



MAKERERE UNIVERSITY

**COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES
(COBAMS)**

SCHOOL OF STATISTICS AND PLANNING

**FACTORS INFLUENCING INSURANCE POLICY LAPSE
AMONG POLICYHOLDERS IN UGANDA**

BY

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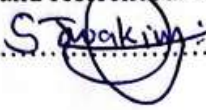
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**A RESEARCH DISSERTATION SUBMITTED TO THE
SCHOOL OF STATISTICS AND PLANNING IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD
OF THE DEGREE OF BACHELOR OF SCIENCE IN
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JULY, 2026

DECLARATION

I, SSEBUNYA JOWAKIM, declare that this dissertation is out of my own effort and has not been submitted to any university or any other institution for any award, with work from other scholars cited and referenced. I therefore affirm it to be original.

Signature:  Date: 11/08/2026.....

APPROVAL

This dissertation has been submitted for examination with my approval as the university supervisor.

MR. KAKAIRE GRACE

University Supervisor

Signature: *Kakaire* Date: *11/08/2026*

DEDICATION

This dissertation is dedicated to the almighty JESUS CHRIST for His grace and guidance throughout this academic journey, to my parents KABUYE JOHN and NAMUYIGA MOREEN for their endless financial contribution and tireless efforts towards my academics, and also to my group discussion members for their academic and social support to enable completion of this dissertation.

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CHAPTER ONE:

INTRODUCTION

1.1 Background statement

Insurance is a fundamental financial instrument that promotes economic resilience through the transfer of risk. However, its effectiveness largely depends on policy persistence, which refers to the continued maintenance of insurance contracts by policyholders through regular premium payments until the agreed maturity period or termination date. Policy lapse occurs when an insurance policy is terminated or discontinued due to the failure of the policyholder to pay required premiums within the specified period, resulting in the loss of policy benefits. Globally, Swiss Re (2025) identifies lapse experience as a significant risk within the life and health insurance sector, noting that unexpected changes in policyholder behavior can create financial and capital risks for insurers. Similarly, the OECD (2025) observes that increasing policy surrenders and discontinuations have become important factors affecting the stability and profitability of insurance markets. Across Africa, there is growing recognition that policy lapse is influenced by the mismatch between traditional insurance models and the financial realities faced by many individuals. The KPMG (2024) South African Insurance Industry Survey highlights that insurers are increasingly adopting more flexible and sustainable products to address challenges associated with rigid premium structures and changing policyholder needs. In Uganda, the Insurance Regulatory Authority (IRA) (2020) identifies premium payment defaults and policyholders' reluctance to make upfront premium payments as major challenges affecting insurance providers. Although Uganda's insurance market continues to experience growth, there remains limited empirical evidence on the factors contributing to policy lapse among policyholders, including financial constraints, product design, and institutional practices. This knowledge gap highlights the need for the present study.

1.2 Statement of the Problem

The Ugandan insurance industry has demonstrated consistent growth, with Gross Written Premiums reaching UGX 1.76 trillion and total policies increasing to 720,356 by the end of 2024 (IRA, 2025). To sustain this growth and build public trust, the industry settled claims totaling

UGX 887.4 billion in the same period. However, despite these institutional gains, the sector continues to grapple with a low penetration rate of 0.87%, a challenge compounded by high rates of policy lapse and premium defaults.

The Insurance Regulatory Authority (2021) explicitly identifies "default on premium payment and unwillingness to pay premium upfront" as one of the most significant challenges facing insurance players in Uganda. Globally, such lapses are recognized by Swiss Re (2025) as a primary risk that destabilizes insurer capital and diminishes the long-term financial security of policyholders.

While the industry is pivoting toward more adaptable products to bridge the gap between traditional models and customer financial realities (KPMG, 2024), there remains a lack of empirical evidence regarding the specific institutional and design-related drivers of these lapses within the Ugandan context.

If this trend of policy defaulting continues unaddressed, it will lead to sustained financial losses for insurers, reduced public confidence in insurance as a reliable safety net, and the continued stagnation of national insurance penetration. Therefore, this study seeks to investigate the institutional, financial, and product-design factors influencing policy lapse in Uganda to develop strategies for enhancing policyholder retention.

1.3 Research Objectives

1.3.1 General Objective

The general objective of this study is to investigate the factors influencing insurance policy lapse in Uganda, specifically focusing on the impact of institutional frameworks and policyholder financial constraints on retention.

1.3.2 Specific Objectives

The study will be guided by the following specific objectives:

- i. To examine the factors influencing policy lapse among insurance providers in Uganda.
- ii. To assess the impact of financial constraints on policyholders' ability to maintain consistent premium payments.
- iii. To propose strategies for insurance stakeholders in Uganda to enhance policyholder retention and minimize premium defaults.

1.4 Scope of the Study

1.4.1 Geographical Scope

The study will be conducted within Kampala, Uganda. Kampala is selected because it serves as the hub for the majority of insurance companies, brokerage firms, and the IRA headquarters.

Furthermore, Kampala has the highest concentration of both individual and corporate policyholders, providing a representative population for investigating policy lapse.

1.4.2 Content Scope

The study will focus on the factors contributing to insurance policy lapse, with a specific emphasis on financial constraints faced by policyholders and institutional factors within insurance firms. It will examine how these variables lead to premium defaults among the 720,356 active policies identified in the market.

1.4.3 Time Scope

The study will cover the period between 2021 and 2025. This timeframe is selected because it captures the transition from the post-COVID-19 economic recovery to the current inflationary cycle, providing a comprehensive view of how recent macroeconomic shocks have influenced policyholder persistence and the industry's response to the UGX 1.76 trillion market growth.

1.5 Significance of the Study

1.5.1 To the Insurance Regulatory Authority (IRA):

The findings will provide empirical evidence on the causes of the premium default challenge highlighted in recent market reports, aiding in the development of policies that protect both the insurer and the insured.

1.5.2 To Insurance Companies:

By identifying the specific factors leading to lapse, firms can move toward the adaptable products recommended by global industry surveys, ensuring their offerings match the financial lives of Ugandans.

1.5.3 To Policyholders:

The study identifies the barriers to long-term coverage, paving the way for financial institutions to create more flexible payment structures that prevent the loss of protection during financial shocks.

1.5.4 To Academic Researchers:

This research adds to the growing body of literature at Makerere University regarding insurance persistence in developing economies, providing a baseline for future studies on consumer behavior in the financial sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The insurance industry acts as a crucial safety net that shields individuals and businesses from financial ruin. However, for this safety net to work, policyholders must keep their policies active, a concept known as policy persistence. When a policyholder stops paying premiums, the policy collapses, leaving the individual exposed to risk and the insurer with unrecovered costs.

In Uganda, while the insurance sector has shown remarkable growth, with Gross Written Premiums (GWP) reaching UGX 1.39 trillion by the third quarter of 2024 (IRA, 2025), the problem of policy collapse remains a major challenge. The IRA notes that policy lapses and surrenders consistently rank as the second-highest complaint in the market.

This chapter breaks down the core concepts, historical data, and behavioral theories that explain why policyholders drop their coverage. By combining international studies with local Ugandan research, the study aims to uncover exactly what drives these decisions and explore strategies to improve retention.

2.2 Theoretical Framework

To understand why a policyholder might stop paying for their coverage, the study relies on established behavioral and economic theories. These theories show that decisions under financial stress are often driven by psychology rather than long-term logic.

2.2.1 *Maslow's Hierarchy of Needs*

Maslow's theory explains that human survival needs always take priority. Humans first secure biological necessities (food, shelter, transport) before worrying about future safety (insurance). When money is tight, people naturally regress to the bottom of the pyramid. Paying for a potential risk next year is abandoned to ensure survival today.

2.2.2 *Prospect Theory and Loss Aversion*

Developed by Kahneman and Tversky (1979), this theory shows that people feel the "pain" of losing money much more intensely than the "joy" of a future gain. In insurance, the premium paid today feels like an immediate, concrete loss. The benefit of a pay-out, on the other hand, is seen as uncertain and distant. This bias causes consumers to view insurance as a costly burden when times get tough.

2.2.3 *The Theory of Bounded Rationality*

This theory explains that individuals make choices with limited information and cognitive strain. When faced with dense contracts or unexpected financial challenges, consumers do not carefully calculate the long-term cost of being uninsured. Instead, they make quick, short-term decisions, such as cancelling a policy to free up immediate cash.

2.2.4 *The Belief Hypothesis Model (BHM)*

Bhatia et al. (2024) introduced this model to link a person's core beliefs directly to their financial choices. If a consumer believes the insurance industry is untrustworthy or that filing a claim is too difficult, any temporary financial stress will immediately justify their decision to let the policy lapse.

2.3 **Conceptual Review**

To understand why a policy collapses, it cannot be looked at as an isolated event. A policyholder does not simply wake up and abruptly end their coverage. Instead, policy collapse is the final stage of a fragile financial and psychological relationship that starts as early as the initial purchase.

By tracing the lifecycle of an insurance contract, the study can map how early constraints directly transform into eventual cancellations.

Phase 1: Purchase Trigger	Phase 2: Ongoing Financial Friction	Phase 3: The Breaking Point
High-pressure sales	Sudden price changes (Inflation)	Immediate cash crisis
Hidden costs (Bancassurance)	Competing financial needs (EFRIS)	Strategic choice to cancel
Complex fine print	Policyholder feels isolated	Coverage drops permanently

2.3.1 *Mandatory Insurance and the Purchase Trigger*

Many consumers do not seek out insurance coverage voluntarily. Instead, their initial entry into the insurance ecosystem is dictated by explicit regulatory frameworks or third-party financial conditions:

Under the Uganda Insurance Act 2017, specific insurance products are legally mandatory. For instance, the law requires all motorists to carry Motor Third-Party Insurance to protect road users against liabilities. Furthermore, Section 29 of the Insurance Act 2017 mandates that all local marine cargo transit insurance must be placed with locally licensed Ugandan insurers. These regulatory policies force local businesses and everyday citizens to purchase coverage to access critical trade services or legally use public roads.

With the introduction of the Financial Institutions (Amendment) Act 2016, commercial banks in Uganda were legally permitted to act as insurance intermediaries (bancassurance). In

practice, when a micro, small, or medium enterprise (MSME) or an individual applies for a credit facility, banks routinely require them to buy a Credit Life insurance policy or asset protection coverage as a condition for the loan.

2.3.2 Ongoing Financial Friction and Policyholder Fatigue

While these entry points successfully pull the consumer into the market, the circumstances of their initial acquisition create underlying problems. Because the purchase was driven by institutional mandates (such as clearing customs, licensing a vehicle, or qualifying for a bank loan), the consumer does not always develop a deep understanding of the policy's value:

Under the strict Cash and Carry regulatory standard enforced by the IRA, insurers are prohibited from assuming insurance risk until the premium is paid in full upfront. This operational rule forces a sudden, large cash demand on the policyholder's finances.

As highlighted by Wofuma et al. (2024), there is a clear deficit of comprehensive information regarding insurance options in Uganda. Policyholders often sign contracts with a limited understanding of hidden exclusions, long-term premium commitments, or how their savings grow over time.

2.3.3 The Breaking Point: How Pressured Uptake Becomes Policy Collapse

When macroeconomic and micro-level liquidity shocks hit, this initial disconnect leads directly to policy termination; for discretionary long-term investments like life insurance policies, persistent inflation reduces real disposable income. As **Nambafu (2019)** notes, when basic living costs escalate, people direct their cash to immediate daily needs like food and utilities. Since the policy was originally bought out of bank loan requirements or agent persuasion, the consumer perceives the premium as a disposable cash drain rather than a permanent safety net and for short-term policies like motor or property coverage, businesses operating on tight profit margins face a choice when seasonal taxes (like EFRIS) or operating costs spike. To free up immediate cash flow and survive, the policyholder opts not to renew their coverage when it expires or lets it lapse mid-term.

By mapping the process from forced purchase to cancellation, it becomes clear that the original reasons hindering voluntary uptake directly contribute to the factors causing early policy termination.

2.4 Empirical Review

To understand the factors driving policy collapse in developing financial markets, it is first necessary to examine how these dynamics operate ranging from international trends to regional findings, down to the urban trade realities of Kampala.

2.4.1 *The Global Context of Policy Lapsation and Surrenders*

Globally, insurance policy termination is widely recognized as a critical risk factor affecting both the asset-liability matching and overall solvency of insurance firms (OECD, 2025). Research has long established that macroeconomic volatility directly dictates policyholder persistence. In a foundational study utilizing extensive historical data in Europe, Poufinas and Michaelide (2018) investigated the behavioral responses of consumers to shifting economic environments. Using regression analysis, the study confirmed a direct and statistically significant relationship between the Consumer Price Index (CPI) and the rate of policy surrenders. Their findings demonstrate that during inflationary periods, the immediate real purchasing power of the policyholder decreases, creating an incentive to terminate long-term contracts early to release liquid cash for immediate needs.

However, advanced economies often rely on sophisticated predictive tools that assume a high degree of financial inclusion and formal economic structures. For instance, Reck et al. (2022) applied an automated Lasso regression approach to identify hidden patterns in European life insurance datasets, concluding that policy duration and premium frequency are the strongest internal predictors of lapse. Similarly, Shamsuddin et al. (2022) used bibliometric methods to track global research trends, demonstrating that while global literature excels at predicting when a policy will collapse based on micro-level contract parameters, it consistently overlooks how unpredictable financial shocks affect policyholders who operate within cash-based or informal financial ecosystems.

2.4.2 *The Continental Context*

Across Sub-Saharan Africa, insurance coverage competes directly with vital daily expenditures. Nyawira et al. (2026), in an analysis conducted under the auspices of Amref Health Africa, evaluated insurance coverage patterns and user satisfaction across eight Sub-Saharan African countries. Their cross-sectional findings revealed that consumer retention within risk-pooling schemes is overwhelmingly dictated by immediate financial comfort and disposable income rather than long-term risk assessment. When economic shocks reduce household income, consumers systematically discontinue coverage because formal safety nets are largely unavailable.

Furthermore, Vidyavathi et al. (2023) utilized logit modelling to assess the specific micro-level triggers that drive policyholders in developing regions to let their coverage lapse. Their empirical testing proved that sudden, unexpected household shocks, such as job loss, emergency family hospitalization, and the accumulation of high-interest consumer debt serve as the primary drivers of early policy termination. In the absence of accessible short-term

credit, the premium payment is viewed as a discretionary expense. Consequently, the household makes a strategic decision to terminate the policy early to free up immediate working capital.

2.4.3 The Local Context: The Ugandan Insurance Landscape

In Uganda, while the insurance market has experienced a steady upward trajectory surpassing the UGX one-trillion mark in Gross Written Premiums, the industry continues to grapple with exceptionally high rates of early policy abandonment. Local studies show that insurance demand and retention are heavily influenced by the distinct socio-economic conditions of urban trade centers like Kampala. Nambafu (2019) conducted a quantitative evaluation of the macro and micro-level determinants of insurance consumption in Uganda. The results established that real disposable income is the single most important predictor of both the initial purchase and the subsequent maintenance of insurance policies. When inflation drives up core consumer prices, Ugandan households face severe budget constraints, resulting in a direct increase in policy lapses as premium cash is diverted to cover school fees, healthcare, and food.

This problem is further intensified by local regulatory and tax policies, the strict enforcement of the Cash and Carry framework by IRA mandates that policyholders pay the full premium upfront for coverage to remain valid. This operational rule creates significant friction when paired with recent fiscal policies. For instance, Kabanda et al. (2025) observed that small and medium-sized enterprises (SMEs) in Kampala face severe cash flow volatility due to mandatory tax compliance requirements, such as the Electronic Fiscal Receipting and Invoicing Solution (EFRIS). When a local business faces a sudden tax obligation or operational levy, the immediate survival of the enterprise depends on maintaining cash liquidity. Because upfront premium payments are non-negotiable under the Cash and Carry rule, traders frequently choose to let their policies lapse or opt out of renewing them entirely to keep their businesses operational.

2.5 Conclusion

While global and regional literature provide extensive empirical models linking inflation and personal financial distress to policy collapse, these frameworks are built on datasets from highly formalized financial systems and fail to resolve the specific operational and economic challenges observed in the Ugandan insurance landscape.

There is a distinct lack of enough empirical evidence regarding causes of lapse in Uganda as well a distinct empirical gap in the evaluation of specific retention interventions, such as

flexible micro-payment models and mobile money payment timing, that align with the true cash flow cycles of Ugandan consumers.

This study aims to bridge these critical empirical gaps by providing the necessary evidence to help local stakeholders identify the specific drivers of lapsation, evaluate the immediate impact of local financial constraints, and design flexible premium payment models that keep policyholders protected over the long term.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter presents the methodology used to examine the factors influencing insurance policy lapse among policyholders in Uganda. It describes the research design, study population, sampling procedure, data collection methods, data analysis techniques, and ethical considerations. The study employs a quantitative approach and uses stratified random sampling to ensure adequate representation of different categories of policyholders. Data collected from the respondents are analyzed using descriptive statistics, Chi-square tests for bivariate analysis, and binary logistic regression for multivariate analysis. The chapter also explains the procedures used to ensure the reliability, validity, confidentiality, and ethical handling of the data collected during the study.

3.2 Research Design

This study will adopt a descriptive cross-sectional research design using a quantitative approach. Data will be collected from policyholders using structured questionnaires to examine the factors influencing policy lapse, including financial constraints, premium affordability, and policy-related factors. The approach will enable the study to collect information from respondents at a specific point in time and provide insights into the reasons behind policyholders' decisions to discontinue their insurance policies.

3.3 Target Population

The target population consists of policyholders in Kampala, Uganda, whose insurance policies have lapsed due to failure to maintain premium payments.

The study will focus on individuals from selected insurance providers who experienced policy lapse within the study period.

3.4 Sampling Strategy

3.4.1 Sampling Frame

The sampling frame will consist of policyholders from selected insurance firms in Kampala who have experienced policy lapse. The researcher will obtain lists of eligible policyholders from the selected insurance companies and categorize them into relevant strata based on characteristics such as type of insurance policy or insurance provider to facilitate stratified random sampling.

3.4.2 Sampling Method

Given that lapsed policyholders can be categorized into different groups, a stratified random sampling technique will be employed to ensure adequate representation of each category within the study population. The respondents will then be randomly selected from each stratum to obtain a representative sample.

3.4.3 Sample Size

The sample size for this study will be determined from the accessible population of lapsed policyholders obtained from the selected insurance providers. A sample of **100 respondents** will be selected using stratified random sampling to ensure adequate representation of the different categories of policyholders. The respondents will be proportionately allocated across the identified strata and selected randomly from each stratum. The sample size is considered adequate to achieve the objectives of the study while taking into account the availability of respondents and minimizing non-response bias.

3.5 Data Collection Instruments

3.5.1 Telephone Questionnaires

A structured telephone and WhatsApp questionnaire will be used as the primary data collection tool. The questionnaire will consist of closed-ended questions designed to collect quantitative data on respondents' demographic characteristics, insurance information, financial factors, and reasons influencing policy lapse. The questionnaire will be administered to selected policyholders from different strata identified through the stratified random sampling method to ensure adequate representation of the study population. The researcher will use a standardized questionnaire format when collecting responses through telephone calls and WhatsApp to maintain consistency and reliability in data collection.

3.5.2 Data Collection Procedure

The researcher will administer structured questionnaires to the selected policyholders identified through the stratified random sampling technique. Before completing the questionnaires, participants will be informed about the purpose of the study, confidentiality of the information provided, and their voluntary right to participate or withdraw at any stage. The researcher will ensure uniform administration of the questionnaires to maintain consistency and reliability of the collected data.

3.6 Data Analysis

3.6.1 Quantitative Data

Quantitative data collected from the structured questionnaires will be coded, entered, and analyzed using R software (Quarto/Shiny). Descriptive statistics, including frequencies, percentages, tables, and charts, will be used to summarize the characteristics of the respondents and the study variables. Bivariate analysis will be conducted to examine the relationship between each independent variable and insurance policy lapse using appropriate statistical tests such as the Chi-square test. Variables found to be statistically significant at the bivariate level will be included in a multivariate logistic regression model to identify the factors independently associated with insurance policy lapse. Statistical significance will be assessed at the 5% level ($p < 0.05$).

3.7 Ethical Considerations

3.7.1 Informed Consent

Informed consent will be obtained from all participants before administering the questionnaires. Participants will be informed about the purpose of the study, the voluntary nature of their participation, confidentiality of the information provided, and their right to withdraw from the study at any time without any consequences.

3.7.2 Confidentiality and Anonymity

In compliance with the Data Protection and Privacy Act (2019) of Uganda, participants' confidentiality will be maintained by ensuring that no personal identifiers, such as names or policy numbers, are included in the final report. The collected data will be securely stored and presented in aggregate form to protect participants' privacy.

3.7.3 Data Security

All collected data will be securely stored in password-protected files and only accessed by the researcher for academic purposes. The data will be retained until the successful defense of the dissertation and will thereafter be securely deleted to ensure data protection.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the findings of the study on the factors influencing insurance policy lapse among policyholders in Uganda. The findings are presented in accordance with the study objectives and are based on data collected from the respondents. The chapter begins with the demographic characteristics of the respondents, followed by insurance policy details and acquisition, financial constraints, institutional and service factors, and retention strategies. It further presents the results of the bivariate (Chi-square) and multivariate (binary logistic regression) analyses used to examine the factors associated with insurance policy lapse. Finally, the chapter concludes with a thematic analysis of the respondents' open-ended recommendations.

4.2 Response Rate

A total of 100 respondents were targeted using stratified random sampling, as described in Chapter Three. Of these, 87 policyholders completed the questionnaire, yielding a response rate of 87%, while 12 respondents had never held an insurance policy and were excluded, and 1 respondent did not provide consent. The majority of the respondents were boda boda riders. The achieved sample size was considered adequate for the descriptive, bivariate (Chi-square), and multivariate (binary logistic regression) analyses presented in this chapter.

4.3 Demographic Characteristics of Respondents

This section presents the demographic profile of the 87 respondents who had held an insurance policy, in terms of gender, age group, level of education, employment status and average monthly income.

Table 4.1: Demographic Characteristics of Respondents (n = 87)

Variable	Category	Frequency	Percent (%)
Gender	Male	67	77.0
	Female	20	23.0
Age group	18–25 years	17	19.5
	26–35 years	48	55.2
	36–45 years	22	25.3
	46 years and above	0	0.0
Education level	Primary/Informal	25	28.7
	Secondary Education	33	37.9
	Tertiary/Diploma/Degree	27	31.0
	Postgraduate Degree	2	2.3
Employment status	Formally Employed	16	18.4
	Self-Employed/Business Owner	30	34.5
	Informal Worker/Trader	37	42.5
	Unemployed/Student	4	4.6
Monthly income (UGX)	Below 500,000	13	14.9
	500,000 – 1,000,000	46	52.9
	1,000,001 – 3,000,000	27	31.0
	Above 3,000,000	1	1.1

Source: Primary data, 2026

The results presented in Table 4.1 indicate that the majority of respondents were male (77.0%), suggesting that men constituted the largest proportion of policyholders in the study. Most respondents (55.2%) were aged between 26 and 35 years, representing the economically active segment of the population, while no respondent was aged 46 years or above, indicating that the study mainly captured younger policyholders. Regarding educational attainment, secondary education was the most common qualification (37.9%), whereas only 2.3% of respondents had

attained postgraduate education. In terms of employment status, informal workers and traders constituted the largest group (42.5%), followed by the self-employed (34.5%), reflecting the fact that the majority of the respondents were boda boda riders whose earnings largely depend on daily income. Furthermore, most respondents (52.9%) earned between UGX 500,000 and UGX 1,000,000 per month. This income pattern, together with the predominance of informal employment, suggests that many respondents were likely to experience income fluctuations, which may have affected their ability to make regular premium payments and contributed to insurance policy lapse.

4.4 Insurance Policy Details and Acquisition

This section presents findings on the types of insurance policies held, the primary trigger for purchase, the current status of respondents' most recent policy, and the perceived effect of the Cash & Carry premium payment rule.

Table 4.2: Types of Insurance Policy Ever Held (multiple response, n = 87)

Policy type	Frequency	Percent of respondents (%)
Motor Vehicle/Third-Party Insurance	57	65.5
Life Insurance	29	33.3
Health/Medical Insurance	13	14.9
Credit Life/Bank Loan Protection	8	9.2
Property/Fire/Agriculture Insurance	0	0.0

Source: Primary data, 2026. Percentages are of respondents (n = 87) and do not sum to 100% because respondents could select more than one policy type.

Table 4.3: Primary Trigger for Purchasing the Policy (n = 87)

Purchase trigger	Frequency	Percent (%)
Legal mandate (e.g. Motor Third Party)	46	52.9
Persuasion by an Insurance Agent/Broker	22	25.3
Bank requirement/Loan condition (Bancassurance)	10	11.5
Voluntary personal financial planning	9	10.3

Source: Primary data, 2026

Table 4.4: Current Status of Most Recent Policy (n = 87)

Policy status	Frequency	Percent (%)
Active (currently paying premiums)	37	42.5
Lapsed (discontinued due to unpaid premiums)	29	33.3
Surrendered (voluntarily cancelled for cash)	21	24.1

Source: Primary data, 2026

Table 4.4 shows that 42.5% of respondents had active insurance policies at the time of the study, while 33.3% had allowed their policies to lapse due to unpaid premiums and 24.1% had voluntarily surrendered their policies. Since both lapsed and surrendered policies represent a discontinuation of insurance coverage, they were combined into a single binary outcome variable for the subsequent bivariate and multivariate analyses. Overall, 50 respondents (57.5%) had experienced policy lapse, indicating that more than half of the respondents had discontinued their insurance coverage.

The findings in Table 4.3 further reveal that the majority of respondents (52.9%) purchased insurance because it was a legal requirement, such as Motor Third-Party Insurance, while 25.3% were influenced by insurance agents or brokers. Only 10.3% reported purchasing insurance voluntarily for personal financial protection. These findings suggest that insurance uptake among the respondents was largely driven by external requirements rather than personal choice, which may partly explain the high proportion of policy lapses observed in the study.

Table 4.5: Perceived Effect of the Cash & Carry Premium Rule (n = 87)

Response	Frequency	Percent (%)
Yes, made it difficult to maintain the policy	84	96.6
No	3	3.4

Source: Primary data, 2026

An overwhelming 96.6% of respondents reported that the regulatory requirement to pay the full premium upfront (the Cash & Carry rule) made it difficult for them to maintain their policy, underscoring upfront premium payment as a near-universal point of friction among the policyholders sampled.

4.5 Financial Constraints and Economic Shocks (Objective ii)

This section examines the second objective of the study, which is to determine how financial challenges affect policyholders' ability to make regular premium payments. The assessment was conducted using three statements measured on a five-point Likert scale.

Table 4.6: Respondents' Agreement with Statements on Financial Constraints (n = 87)

Statement	SD	D	N	A	SA	Mean	SD
Unexpected household financial shocks (e.g., medical emergency, job loss) caused me to default on premium payments.	1.1%	6.9%	12.6%	73.6%	5.7%	3.76	0.71
High inflation and rising costs of daily living made insurance premiums unaffordable.	0.0%	3.4%	17.2%	66.7%	12.6%	3.89	0.65
Competing financial obligations (e.g., business taxes/EFRIS, school fees) took priority over paying insurance premiums.	0.0%	6.9%	10.3%	73.6%	9.2%	3.85	0.67

Source: Primary data, 2026. SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree.

The findings show that respondents generally agreed with all three statements related to financial constraints, with average scores ranging from 3.76 to 3.89 on the five-point scale. Specifically, 79.3% of respondents agreed or strongly agreed that unexpected financial difficulties caused them to fail to pay their premiums on time. Similarly, 79.3% agreed that high inflation made insurance premiums difficult to afford, while 82.8% agreed that other financial responsibilities, such as EFRIS-related business taxes and school fees, were given priority over insurance payments. These results support the ideas discussed in Chapter Two, particularly Maslow's Hierarchy of Needs and Prospect Theory, which explain that when people face financial pressure, they tend to focus on immediate needs and essential expenses rather than continuing payments for future and uncertain benefits such as insurance coverage.

4.6 Institutional and Service Factors (Objective i)

This section examines the first objective of the study, which is to identify the factors that influence policy lapse among insurance policyholders in Uganda. It focuses on the role of information transparency, trust in insurance providers, and the quality of services offered.

Table 4.7: Respondents' Agreement with Statements on Institutional and Service Factors (n = 87)

Statement	SD	D	N	A	SA	Mean	SD
The terms, conditions, and hidden exclusions of the policy were unclear to me at the time of purchase.	0.0%	2.3%	11.5%	66.7%	19.5%	4.03	0.64
Lack of trust in insurance companies regarding claims settlement influenced my decision to stop paying premiums.	0.0%	2.3%	6.9%	69.0%	21.8%	4.10	0.61
Inadequate customer service or lack of timely payment reminders from the insurer contributed to policy lapse.	0.0%	2.3%	6.9%	73.6%	17.2%	4.06	0.58

Source: Primary data, 2026. SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree.

Institutional and service-related factors had the highest levels of agreement among the factors considered, with mean scores ranging from 4.03 to 4.10. The results indicate that 86.2% of respondents agreed that unclear policy terms and hidden exclusions affected their ability to maintain their policies. Furthermore, 90.8% of respondents agreed that lack of trust in the claims settlement process contributed to their decision to stop paying premiums. Similarly, 90.8% reported that poor customer service and the absence of payment reminders played a role in policy lapse. These findings are in line with the Belief Hypothesis Model discussed in Chapter Two, which highlights that policyholders are less likely to continue with insurance when they have doubts about the reliability of the insurer or the ease of accessing benefits. When financial difficulties arise, such concerns may further influence the decision to allow policies to lapse.

4.7 Retention Strategies and Recommendations (Objective iii)

This section focuses on the third objective of the study, which is to identify strategies that can help improve policyholder retention. The analysis was conducted using two five-point Likert-scale statements on possible retention measures, together with a thematic analysis of respondents' open-ended suggestions.

Table 4.8: Respondents' Agreement with Proposed Retention Strategies (n = 87)

Statement	SD	D	N	A	SA	Mean	SD
Flexible, smaller installment payment options (e.g. daily/weekly payments via Mobile Money) would help me keep policies active.	0.0%	2.3%	8.0%	66.7%	23.0%	4.10	0.63
Extending grace periods during financial distress would significantly reduce policy lapses.	0.0%	1.1%	5.7%	67.8%	25.3%	4.17	0.57

Source: Primary data, 2026. SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree.

The results show strong support for both proposed retention strategies. About 89.7% of respondents agreed that introducing flexible and smaller mobile-money instalments would help them maintain active policies. Additionally, 93.1% of respondents agreed that extending grace periods during times of financial difficulty would help reduce policy lapses, which was the highest level of agreement recorded in the study. These findings suggest that policyholders believe improving payment options and providing more flexible premium arrangements would be more effective in increasing retention than simply encouraging people to continue paying under the existing arrangements.

Table 4.9: Themes Emerging from Open-Ended Recommendations (n = 85 responses)

Theme	Illustrative response	Frequency	Percent (%)
Lower/more affordable premiums	"Lower premiums"; "Make them cheaper"	51	60.0
Improved customer care/service	"Improve customer care"; "Poor customer services"	13	15.3
Public awareness, education and advertising	"More advertising"; "Educating people"	12	14.1
Faster/easier claims settlement	"Claim settlement has to improve"	3	3.5
Payment reminders and follow-up	"Reminding clients about payments"	3	3.5
Flexible payment/grace-period provisions	"Allow the insured to pause and proceed when finances improve"	1	1.2
Wider product accessibility/range	"Make it easily accessible"; "More products"	2	2.4

Source: Primary data, 2026. Percentages are of the 85 respondents who provided a written response; a response could touch on more than one theme.

The open-ended responses support the findings from the Likert-scale questions. The majority of respondents (60.0%) suggested that reducing premiums or making insurance more affordable would help improve policy retention, which reflects the affordability challenges discussed under financial constraints in Section 4.5. Other respondents recommended improving customer care (15.3%) and increasing public awareness and insurance promotion (14.1%), which relate to the issues of trust and information gaps discussed in Section 4.6. However, only a small proportion of respondents (1.2%) mentioned flexible payment options or longer grace periods in their responses. This suggests that while policyholders strongly support flexible payment arrangements when they are presented with such options, their first concern when asked openly is usually the cost of insurance rather than changes in payment structures.

4.8 Bivariate Analysis: Factors Associated with Policy Lapse

To determine the demographic, financial, and institutional factors that are significantly related to policy lapse, Chi-square tests of independence were conducted between each independent variable and the policy lapse outcome, which was categorized as either lapsed/surrendered (1) or active (0), as described in Chapter Three. The results of these tests are presented in Table 4.10, with the variables arranged according to their level of statistical significance.

Table 4.10: Chi-Square Test Results for Factors Associated with Policy Lapse (n = 87)

Variable	χ^2	df	p-value	Decision ($\alpha = 0.05$)
Employment status	16.223	3	0.001	Significant
Competing financial obligations (tax_compete)	14.748	3	0.002	Significant
Education level	13.792	3	0.003	Significant
Lack of trust in insurers (trust_issue)	12.921	3	0.005	Significant
Unclear terms/hidden exclusions (info_gap)	12.785	3	0.005	Significant
Grace period support (grace_period)	8.005	3	0.046	Significant
Inflation impact (inflation_impact)	7.476	3	0.058	Not significant
Service quality/reminders (service_qual)	7.287	3	0.063	Not significant
Purchase trigger	5.662	3	0.129	Not significant
Cash & Carry impact	2.117	1	0.146	Not significant
Monthly income	4.845	3	0.184	Not significant
Flexible payments support (flex_payments)	4.607	3	0.203	Not significant
Gender	1.056	1	0.304	Not significant
Financial shock (fin_shock)	3.845	4	0.427	Not significant
Age group	0.181	2	0.914	Not significant

Source: Primary data, 2026, analyzed in Python (scipy. stats).

The Chi-square analysis identified six variables that had a statistically significant relationship with policy lapse at the 5% significance level. These variables included employment status ($\chi^2 = 16.223$, $p = 0.001$), competing financial obligations ($\chi^2 = 14.748$, $p = 0.002$), education level ($\chi^2 = 13.792$, $p = 0.003$), lack of trust in insurers ($\chi^2 = 12.921$, $p = 0.005$), unclear policy terms ($\chi^2 = 12.785$, $p = 0.005$), and support for grace periods ($\chi^2 = 8.005$, $p = 0.046$).

However, other factors such as gender, age group, monthly income, reason for purchasing insurance, the Cash & Carry rule, financial shocks, inflation effects, service quality, and flexible payment options did not show a statistically significant relationship with policy lapse at the bivariate level in this study.

It is important to note that the sample size was 87 respondents, and some variables had several response categories, which resulted in some cross-tabulations having expected cell frequencies below 5 in more than 20% of the cells. This was observed in variables such as competing financial obligations, trust issues, and grace periods. Therefore, although these factors showed significant relationships with policy lapse, the findings should be interpreted with caution due to the limitations associated with the Chi-square test under these conditions.

4.9 Multivariate Analysis: Binary Logistic Regression

Following the approach outlined in Chapter Three, the six variables that were statistically significant in the bivariate analysis were included in a binary logistic regression model. The dependent variable was policy lapse, coded as 1 for lapsed/surrendered policies and 0 for active policies.

Before conducting the regression analysis, some categories were combined because they had very few observations and no policy lapse cases, which could affect the stability of the model results. The postgraduate education category ($n = 2$) was combined with the tertiary education category, while the unemployed category ($n = 4$) was combined with students and informal workers/traders. These groups were combined because they shared similar characteristics and to avoid estimation problems in the regression model.

The variables measuring competing financial obligations, trust in insurers, unclear policy terms, and support for grace periods were entered into the model using their original five-point Likert scale measurements.

Table 4.11: Binary Logistic Regression of Factors Associated with Policy Lapse (n = 87)

Predictor	B	S.E.	p-value	Odds Ratio	95% CI	
Constant	-15.015	4.330	0.001	0.000	—	
Education: Secondary (ref: Primary)	-0.786	0.822	0.339	0.456	0.091	— 2.282
Education: Tertiary/Postgraduate (ref: Primary)	-2.002	0.910	0.028*	0.135	0.023	— 0.803
Employment: Informal/Unemployed (ref: Formal)	1.629	0.983	0.098	5.097	0.742	— 35.016
Employment: Self-employed (ref: Formal)	1.988	0.957	0.038*	7.302	1.120	— 47.628
Competing financial obligations (tax_compete)	1.621	0.681	0.017*	5.057	1.332	— 19.201
Lack of trust in insurers (trust_issue)	0.573	0.736	0.436	1.774	0.419	— 7.509
Unclear terms/hidden exclusions (info_gap)	0.530	0.754	0.482	1.699	0.388	— 7.444
Grace period support (grace_period)	1.004	0.639	0.116	2.728	0.779	— 9.551

Source: Primary data, 2026, analyzed in Python (maximum-likelihood/IRLS estimation). * $p < 0.05$. Model: Log-likelihood = -38.083, LR $\chi^2(8) = 42.491$, $p < 0.001$, McFadden's pseudo- $R^2 = 0.358$.

The overall model was statistically significant, LR $\chi^2(8) = 42.491$, $p < 0.001$, and explained a substantial proportion of the variation in policy lapse (McFadden's pseudo- $R^2 = 0.358$). Three predictors remained statistically significant after controlling for the other variables in the model:

- i. Tertiary/postgraduate education was associated with significantly lower odds of policy lapse compared with primary education (OR = 0.135, $p = 0.028$), holding other factors constant that is, more educated policyholders were roughly 87% less likely to lapse.
- ii. Self-employed policyholders had significantly higher odds of lapse than formally employed policyholders (OR = 7.302, $p = 0.038$), consistent with the income-instability pattern observed in Section 4.3.
- iii. Agreement that competing financial obligations (e.g. business taxes/EFRIS, school fees) took priority over premiums was associated with substantially higher odds of lapse (OR = 5.057, $p = 0.017$) for each one-point increase on the 5-point agreement scale.

The informal/unemployed employment category (OR = 5.097, $p = 0.098$) and support for grace periods (OR = 2.728, $p = 0.116$) showed positive associations with lapse in the expected direction but did not reach conventional statistical significance once the other variables were controlled for, while trust in insurers and unclear policy terms although significant bivariate lost significance in the multivariate model, suggesting that their apparent bivariate association with lapse may be substantially explained by their overlap with employment status and financial-obligation pressures. Overall, the multivariate results indicate that policy lapse in this sample is driven primarily by objective financial capacity constraints (education, employment type and competing financial obligations) rather than by institutional trust factors once those financial constraints are accounted for.

4.10 Chapter Summary

This chapter presented the demographic and insurance characteristics of the 87 sampled policyholders, together with findings on financial, institutional, and retention-related factors affecting policy lapse. The chapter also examined the relationship between different factors and policy lapse through bivariate and multivariate analyses. The results showed that employment status, education level, and competing financial obligations were the main factors associated with policy lapse. In addition, most respondents supported the introduction of flexible payment options, smaller instalments, and longer grace periods as measures that could improve policy retention. Chapter Five discusses these findings in relation to the literature reviewed in Chapter Two and provides conclusions and recommendations based on the three specific objectives of the study.

CHAPTER FIVE:

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the main findings of the study and discusses them in relation to the theoretical framework and previous studies reviewed in Chapter Two. It presents conclusions based on the three specific objectives of the study and provides recommendations for the Insurance Regulatory Authority, insurance companies, and policyholders. The chapter also highlights the limitations of the study and suggests areas for further research.

5.2 Summary of Findings

5.2.1 Objective i: Factors influencing policy lapse among insurance providers

The study found that institutional and service-related factors were important concerns among respondents. About 86.2% agreed that unclear policy terms and hidden exclusions affected them, while 90.8% reported that lack of trust in the claims settlement process and poor customer service or absence of payment reminders influenced their experience with insurance. At the bivariate level, employment status, education level, trust in insurers, and unclear policy terms showed significant relationships with policy lapse ($p < 0.05$). However, after controlling for other factors in the multivariate model, only employment-related and financial-obligation factors remained significant predictors of policy lapse. This suggests that although concerns about trust and transparency are common among policyholders, their effect on policy lapse may be largely linked to the broader financial challenges faced by respondents rather than acting as independent causes of lapse.

5.2.2 Objective ii: Impact of financial constraints on premium payment

Financial constraints were identified as major factors influencing policy lapse. The findings showed that 79.3% of respondents agreed that unexpected financial challenges caused them to fail to pay premiums, while another 79.3% indicated that inflation made insurance premiums difficult to afford. Additionally, 82.8% agreed that other financial responsibilities, such as EFRIS-related business taxes and school fees, were prioritized over insurance payments. In the multivariate analysis, competing financial obligations remained one of the significant predictors of policy lapse ($OR = 5.057, p = 0.017$). Furthermore, self-employed policyholders, whose income may be less stable compared to formally employed individuals, had higher odds of policy lapse than formally employed respondents ($OR = 7.302, p = 0.038$). The study also

found that 96.6% of respondents reported that the Cash & Carry requirement, which involves paying the full premium upfront, made it difficult for them to maintain their insurance policies.

5.2.3 Objective iii: Strategies to enhance policyholder retention

Respondents showed strong support for the proposed strategies aimed at improving policy retention. About 89.7% agreed that flexible and smaller Mobile Money instalments would help them maintain active policies, while 93.1% agreed that extending grace periods during periods of financial difficulty would reduce policy lapses. The support for grace periods was the highest recorded among all survey items. However, in the open-ended responses, most respondents focused on the need for more affordable premiums (60.0%) rather than changes to payment structures (1.2%). Other suggestions included improving customer care (15.3%) and increasing public awareness and insurance promotion (14.1%). These findings indicate that while policyholders value flexible payment arrangements, affordability remains their main concern when considering ways to improve policy retention.

5.3 Discussion of Findings

The finding that competing financial obligations and self-employment status were independent predictors of policy lapse provides strong support for the behavioral theories that guided this study. Maslow's Hierarchy of Needs, discussed in Chapter Two, suggests that when individuals face financial pressure, they are more likely to prioritize immediate and essential needs over future protection. This is reflected in the finding that 82.8% of respondents considered expenses such as business taxes and school fees more important than paying insurance premiums. Similarly, Prospect Theory helps explain why policyholders may choose to stop paying premiums when faced with financial difficulties, as immediate financial needs may appear more urgent than the uncertain future benefits of insurance coverage.

The finding that policyholders with primary education had higher chances of policy lapse compared to those with tertiary or postgraduate education (OR = 0.135 for tertiary education relative to primary education) supports the Theory of Bounded Rationality. The theory suggests that individuals with limited access to information or financial knowledge may make decisions based on immediate circumstances rather than fully considering the long-term consequences. This may explain why some policyholders discontinue premium payments without considering the impact of losing insurance protection. The finding that 86.2% of respondents considered policy terms and exclusions unclear at the time of purchase further supports the importance of understanding insurance information, although this factor was no longer significant after financial factors were included in the regression model.

The high level of concern regarding trust in insurers, with 90.8% of respondents indicating that lack of trust in claims settlement influenced their decisions, is consistent with the Belief Hypothesis Model by Bhatia et al. (2024). The model suggests that negative perceptions about an insurer can influence policyholders' willingness to continue with insurance. However, the fact that trust was not significant in the multivariate model indicates that, within this study, distrust may not directly cause policy lapse but may occur alongside financial difficulties that ultimately drive the decision to stop paying premiums.

The findings also agree with previous studies reviewed in Chapter Two. Ndawula, Mori, and Nkote (2024) highlighted the role of behavioral factors in life insurance decisions in Uganda, while Poufinas and Michaelide (2018) identified financial and demographic factors as important determinants of policy surrender. Furthermore, the finding that most policies were obtained through legally required or agent-influenced purchases (78.2% combined) supports the study's conceptual framework, which suggests that policies obtained without strong personal commitment may be more vulnerable to lapse when financial challenges arise. This is also consistent with observations by the Insurance Regulatory Authority (2021) that premium default remains a significant challenge affecting the insurance sector.

5.4 Conclusions

Based on the findings, the study concludes as follows in relation to its three specific objectives:

- i. On institutional factors: while Ugandan policyholders sampled in this study widely perceive insurers as lacking transparency and trustworthiness, these institutional perceptions do not independently drive lapse once policyholders' financial circumstances are taken into account; institutional factors appear to compound, rather than cause, lapse driven by financial capacity.
- ii. On financial constraints: financial capacity proxied by employment type, education level, and the priority placed on competing financial obligations is the dominant driver of policy lapse among the policyholders sampled, confirming that premium unaffordability relative to irregular or informal income is the central mechanism behind policy collapse in this context.
- iii. On retention strategies: policyholders are highly receptive to structural interventions particularly grace periods and flexible, small instalment payments via Mobile Money even though these are not the first remedies they propose unprompted, indicating an opportunity for insurers to actively promote such mechanisms rather than waiting for policyholders to request them.

5.5 Recommendations

5.5.1 *To the Insurance Regulatory Authority (IRA)*

- i. Review the Cash & Carry rule's full-upfront-payment requirement, given that 96.6% of respondents in this study reported it made maintaining their policy difficult, and consider regulatory provision for phased or instalment-based premium payment structures.
- ii. Mandate minimum disclosure standards requiring insurers to communicate policy terms, exclusions and claims procedures in plain, accessible language, given that unclear terms were flagged by 86.2% of respondents.

5.5.2 *To insurance companies*

- i. Introduce or expand flexible, smaller instalment payment options via Mobile Money and similar platforms, and formalize grace-period provisions for policyholders experiencing temporary financial distress the two measures that received the strongest respondent support (89.7% and 93.1% respectively) in this study.
- ii. Design targeted retention interventions for self-employed and informally employed policyholders specifically, since these groups showed significantly higher odds of lapse than formally employed policyholders.
- iii. Invest in proactive customer care and payment-reminder systems and in transparent, faster claims settlement, to address the trust and service concerns raised by over 90% of respondents.

5.5.3 *To policyholders*

- i. Where feasible, take up available flexible payment or grace-period options rather than allowing a policy to lapse outright, since surrendering or lapsing a policy forfeits accumulated benefits and any protection already paid for.
- ii. Seek clarification of policy terms and exclusions at the point of purchase to reduce the likelihood that unclear terms later contribute to a decision to discontinue cover.

5.6 Limitations of the Study

- i. The final analytic sample ($n = 87$) is modest, particularly for multivariate analysis with several categorical predictors; two categories (postgraduate education and unemployed/student status) had to be merged with adjacent categories to avoid model non-convergence, which may mask effects specific to those small subgroups.

- ii. Several Chi-square tests in Section 4.8 had more than 20% of cells with expected counts below 5 (a violation of the test's standard assumption), meaning that some bivariate p-values, while reported, should be interpreted with caution.
- iii. The cross-sectional design captures policyholders' circumstances and attitudes at a single point in time and cannot establish the causal ordering of financial hardship, institutional distrust and policy lapse.
- iv. Data were self-reported via telephone and WhatsApp questionnaires, which may be subject to recall bias and social-desirability bias, particularly for sensitive items concerning trust in insurers.
- v. The study was confined to policyholders in Kampala and to the 2021–2025 period, which may limit the generalizability of findings to rural policyholders or to periods with different macroeconomic conditions.

5.7 Areas for Further Research

- i. A longitudinal study following policyholders from the point of purchase through renewal or lapse would help establish the causal sequence between financial shocks, institutional trust and eventual policy discontinuation.
- ii. Future research could extend this study geographically beyond Kampala to rural and peri-urban policyholders, where income instability and insurance literacy may differ substantially.
- iii. Given that flexible payment and grace-period mechanisms received overwhelming support in this study, an intervention or pilot study evaluating the actual effect of introducing such mechanisms on retention rates would provide valuable evidence for insurers and regulators.

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