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Lapse Experience under Lapse-Supported Policies: Updated Studies from The Canadian Institute of Actuaries

by Dominique Lebel



Dominique Lebel, FSA, MAAA, FCIA, is a senior consultant with Towers Perrin in San Francisco, Cal. He can be reached at dominique.lebel@towersperrin.com.

The Canadian Institute of Actuaries (CIA) recently updated its studies of lapse experience under universal life (UL) level cost of insurance (COI) and term-to-100 (T100) policies. These studies can help U.S. actuaries set lapse assumptions for other lapse-supported products where no or little ultimate lapse experience exists, such as return of premium (ROP) term and UL with no lapse guarantees. The financial implications of overestimat-

ing ultimate lapse rates for these products can be significant.

This article provides an overview of the results of the following two CIA studies:

- 1) "Lapse Experience under Term-to-100 Insurance Policies," Canadian Institute of Actuaries, October 2007
- 2) "Lapse Experience under Universal Life Level Cost of Insurance Policies," Canadian Institute of Actuaries, October 2007

Universal Life Level Cost of Insurance Products Sold in Canada:

Similar to U.S. universal life with no lapse guarantee products in that this product is frequently sold for the lowest premium that will keep the policy in force until the policyholder's death. Cost of insurance charges are level and guaranteed.

Term to 100 Products Sold in Canada:

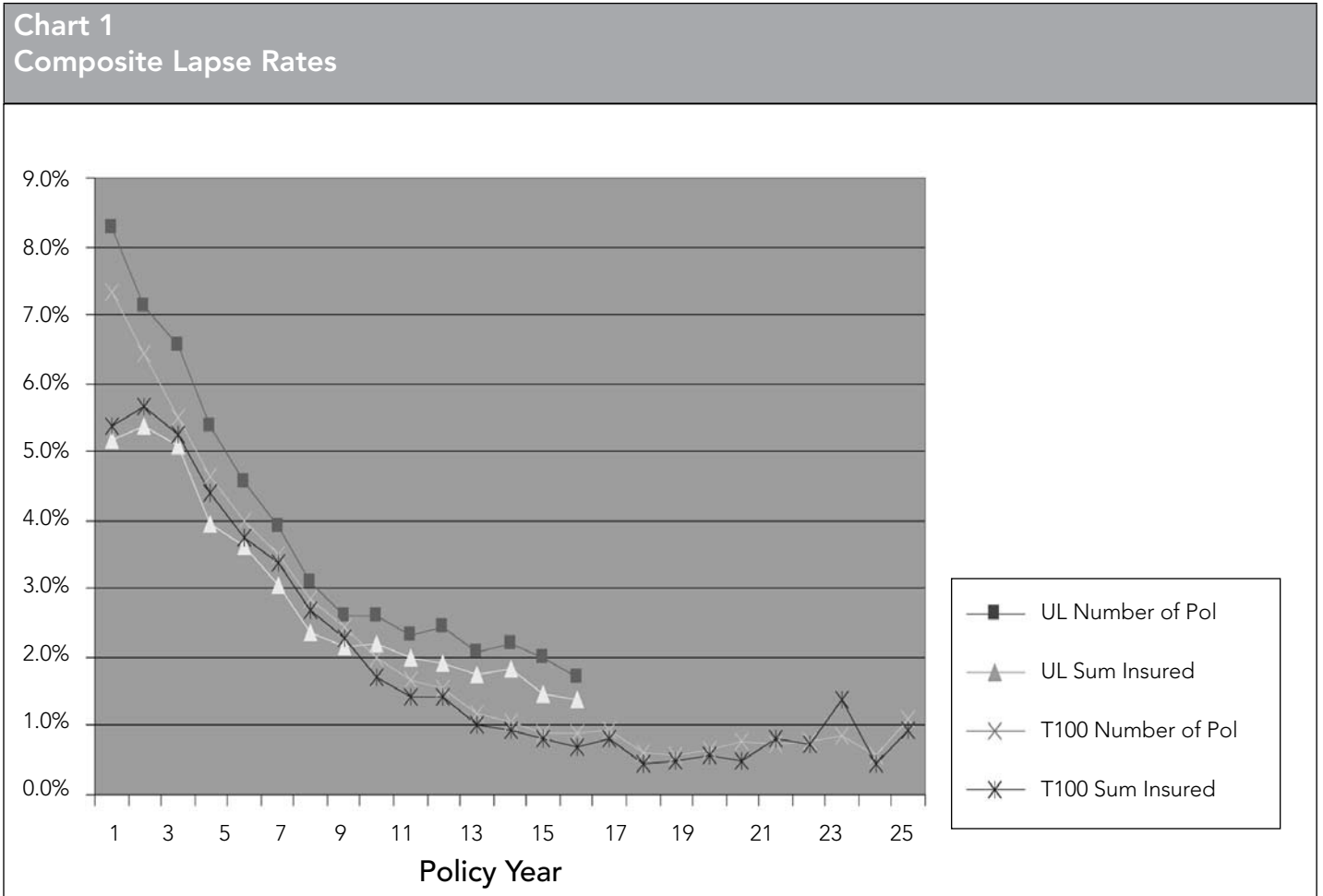
Guaranteed level premium whole life products generally without cash values.

Table 1 summarizes some of the key statistics from each study.

TABLE 1 Summary Statistics				
Study	Study Years	Number of Policies Exposed	Last Duration Published	Relatively Low Statistical Credibility Beyond Duration ¹
T100	1999–2004	4,057,080	25	20
UL Level COI	2002–2004	2,130,860	15	12

¹ As described in the study reports.

Composite lapse rates by number of policies and sum insured are presented in Chart 1 below. Ultimate lapse rates are in the 0.5–2.0 percent range, which is quite low. Both types of products exhibit similar lapse rate patterns.



The CIA studies provide additional information such as scope, methodology, limitations, contributing companies and results broken down along multiple criteria such as calendar year, gender, smoking status, policy size, issue age and premium frequency. The reader is encouraged to read each of the studies for additional details. □