difficulty in selling retirement plans. One of the managers of the focused group stated *"Our product is the best retirement plan available in the life insurance market in Sri Lanka. One of the problems that we are facing at present is the difficulty in guarantying the monthly pension. The main reason for this* *problem is the fluctuation in the interest rate. Monthly pensions are decided on the basis of conservative assumptions. The company can declare the guaranteed lump sum amount for the next 12 months. There are no long term investment tools. Investment instruments available are confined to maximum of 10 years. It is difficult to earn a substantial income from short term investments. Further, the government does not provide tax relief for the retirement plans. These are the problem that we are facing now".*

The group of the managers in the discussion mentioned that, their retirement plan is the best product in the market. Therefore, there are no suggestions to develop their product. However, their suggestion is for streamlining the financial market. They suggest that it is necessary to stable the interest rates for the long run as well as for short sun. They further suggest granting tax relief for the retirement funds of the insurance companies. Expressing the views on this matter one of the managers stated *"Particularly, the government should make an effort to increase the awareness of the significance and usefulness of the retirement plans. Private sector has no proper pension system. Government can tell the public about the importance of retirement plans and educate the people about private pension schemes. Government should promote the banks and insurance companies to promote retirement plans. I believe that products in the market are assisted with international standards. Further, increasing the commission for agents is also not feasible. Because, when we increase the commission, then the benefits for the customers will have to reduce".*

Further he stated "*The Government should promote the companies to set up retirement plans and provide tax relief. Next thing is that, we don't have long term investments. All are short term investments. But retirement plans are long term products. From the short term investments we can't get higher returns. Our financial market is not so developed. So there are some investment problems too. Our country should have a good stable financial market. Because of fluctuations in the rate of interest, we can't guarantee the return for the customers".*

5.3 Product Features, Problems and Prospects of 'Insurance Company C'

5.3.1 Product Features

The Insurance Company C has more than three decades experience in the field of life insurance and the legal entity of the company has been changed several times. However, the company remains as a well reputed life insurance company offering variety of life insurance products to satisfy its customers' needs. The product features and the life insurance managers' views of the Insurance Company C are discussed in this analysis and those are listed below

Age Limit: The minimum age at entry for the Company C's pension plan is 18 years and the maximum age limit is 50 years. The customer has the opportunity to select retirement age. Minimum retirement age is 33 years and the maximum retirement age is 65 years. At the commencement of the policy, the customer has the option to select his retirement age and the premium paying term.

Premium payment: Minimum annual basic premium is Rs.10, 000 and the premium can be paid monthly, quarterly, half yearly or annually. The policy holder should pay the premium for a minimum period of 15 years. Maximum premium paying term is 47 years. Because, minimum entry age is 18 years and the maximum retirement age is 65 years.

Expressing the views the one of the managers stated *"The important feature of this policy is that the customer has the option to top up the fund paying additional amounts when he can do so. During the premium paying term, the customer can increase the pension fund via top-up premiums. The minimum single payment for top-ups is Rs. 10,000".*

***Retirement Benefits*:** The main benefit of this policy is the monthly pension paid by the company to the policy holder after completion of the premium paying term. Explaining about the monthly pension benefit, one of the managers stated *"the minimum pension payment period is 10 years and the maximum term is 30 years. Policy holder has the opportunity to select the pension receiving term. Minimum pension receiving age is 33 years and the maximum term is 95 years. For example; when the customer joined this pension plan at the age of 18 years if the minimum premium paying term is 15 years, then the customer is entitled to receive the monthly pension at the age 33 years. If the customer joined with this pension plan at the age of 50 years, he should pay the premium until he reaches 65 years. Since the maximum pension receiving term is 30 years, in this type of circumstance the policy holder can receive the pension until his age becomes 95 years. These are other unique features of the retirement plan offered by our company"*.

Inflation Guard: The managers of the Company C stated that, an in-build inflation guard protects the life assureds' pension fund against inflation even in the unforeseen event of the death or total permanent disability of the policy holder. Inflation guard is designed to protect the policy holder's pension against the inflation. At the commencement of the pension policy, inflation guard is set at 5%, which means annual basic premium and premium protection benefit will increase by 5% each year. From the second policy year onwards policy holder will be able to maintain inflation guard at 5% or change the annual percentage to 0%, 10% or 15% effective from the next policy anniversary.

Loyalty Reward: It was revealed that Insurance Company C is rewarding customers by offering some form of bonus for the payment of premium for a longer period. One of the managers of the company stated *"If the customer has paid the premium continuously for ten years 25% of the accumulated fund balance is added to his retirement fund. This amount is given at the maturity of the pension policy"*.

Additional Benefits: Insurance Company C provides number of additional benefits with their pension policy. However, these additional benefits are optional covers and the customer should pay extra premium to enjoy these additional benefits. The following covers include the additional benefits;

Income Protection Benefit: Income Protection Cover is the other important feature of this pension policy. One of the managers of company*" If the customer has purchased this cover, a fixed amount is paid monthly for his spouse or nominee until pension payments commenced if the customer dies or become permanently disabled due to accident or sickness during the premium payment period. Since this is an additional cover, an additional premium should be paid for the Income Protection Cover. Income Protection Benefit is paid maximum for 10 years or until the pension payment is commenced whichever period is less"*. Further he stated *"Income Protection Cover should be a maximum of annual premium or Rs. 100,000 whichever is less.*

*Accidental Benefit***:** Additional life cover is provided in the event of accidental death. Further, at the event of the permanent disability due to accident, the future payment of premium is waved by the company.

Hospital Income Benefit: Under this cover, the company provides cash payments up to a maximum of Rs. 8,000 per day from the first day onwards if the policy holder hospitalized for over three days.

Adult Surgery Benefit: The Company provides financial support to the policy holder and his/her spouse for 250 listed surgeries performed in Sri Lanka, India or Singapore.

Critical Illness Cover: Financial support will be provided by the company to the policy holder and his/her spouse for critical illness. This additional cover can be obtained subject to a maximum of Rs.1.5 million.

Spouse Life Cover: Company provides life cover to the spouse of the policy holder for an additional premium subject to certain limits.

Child Health Care Benefits: Company provides financial support for 250 listed surgeries performed in Sri Lanka, India or Singapore. In addition, it provides cash for hospitalization and a special allowance will be paid if a parent stays at the hospital with a child under 12 years.
Surrender Value: One of the managers stated *"If the customer needs, he can surrender the policy. For that purpose 3 years premiums should have been paid continuously. The surrender value will be approximately equal to 30% of the total premium paid for the basic sum assured and not for the additional covers. Basic sum assured equals to the double value of the annual premium. Additional sum assured can be obtained for a maximum of ten times of the basic sum assured"..*

Policy Lapsation and Revival: If the policy holder does not pay the premium within the grace period of 30 days during the first three policy years, the pension policy will lapse and the policy holder will not receive any benefit under the policy.
However, the policy holder has the option to reinstate the policy subject to policy conditions. If the policy holder has continuously paid the premium for three years or more, he or she can surrender the policy. Alternatively, the policy holder can let his fund grow without the life cover and receive a pension based on the fund value at retirement.
Demand for the pension plan**:** During the interviews, almost all the life insurance managers stated that there is a good demand for the pension plan offered by the company. One of the managers stated *"Since the vast majority of the labour force is involved in non-pensionable private sector and self-employment, there is a very good demand and a very good potential market for insurance retirement plans in Sri Lanka. This demand is further increased due to the less number of care givers available in the families to look after the elderly people in the country".* Furthermore, he said *"The customers prefer the living benefits like pension at retirement age than death benefits".*

5.3.2 Problems identified and actions recommended by the Insurance Company C
One of the managers of Insurance Company C, expressing his views stated *"there are no big problems in our retirement plan. However, some customers are asking about life time pension. But we are providing pension only for a certain period. Because, most of the people are living for a longer period, it is difficult to predict the future financial obligation to pay pension for life time. However, customers are asking for life time pension. Other problem is the surrender option. If the customer does not pay the premium at least for three years, there is no value in the policy. If the policy becomes lapsed it can be revived. But at present there is only a general revival system".*
Expressing the views at the interview, one of the managers said *"Another problem is the minimum premium payment period. We have identified that the minimum premium paying term of 15 years is too long for some customers. Most of the customers are willing to pay premium for a shorter period and receive the monthly pension for a longer period.* Further he mentioned that, "*Frankly speaking the minimum pension receiving age 33 is not so realistic. Our main objective is to provide a monthly pension to our customers at their retirement life.*
It was revealed that, non-availability of a pension plan for the customer's life time is one of the problems faced particularly by the agents of the company when they are marketing the product. Therefore, almost all the managers at the interview suggested expanding the pension policy up to customer's life time.
Another limitation is that, at present Company C does not pay anything at the time of the permanent disability of the customer. However, the payment of future premium is waved due to permanent

disability. Expressing the views on this matter one manager stated "*We do not pay anything to the customer at the time of the total permanent disability due to accident or sickness. What we are doing is wave off the premium. It's better if we can pay something at that time too. Further, there is no life cover for the pension receiving term. It will be more valuable if we can add that option too".*
Almost all the managers stated that, most of the customers prefer to pay the premium for a shorter period of time and receive the pension benefits for a longer period. One of the managers said that, "*I feel that the minimum premium paying term should be reduced at least to 10 years. Now it is 15 years".*
Further the managers of insurance Company C suggested revising the revival system. At present they have only a general revival system. Under that method, the lapsed pension policy can be revived paying the entire premium arrears. (The company does not charge interest for those premium arrears). Managers suggested introducing special revival scheme too. Under the special revival system, the pension policy can be revived without collecting arrears premium. However, the new premium has to be calculated to current age of the policy holder and the lapsed policy period is extended to future period.

5.4 Product Features, Problems and Prospects of 'Insurance Company D'

5.4.1 Product Features

The Insurance Company D is also having many more years' experience in the field of long term (life) insurance business. The Company D also operates its insurance business through island wide regional and branch networks offering a range of life insurance products to the customers' needs.
The Insurance Company D has focused mainly on short term and long term investment plans and they are not offering retirement plan in order to provide the benefits as monthly or quarterly pensions. Explaining about the features of the products offered by the Company, one of the managers of the company stated *"Frankly speaking, we are not having pension plans. We are promoting some products as retirement plans. But there are no pension benefits. We concentrate on endowment plans and term assurances plans. Customers mostly prefer to short term policies and they expect lump sum payments within a shorter period of time. Our sales people too prefer to sell investment policies"*
Replying to the question "why your company has not introduced retirement plans for your customers"? One of the managers of the company stated "*we are planning to introduce a pension plan. Our company has realized that, there is a good demand for the retirement plans offered by the insurance companies. But, the problem is how we guarantee the future pension benefit to the customers. We cannot predict the market conditions. Return on investment is frequently fluctuating. That is why we mostly promote short term policies".*

Accordingly, it was revealed that, there is no retirement plans with the Insurance Company D.

5.5 Product Features, Problems and Prospects of 'Insurance Company E'

5.5.1 Product Features

The Insurance Company E was established before more than two decades with prior experience in the field of insurance. The company has introduced a new pension replacing their previous retirement plan in order to fulfill the customer requirements. The company operates through island wide regional and branch offices offering variety of life insurance products to their customers. The product features and the life insurance managers' views of the Insurance Company E are discussed in this analysis and those are listed below

Age Limit: The minimum age limit for the enrollment in the pension plan of Insurance Company E is 18 years and there is no maximum upper age limit. This is one of the salient features of this pension plan. The customer has the opportunity to select the retirement age. However the minimum retirement age is 55 years. At the commencement of the policy, the customer has the option to select his retirement age, premium paying term and the pension receiving term.

Premium payment: The premium amount depends on the expected monthly pension for the insured, age of the insured at the commencement of the policy and the premium paying term. The pension policy holder can pay any amount at any time to the pension fund. Top-up payments are also allowed. If the customer is having additional money, he/she can deposit that money in his/her pension fund. If the customer discontinues the premium payment to the pension policy, then he/she can withdraw the money subject to payment of premium at least for one year.

Retirement Benefits: The main benefit of this policy is the monthly pension paid by the Company to the policy holder after completion of the premium paying term and, with the commencement of the monthly pension payments. However, the customer has the option to withdraw the entire pension fund as a lump sum at the maturity date of the pension policy. Further, the policy holder has the opportunity to withdraw part of the pension fund as a lump sum and to receive the balance as a monthly pension.

Explaining about the benefits of the scheme, one of the managers of the Company E stated *"There are two options available for pension benefits. That is pension for a fixed term and the pension for life time. If the customer selects the fixed term, the company has offered three options such as pension for 10 years, 15 years and 20 years. The customer should decide the pension receiving term at the end of premium paying term. The minimum retirement age is 55 years and the customer has the flexibility to decide the retirement age beyond 55 years".*

Managers of the same Company stated that, if the life assured died during the premium payment period, the company would pay the accumulated fund and the sum assured. The sum assured is declared for every 12 months by the company. When the time passes the sum assured for the forthcoming year becomes bigger than for the previous year. Accordingly the accumulated pension fund increases gradually. When the policy holder dies, his dependents may receive more than he paid as premiums to the company..

When the life assured dies before the death of the spouse, the pension benefits may be transferred to the spouse of the life assured for the remainder of the fixed term or his/her life time.

Loyalty Bonus: The Company offers loyalty bonus to encourage the customers to continue the pension plan. Explaining about this matter one of the managers of the company stated, *"We are offering a loyalty bonus for the pension policy holders. It means if the customer is paying the premium regularly without arrears, a 5% loyalty bonus is given after the payment of premium continuously for 5 years.*

Inflation Guard: Explaining about the inflation guard one of the managers of the company stated *"Our pension policy is not an indexed plan. The Company declares the pension for 12 months of the first year. From the second year onwards the pension fund may increase due to the interest declared by the company. That interest rate depends on the financial market conditions and the income earned by the company. If the earned interest amount by the company is increasing each year, the pension may also be increased gradually. If the Company can earn a better rate of interest than the previous year, then the company will be able to offer better rates for the customer too.*

Additional Benefits: The Insurance Company E does not provide additional covers with their pension policy. Expressing the views in this regards, one of the managers of this company said *"We do not provide additional covers or the rider covers with this retirement plan. Because, we concentrate only* *on pension and not on the other benefits schemes"* Justifying the conditions of not providing the additional covers with the pension policy, one of the other managers stated "*If we give additional covers, definitely the premium will be very high. Ultimately the retirement benefit may be low because substantial part of the premium is charged for supplementary covers. Premium charged for the additional covers is not added to the pension fund or the maturity benefits. We are focusing only on pension plan".*

Surrender Value: Explaining the views about surrendering the pension policy one of the managers of the same company stated *"There is no such a thing like surrender the pension policy. Surrender applies for endowment policies. However, the customer can withdraw the fund. But entire amount is not given. Certain percentage is given. Say for the first year it is 70%, for the second year it is 80% and for the third year it is 90%".*

Policy Lapsation and Revival: According to the information given by the managers of the Insurance Company E, the pension policy does not lapse after the first year. Expressing the views on this matter one of the managers of the same company stated *"one of the main features of this pension policy is that it does not lapse. If the customer doesn't have money he can stop the payment of premium and withdraw the money. Further, they can deposit more money when they have. It means ad hoc payments can be done by the policy holder".*

Demand for the pension plan: During the discussions, almost all the life insurance managers of Company E stated that, there is a good demand for the pension plan offered by the company and there is a very good potential market for insurance retirement plans in Sri Lanka. Expressing the views one of the managers of the same company stated "*There is a good demand for the insurance retirement plan. People are asking about retirement and health insurance plans. But the thing is mostly investment policies are sold. Because the benefit of the investment policies are tangible and the customer can enjoy the benefits within a short period of time".* Another manager of the same company stated *"Since the people are ageing, I have felt that there is a good demand for the insurance retirement plans. Mostly the people with a high income are seeking retirement policies. But they compare the declared interest rate by the insurance companies and banks. They don't think about the insurance component of the retirement policies available with the insurance companies. They concern about the given interest rates. However, there is very good potential market for this product".*

5.5.2 Problems identified and actions recommended by the Insurance Company E

Almost all the manager of the Insurance Company E stated that, there are no many problems in the product. Since this product was introduced recently, they said that they need more time to identify the problems of the product. But according to their views there are some problems in selling the product. Expressing the views one of the managers said *"Since this is a newly introduced product we are fine-tuning the features of the product. One of the problems we have identified is that, it is difficult to show the exact guaranteed amounts to the customers. Because the future pension benefit amounts will depend on the financial market conditions. Interest rates in the financial market are always fluctuating. Therefore, it is difficult to forecast future investment income".* Another manager stated *"The main problem is the knowledge of the field force about the product. Training is a huge challenge for the company. Creating the need for the customer is another problem. Customers mostly prefer to short term investment policies".* Expressing the same views another manager stated "*I feel the knowledge of the agents to identify the product features are not in a good standard. Our product is flexible but complex. There are no problems in the product identified yet. But our sales force is not* *much capable of identifying the product features and explain the benefits of the product to the customer. Another problem is the inadequate commission for the agents. The commission for the pension policy is much less than other life insurance plans. So agents most prefer to sell other life insurance products particularly endowment plans"*

One of the main problems faced by the Insurance Company E is the inability to give guaranteed amounts as pension for their pension policy holders. Expressing the views one of the managers stated *"I would like to suggest that if we can guarantee the pension amount for the customer, then we will able to attract more customers for this product. Since, the future monthly pension amount is not guaranteed; I feel customers are hesitating to purchase this product. But we guarantee the pension for the first year and end of each year we declare the guaranteed pension amount for the next year. But we do not guarantee the pension amount for the entire period. Customers are expecting guaranteed amounts".* Some of the managers stated that making the product more flexible would attract more customers. Further they stated that customer reward is another strategy to attract more customers for this product. Expressing the views on this matter one of the managers stated *"Rewarding the loyal customer is one of the important things to attract the customers. If there is flexibility for the customer to withdraw money from the fund in an emergency, that will be more attractive for the customers. At least if the customer can withdraw the accumulated interest that will also be more attractive. Customers prefer to get the benefits within a short period. We should give more flexibility to the customers. In some countries, they give some health checkup vouchers. We should add such facilities for this product".*

6. Compare and Contrast the Product Features

The objectives of this section is to examine and compare the product features of retirement plans offered by selected five insurance companies. It was revealed that, out of the selected five companies, four companies have introduced retirement plans. However, the product feature of retirement plans differs from company to company.

The retirement plan offered by the Insurance Company A provides pension only for a fixed period of 5 – 20 years. Bonus is declared annually and the pension is guaranteed to be increased by 5% annually on compounded basis. Minimum age at entry is 18 years and upper limit is 65 years. Critical Illness Cover, Hospitalization Cover, Family Protection Cover and Extended Permanent Disability Benefit covers can be obtained by the insured paying extra premiums. Lump sum payment is not allowed and only monthly pension is paid under this policy. Policy becomes lapsed due to non-payment of premium for six months. Lapsed policy can be revived within 5 years.

The retirement plan offered by the Insurance Company B has different options. These include: Lump sum payment at maturity, payment of a fixed amount annually, half yearly, quarterly or monthly until the insured's retirement account is exhausted, or life income with payment for a guaranteed term or income for a fixed term. Additional covers are not given by the company. Minimum age at entry is 18 years and upper limit is 60 years. The policy does not lapse due to non-payment of premium. Insured can surrender the policy if he/she need after payment of premium for one year.

The retirement plan offered by the Insurance Company C provides monthly pension for a certain period of 10 -30 years. Customer has the option to either to obtain a lump sum payment at maturity or get the monthly pension for a fixed period of time. Life time pension is not offered. Minimum age at entry is 18 years and upper limit is 50 years. Minimum retirement age is 33 years and upper limit is 65

years. Minimum premium payment period is 15 years. Inflation guard is set as 5% at the first year and thereafter the insured can obtain the inflation guard similar to 10% or 15%. Many additional covers are offered by Insurance Company C.
Insurance Company D does not offer retirement plan in order to provide insurance benefits to their customers as monthly pension. However, the Company D has identified the importance of introducing retirement plans.
The retirement plan offered by the Insurance Company E provides a monthly pension for a selected fixed period of 5 -20 years or life time of the policy holder. Minimum age at entry is 18 years and upper limit is 55 years. Minimum retirement age is 55 years. 5% loyalty bonus is given after payment of premium for continuously each 5 years. Pension is not guaranteed and it depends of interest rates of financial market. Company does not provide additional covers with their retirement plan.

7. Conclusion and Recommendations

7.1 Conclusion

Insurance provides safety and security against the loss on a particular event. The financial loss to the family at a premature death and retirement age are provided by insurance. The provision for old age is required when the person is surviving more than his earning period. Insurance retirement plans provides financial support along with the protection of the family and health care during the period of inability to work due old age. Insurance retirement plans can be treated as an alternative pension scheme to provide financial benefits at the retirement age of the people. Since, this is a voluntary retirement benefit scheme; people who are having certain level of income can enroll with insurance retirement plans paying the premium. However, it was observed that purchasing the insurance retirement plans by the people in the country is substantially very low.
Objectives of this study were; to examine the demand for insurance retirement plans as an alternative method for receiving security at old age, to identify the problems and prospects of insurance retirement plans offered by the insurance companies in Sri Lanka, to suggest recommendations that should be adopted by the insurance companies to promote their insurance retirement plans. Income protection in old age is one of the crucial issues in Sri Lankan society
It was revealed that, most of the available retirement plans of insurance companies are not matching with the need of the customers. It was further revealed that, only one insurance company provides guaranteed monthly pensions to be increased by 5% annually but that is also for a limited period of time and only one insurance company offers life time pension as one of the retirement benefit options and other companies provide lump sum benefits at retirement or pension only for a certain period of time. Two companies out of the selected five companies provide additional benefits for extra premium and other companies do not provide additional benefits. Further two companies provide spouse cover. Only one insurance company pays same level of commission for selling life insurance and retirement plans. However, all the other companies pay less commission for selling retirements plans. Out of the selected five companies, one insurance company does not offer retirement plans.
Numerous problems of insurance retirement plans were identified in this research. These problems include;

1. There are no varieties of retirement plans to meet the customers' needs.
2. Customers are expecting life time pension, but insurers provide lump-sum benefits or pension only for a limited time period.
3. Not providing annually increasing retirement benefits
4. Insufficient advertising,

5. Less motivation of agents and insufficient training
6. Low commission paid by the companies to agents for selling retirement plans
7. Agents most prefer to sale other life policies
8. Not providing guaranteed pension
9. Less knowledge of the agents,
10. Long duration of premium payments
11. Wrong interpretation by the agents and the insurance companies
12. Customers are willing to obtain additional benefits when they purchase retirement plans, but majority of the insurers do not provide additional covers.
13. Instability of the interest rates in the fiancé market
14. Lack of government's supports

One of the biggest problems is that, agents prefer to sell other life insurance policies more than the retirement plans. Accordingly, it was observed that, customers are willing to purchase retirements plans. But product features do not match with the customers' needs. Managers of the insurance companies have identified the demand for retirement plans. But they are not properly promoting the product.

7.2 Recommendations

Since there is a very good demand and potential market for insurance retirement plans, insurance companies should design their products to match with the customers' requirements and promote the product. For this purpose, the following suggestions are recommended by the researcher to the management of insurance companies.

1. Include the life time pension benefits to the retirement plans as vast majority of the customers prefer to receive monthly pension until death.
2. Provide alternative retirement benefit options including monthly pension for a selected period of time, half of the retirement benefits as a lump-sum payment and balance as a monthly pension and lump-sum benefits at retirement according to the customers' needs.
3. Provide guaranteed retirement benefits as the customers prefer to receive guaranteed benefits.
4. Provide annually increasing monthly pension for the level premium or increasing premium and give the opportunity to customer for selecting the suitable premium option.
5. Provide the facility to the customer, as one of the options to pay the premium for a selected shorter period of time and receive the pension benefits commencing from a later period as some of the customers prefer to pay the premium only for a shorter period of time.
6. Include additional benefits for extra premium as most of the customers expect some additional covers. However, customers should be made aware of the maximization of retirement benefits rather than purchasing more additional covers.
7. Training of agents and upgrading their knowledge, skills and competencies to understand the product features of retirement plans, promote and encourage them to sell this product.
8. Make aware the general public through advertising using mass media and sales promotional campaigns with field force.
9. Encourage both male and female potential customers as there is a demand for the retirement plans equally from male and female parties.
10. Rewarding the loyal customers for payment of premium for a longer period of time.

11. Streamline the commission rates paid by the insurance companies to their agents for promoting the sales of retirement plans.

Following suggestions are recommended for the Government to promote the insurance retirement plans as those strategies will be positively affecting to reduce the burden of the government for providing social security.

12. Make awareness programmes by the government through Insurance Regulatory Commission of Sri Lanka, to enhance the knowledge of the general public regarding the importance of purchasing insurance retirement plans for the financial security at retirement age.
13. Provide tax relief by the government for the retirement funds of insurance companies and tax relief to the people for the payment of premium for the retirement plans.
14. Encourage the insurance companies to introduce and continuation of retirement plans for the general public.
15. Streamline the financial market including stable of interest rates.

Promoting this kinds of voluntary retirement plans will help to reduce the dependency of the elderly on others and to reduce the burden of the working age population for providing socioeconomic security. Further, promoting insurance retirement will help the government to reduce its burden on the expenses on social security including health and elderly care.

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