

**TRANSACTIONS OF SOCIETY OF ACTUARIES  
1991-92 REPORTS**

**IV. 1989-90 LONG-TERM ORDINARY LAPSE SURVEY  
IN CANADA\***

PREFACE

This report was prepared by the Financial Research Department of the Life Insurance Marketing and Research Association, Inc. LIMRA has given the Society of Actuaries permission to reproduce this study as part of the Society's expansion of its experience studies. Discussions of this report as well as of any experience study are encouraged. LIMRA and the Society intend to work together to expand this report and seek additional data contributors. The 1988-89 version of this study appears as Part II; the 1988-89 United States version of this study appears as Part I; and the 1989-90 United States version appears as Part III. Part V is "A Long-Term Look at Yearly Renewable Term Lapsation in the United States, 1987-1990 Experience."

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INTRODUCTION

*Annual Survey*

This report examines the lapsation of ordinary insurance in Canada between 1989 and 1990 policy anniversaries. It is designed to help companies develop new products and monitor marketing and product performance.

Lapse rates in this report are percentage of face amounts, number of policies, and annualized premiums in force on 1989 policy anniversaries that lapse on or before 1990 policy anniversaries. For new issues in 1989, amounts in force on 1989 anniversaries correspond to amounts sold during 1989. (See Appendix A for definitions of terms used in this report.)

Lapse rates by face amount, number of policies, and annualized premium are measured for six types of ordinary insurance plans:

- Traditional whole life
- Interest-sensitive whole life
- Permanent term
- Five-year renewable term (5-YRT)
- Ten-year renewable term (10-YRT)
- Other level face amount term (excluding 5-YRT and 10-YRT).

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Lapse rates are measured for policy years 1, 2, 3-5, 6-10, and 11 and over. These policy years correspond to issue years 1989, 1988, 1987-1985, 1984-1980, and 1979 and earlier.

### *Definitions*

#### *Unweighted Average Lapse Rate*

This rate equals the mean of individual company lapse rates; therefore, company size does not affect the results.

#### *Weighted Average Lapse Rate*

This rate equals the mean of individual company lapse rates weighted by the amount of in-force business; therefore, company size does affect the results.

#### *Example of a First-Year Lapse*

A new policy is issued and the first 12 months of premium are subsequently paid. If the premium due in the 13th month is not paid by the end of the grace period the policy is considered a first-year lapse, not a second-year lapse.

#### *Example of a Fifth-Year Lapse*

An in-force five-year term policy was issued five years ago and the premium due in the 61st month is not paid by the end of the grace period (this is considered a fifth-year lapse). If the premium for month 61 had been paid but the premium for month 62 had not been paid by the end of the grace period, the policy is considered a sixth-year lapse.

Additional definitions appear in Appendix A.

*About the Sample*

Fourteen companies participated in this study. Thirteen of these companies provided lapse data for all three measures; one company provided only face amount and policy count data. Table A shows the total face amount in force at the beginning of the 1989-1990 policy year; Tables B and C show the total number of policies and total annualized premium in force, respectively.

TABLE A  
FACE AMOUNT IN FORCE (BILLIONS) ON 1989 ANNIVERSARIES  
(14 COMPANIES)

Issue Year	Traditional Whole Life	Interest-Sensitive Whole Life	Permanent Term	Level Face Amount Term Products		
				5-YRT	10-YRT	Other
1989*	\$ 4.8	\$ 2.4	\$2.6	\$ 2.7	\$ 5.3	\$0.4
Before 1989	37.8	17.5	5.2	19.0	8.6	2.5
Total In Force	\$42.6	\$19.9	\$7.8	\$21.7	\$13.9	\$2.9

\*For issue year 1989, amounts in force on 1989 anniversaries correspond to amounts sold during that year.

TABLE B  
NUMBER OF POLICIES IN FORCE (THOUSANDS) ON 1989 ANNIVERSARIES  
(14 COMPANIES)

Issue Year	Traditional Whole Life	Interest-Sensitive Whole Life	Permanent Term	Level Face Amount Term Products		
				5-YRT	10-YRT	Other
1989*	102.4	42.3	25.6	17.0	30.0	2.5
Before 1989	2,128.5	364.3	53.9	156.9	51.6	26.2
Total In Force	2,230.9	406.6	79.5	173.9	81.6	28.7

\*For issue year 1989, amounts in force on 1989 anniversaries correspond to amounts sold during that year.

TABLE C  
ANNUALIZED PREMIUM IN FORCE (MILLIONS) ON 1989 ANNIVERSARIES  
(13 COMPANIES)

Issue Year	Traditional Whole Life	Interest-Sensitive Whole Life	Permanent Term	Level Face Amount Term Products		
				5-YRT	10-YRT	Other
1989*	\$ 56.3	\$12.2	\$13.1	\$ 6.0	\$12.4	\$0.9
Before 1989	554.5	87.6	24.1	60.3	20.6	6.6
Total In Force	\$610.8	\$99.8	\$37.2	\$66.3	\$33.0	\$7.5

\*For issue year 1989, amounts in force on 1989 anniversaries correspond to amounts sold during that year.

## LAPSE RATES BY PRODUCT TYPE

Table D summarizes median face amount lapse rates by product for 13 companies that provided data by all three measures. Table E and Table F show similar results for median policy count and median annualized premium lapse rates, respectively.

TABLE D  
PERCENTAGE OF FACE AMOUNT LAPSING BY PRODUCT TYPE

Policy Year	Traditional Whole Life (12)	Interest-Sensitive Whole Life (8)	Permanent Term (10)	Level Face Amount Term Products		
				5-YRT (13)	10-YRT (12)	Other (10)
1	10.9%	12.5%	7.1%	9.0%	8.8%	10.1%
2	9.2	11.5	8.6	12.9	10.3	12.4
3-5	7.2	9.1	8.9	14.7	8.1	10.2
6-10	7.2	—	—	11.1	—	8.5
11 and Over	5.5	—	—	10.2	—	7.5

( ) Indicates number of companies providing lapse data.  
— Insufficient data.

TABLE E  
PERCENTAGE OF POLICIES LAPSING BY PRODUCT TYPE

Policy Year	Traditional Whole Life (12)	Interest-Sensitive Whole Life (8)	Permanent Term (10)	Level Face Amount Term Products		
				5-YRT (13)	10-YRT (12)	Other (10)
1	11.1%	14.3%	10.0%	11.0%	10.5%	12.3%
2	9.7	11.2	9.7	14.7	11.5	13.8
3-5	7.6	9.1	9.0	14.3	10.2	11.3
6-10	7.1	—	—	10.8	—	9.5
11 and Over	4.9	—	—	9.5	—	7.9

( ) Indicates number of companies providing lapse data.  
— Insufficient data.

TABLE F  
PERCENTAGE OF ANNUALIZED PREMIUM LAPSING BY PRODUCT TYPE

Policy Year	Traditional Whole Life (12)	Interest-Sensitive Whole Life (8)	Permanent Term (10)	Level Face Amount Term Products		
				5-YRT (13)	10-YRT (12)	Other (10)
1	10.3%	5.8%	7.0%	10.4%	7.6%	11.8%
2	7.8	4.8	8.0	11.6	9.6	12.2
3-5	6.3	6.6	5.6	14.6	8.0	11.2
6-10	6.9	—	—	11.5	—	6.5
11 and Over	5.0	—	—	10.1	—	8.8

( ) Indicates number of companies providing lapse data.  
— Insufficient data.

## SUMMARY OF LAPSE EXPERIENCE

Figures 1-10 summarize patterns in lapse experience based on median lapse rates, unless noted otherwise.

Figure 1 shows the variations of face amount lapse rates by companies for all product types combined. Lapse rates display the greatest variation in policy year 1 and policy years 6-10. Lapse rates in the first policy year range from 6.1 percent to 17.0 percent. In policy years 6-10, lapse rates range from 4.5 percent to 16.3 percent. One company had an unusually high lapse rate for policy years 6-10. If this company is excluded, the lapse rate ranges to 11.4 percent.

**Figure 1 - Variations in Face Amount Lapse Rates**

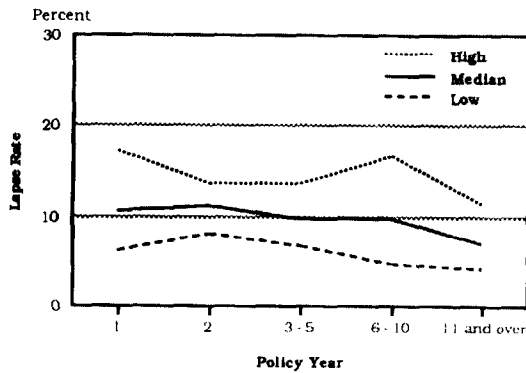


Figure 2 shows median lapse rates by face amount and policy count for all product types. Lapse rates for all measures show a general decrease from one duration to the next. Face amount lapse rates range from 10.9 percent in policy year 2 to 6.7 percent in policy years 11 and over, while policy count lapse rates decrease from 11.5 percent in policy year 1 to 5.3 percent in policy years 11 and over.

**Figure 2 - Face Amount vs. Policy Count Lapse Rates**

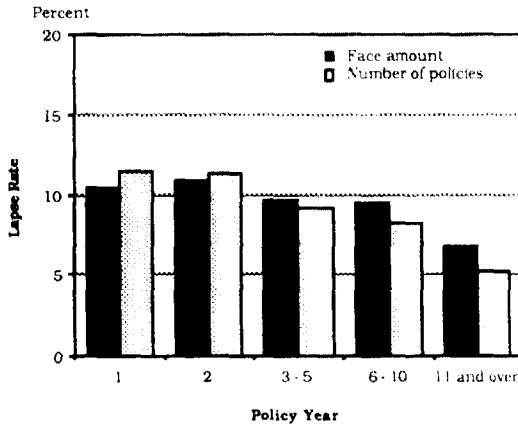


Figure 3 compares median face amount lapse rates of traditional whole life and 5-YRT products for companies that sell both. Except in the first policy year, 5-YRT exhibits higher lapse rates than whole life. Current lapse rates imply that only about half of the 5-YRT face amount sold today will remain in force after five years. For traditional whole life, half of the face amount sold today will still be in force at the eight-year mark.

**Figure 3 - Traditional Whole Life vs. Five-Year Renewable Term Lapse Rates**

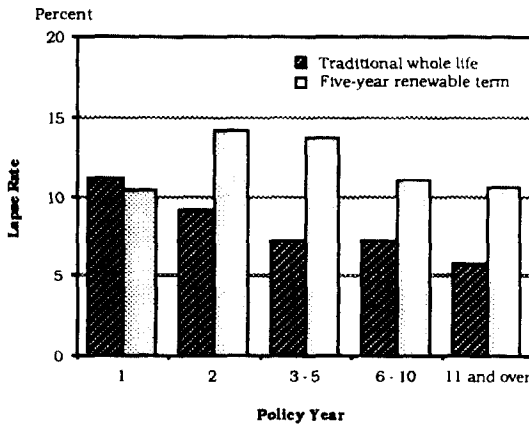
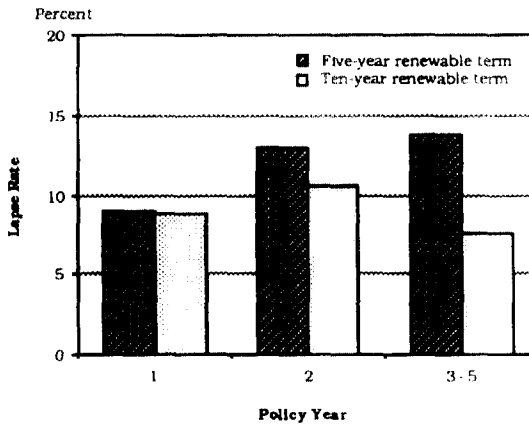


Figure 4 compares median face amount lapse rates of 5-YRT and 10-YRT products for companies that sell both. Ten-year level term, currently the most popular level face amount term product in Canada,\* exhibits a lower lapse rate than 5-YRT in all durations shown. The largest difference occurs in policy years 3-5, where lapse rates are 13.7 percent and 7.6 percent for 5-YRT and 10-YRT, respectively. This may be partly due to a significant portion of 5-YRT that is not renewed in the first month of the premium increase, which increases the fifth-year lapse rate.

**Figure 4 - Five-Year Renewable Term vs. Ten-Year Renewable Term Lapse Rates**



\*From *Level Face Amount Term Insurance—A Look at Product Design in Canada* (IIR Code 93.00)



Figures 5-10 summarize lapse experience for companies providing data for all three measures: face amount, number of policies, and annualized premium. This differs from the lapse rates in Tables 1-24, which are based on all available data.

Figure 5 shows median lapse rates by face amount, number of policies, and annualized premium for traditional whole life. Lapse rates measured by face amount and annualized premium tend to be lower than policy count lapse rates. However, relatively larger whole life policies that are more than five years old are more likely to lapse, as evidenced by relatively higher face amount lapse rates.

**Figure 5 - Traditional Whole Life Lapse Rates**

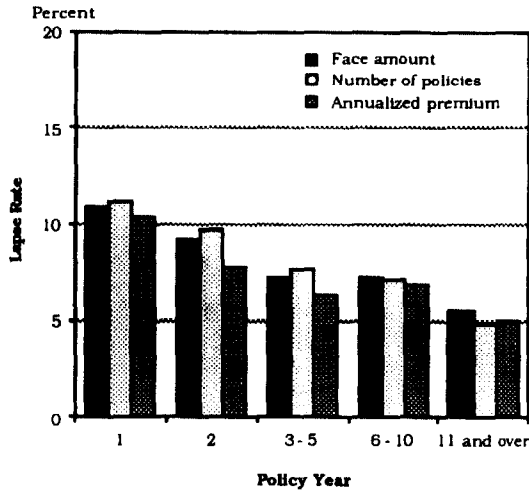


Figure 6 shows median lapse rates by face amount, number of policies, and annualized premium for interest-sensitive whole life. In early policy years, the annualized premium lapse rate is extremely low compared with the other measures. The gap lessens gradually in later durations. Eight companies provided annualized premium lapse data: Four companies had exceptionally low premium lapse rates, while four other companies had premium lapse rates similar to those measured by face amount and number of policies.

**Figure 6 - Interest-Sensitive Whole Life Lapse Rates**

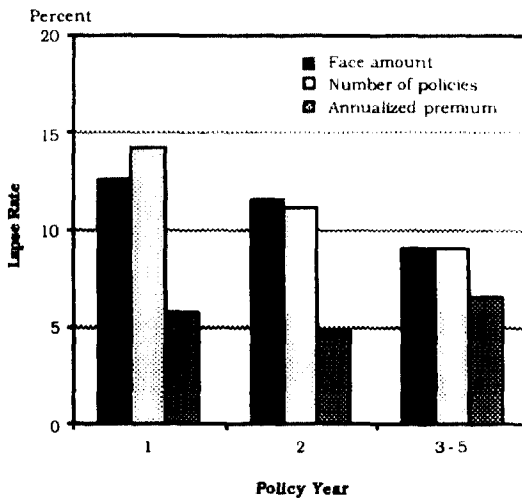


Figure 7 shows median lapse rates for permanent term insurance. Data are shown for the first five policy years. Lapse rates measured by face amount and annualized premium increase from policy year 1 to policy year 2. In the third duration, face amount lapse rates increase while annualized premium lapse rates decrease. Lapse rates by number of policies decrease in each policy year.

**Figure 7 - Permanent Term Lapse Rates**

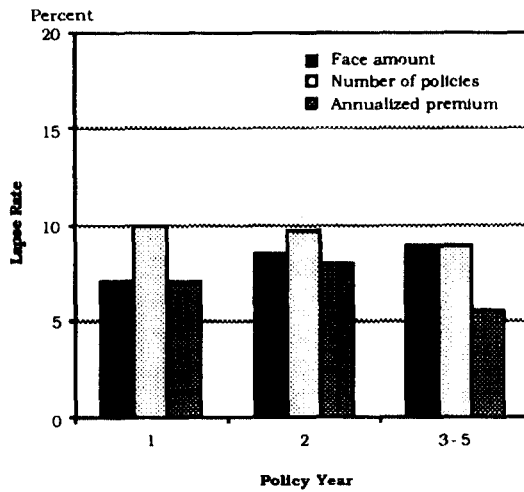


Figure 8 shows median lapse rates by face amount, number of policies, and annualized premium for 5-YRT insurance. The largest decrease in lapse rates occurs between policy years 3-5 and policy years 6-10: Lapse rates for each of the three measures decrease by over three percentage points. Note that a policy not renewing in the first month of the premium increase (month 61) is considered a fifth-policy-year lapse, not a sixth-year lapse.

**Figure 8 - Five-Year Renewable Term Lapse Rates**

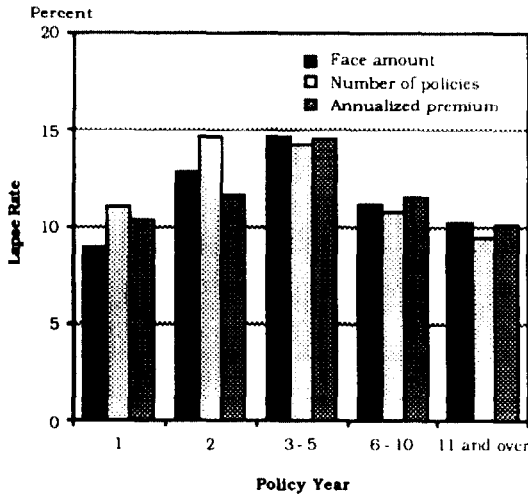


Figure 9 shows lapse rates for 10-YRT insurance. Lapse rates measured by number of policies exceed lapse rates measured by both face amount and annualized premium in all durations, indicating that smaller policies have poorer persistency than larger ones.

**Figure 9 - Ten-Year Renewable Term  
Lapse Rates**

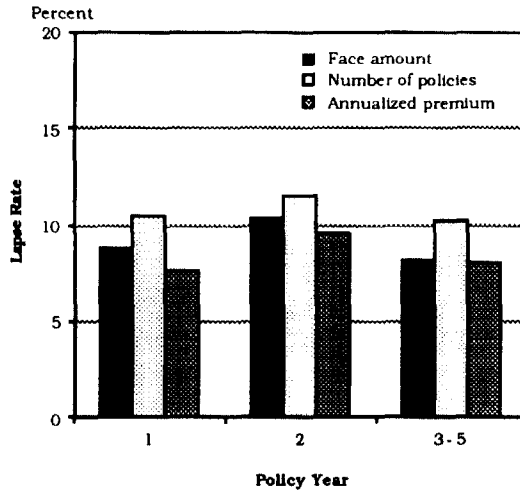
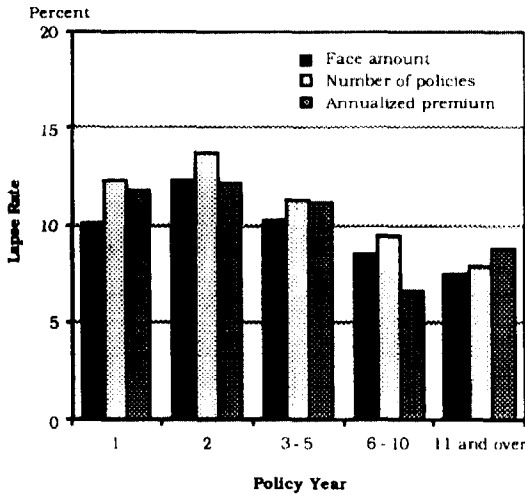


Figure 10 shows median lapse rates for other level face amount term insurance (excluding 5-YRT and 10-YRT). Lapse rates measured by number of policies exceed lapse rates measured by both face amount and annualized premium in policy years 1-10. In policy years 11 and over, lapse rates measured by face amount and annualized premium are 7.5 percent and 8.8 percent, respectively, while the policy count lapse rate is 7.9 percent.

**Figure 10 - Other Level Face Amount Term Lapse Rates**



## TRENDS IN LAPSE RATES

*Traditional Whole Life*

Figure 11 shows a two-year trend in unweighted average face amount lapse rates for a constant group of companies; Table G details companies' increases and decreases in unweighted average face amount lapse rates. Lapse rates for 1990 are less than lapse rates for 1989 in all durations under 11 years. As expected, whole life policies have better persistency in the later years.

**Figure 11 - Whole Life Face Amount Lapse Rates  
for a Constant Group of Companies**

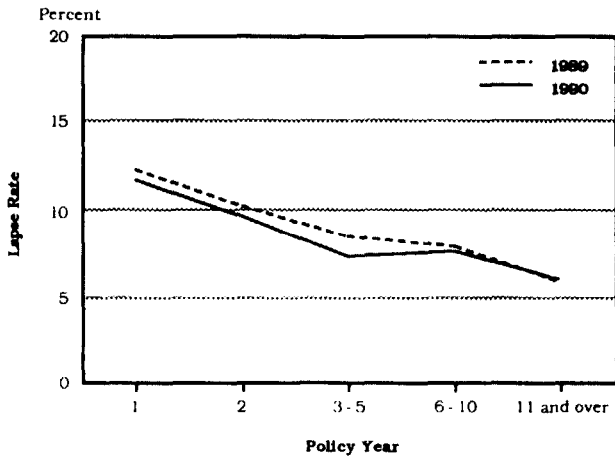


TABLE G  
INCREASES AND DECREASES IN WHOLE LIFE  
FACE AMOUNT LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1989	1990
Policy Year 1			
Increase	3	12.2%	14.2%
Decrease	7	12.1	10.5
All	10	12.2	11.6
Policy Year 2			
Increase	6	8.9%	10.0%
Decrease	4	11.9	9.0
All	10	10.1	9.6
Policy Year 3-5			
Increase	3	7.1%	7.8%
Decrease	7	8.9	7.0
All	10	8.4	7.2
Policy Year 6-10			
Increase	4	6.2%	6.9%
Decrease	6	9.0	7.9
All	10	7.9	7.5
Policy Year 11 +			
Increase	5	4.8%	5.5%
Decrease	5	6.8	6.3
All	10	5.8	5.9



*Permanent Term*

Figure 12 shows unweighted average face amount lapse rates for a constant group of companies; Table H details companies' increases and decreases in unweighted average face amount lapse rates. First-year lapse rates increased 1.0 percentage points from 1989 to 1990. Rates for 1989 and 1990 are similar in policy year 2. Lapse rates for policy years 3-5 decreased 0.9 percentage points from 1989 to 1990.

**Figure 12 - Permanent Term Face Amount Lapse Rates  
for a Constant Group of Companies**

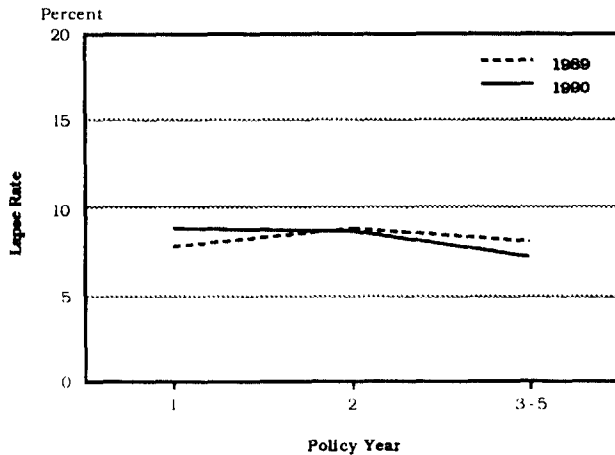


TABLE H  
 INCREASES AND DECREASES IN PERMANENT TERM  
 FACE AMOUNT LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1989	1990
Policy Year 1			
Increase	7	7.2%	8.8%
Decrease	1	11.4	8.5
All	8	7.7	8.7
Policy Year 2			
Increase	4	6.8%	8.1%
Decrease	3	11.3	8.9
All	7	8.7	8.5
Policy Year 3-5			
Increase	1	1.5%	5.8%
Decrease	5	9.3	7.4
All	6	8.0	7.1

*Five-Year Renewable Term*

Figure 13 shows 5-YRT unweighted average face amount lapse rates for a constant group of companies; Table I details companies' increases and decreases in unweighted average face amount lapse rates. Lapse rates for the second policy year increased from 14.0 percent in 1989 to 16.2 percent in 1990. Lapse rates in other durations either decreased or remained level.

**Figure 13 - 5-YRT Face Amount Lapse Rates  
for a Constant Group of Companies**

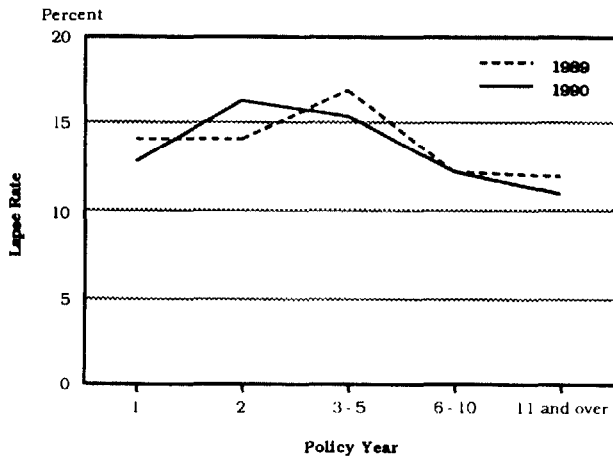


TABLE I  
INCREASES AND DECREASES IN 5-YRT FACE AMOUNT  
LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1989	1990
Policy Year 1			
Increase	2	18.6%	19.1%
Decrease	4	11.7	9.5
All	6	14.0	12.7
Policy Year 2			
Increase	5	13.2%	16.0%
Decrease	1	17.8	17.4
All	6	14.0	16.2
Policy Year 3-5			
Increase	4	12.1%	13.2%
Decrease	5	20.5	16.9
All	9	16.8	15.3
Policy Year 6-10			
Increase	3	9.3%	13.2%
Decrease	6	13.5	11.5
All	9	12.1	12.1
Policy Year 11+			
Increase	3	11.4%	12.1%
Decrease	5	12.2	10.2
All	8	11.9	10.9

*Ten-Year Renewable Term*

Figure 14 shows a two-year trend in unweighted average face amount lapse rates for a constant group of companies; Table J details companies' increases and decreases in unweighted average face amount lapse rates. The average lapse rate in policy year 2 increased from 8.9 percent in 1989 to 10.5 percent in 1990. For policy years 3-5, average lapse rates decreased by 2.5 percentage points, from 12.1 percent in 1989 to 9.6 percent in 1990.

**Figure 14 - 10-YRT Face Amount Lapse Rates  
for a Constant Group of Companies**

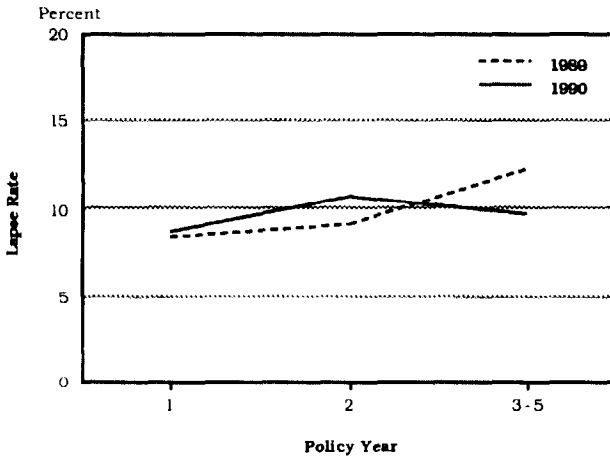


TABLE J  
 INCREASES AND DECREASES IN 10-YRT  
 FACE AMOUNT LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1989	1990
Policy Year 1			
Increase	5	8.3%	9.7%
Decrease	4	8.4	6.9
All	9	8.3	8.5
Policy Year 2			
Increase	6	8.1%	11.1%
Decrease	3	10.7	9.3
All	9	8.9	10.5
Policy Year 3-5			
Increase	1	9.3%	11.8%
Decrease	4	12.9	9.1
All	5	12.1	9.6

*Other Level Face Amount Term (Excluding 5-YRT and 10-YRT)*

Figure 15 shows unweighted average face amount lapse rates for a constant group of companies for other level face amount term insurance (excluding 5-YRT and 10-YRT). Table K details companies' increases and decreases in unweighted average face amount lapse rates. Lapse rates for 1990 are lower than lapse rates for 1989 in all policy durations greater than five years. Lapse rates in 1990 decreased from 13.0 percent in policy years 3-5 to 8.1 percent in policy years 11 and over, a decrease of 4.9 percentage points. Lapse rates in 1989 posted a similar decrease, 4.0 percentage points.

**Figure 15 - Other Level Term Face Amount Lapse Rates  
for a Constant Group of Companies**

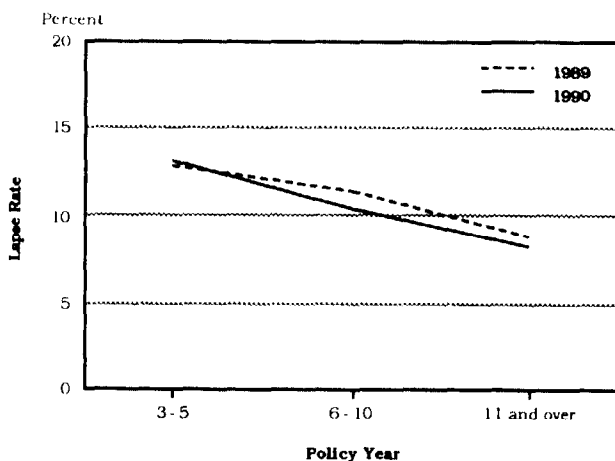


TABLE K  
 INCREASES AND DECREASES IN OTHER LEVEL TERM  
 FACE AMOUNT LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1989	1990
Policy Year 3-5			
Increase	4	5.1%	10.1%
Decrease	4	20.4	16.0
All	8	12.7	13.0
Policy Year 6-10			
Increase	3	7.1%	8.4%
Decrease	5	14.0	11.5
All	8	11.4	10.3
Policy Year 11+			
Increase	4	8.1%	8.8%
Decrease	4	9.3	7.4
All	8	8.7	8.1



A DETAILED LOOK AT LAPSE RATES BY PRODUCT

*Traditional Whole Life*

(One company's data are excluded because of atypical experience.)

TABLE 1  
FACE AMOUNT LAPSING  
(13 COMPANIES)

Policy Year	In Force (Billions)	Low	Median	High	Unweighted Average	Weighted Average
1	\$ 4.8	7.7%	11.2%	25.2%	12.8%	11.3%
2	4.6	7.0	9.2	17.2	10.3	8.6
3-5	12.3	4.9	7.3	12.6	7.8	6.4
6-10	11.3	3.3	7.3	14.1	7.7	5.7
11 and Over	9.6	3.7	5.8	10.8	6.1	5.5
All	\$42.6	5.9%	8.5%	12.7%	8.2%	6.8%

TABLE 2  
NUMBER OF POLICIES LAPSING  
(13 COMPANIES)

Policy Year	In Force (Thousands)	Low	Median	High	Unweighted Average	Weighted Average
1	102.4	8.8%	11.4%	24.1%	12.6%	11.4%
2	109.1	6.7	9.1	15.5	10.4	9.3
3-5	322.1	5.2	7.9	10.9	7.7	6.5
6-10	476.4	4.0	7.4	12.4	7.2	6.1
11 and Over	1,220.9	3.5	4.9	7.7	5.2	4.9
All	2,230.9	4.6%	6.6%	9.4%	6.8%	5.9%

TABLE 3  
ANNUALIZED PREMIUM LAPSING  
(12 COMPANIES)

Policy Year	In Force (Millions)	Low	Median	High	Unweighted Average	Weighted Average
1	\$ 56.3	6.9%	10.3%	26.5%	11.5%	9.6%
2	58.1	4.5	7.8	17.3	9.3	7.8
3-5	154.4	4.6	6.3	11.2	6.6	5.7
6-10	173.7	3.1	6.9	12.5	7.0	5.6
11 and Over	168.2	3.5	5.0	9.9	5.8	5.2
All	\$610.8	5.0%	6.6%	11.0%	7.2%	6.1%

TABLE 4

## MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM PERSISTING AND LAPSING

Policy Year	Face Amount*		Premium†	
	Persisting	Lapsing	Persisting	Lapsing
1	\$36,000	\$31,000	\$430	\$470
2	35,000	31,000	410	390
3-5	30,000	32,000	430	390
6-10	22,000	24,000	410	370
11 and Over	8,000	9,000	160	160

\* Rounded to the nearest thousand dollars.

† Rounded to the nearest ten dollars.

*Interest-Sensitive Whole Life*

TABLE 5

FACE AMOUNT LAPSING  
(9 COMPANIES)

Policy Year	In Force (Billions)	Low	Median	High	Unweighted Average	Weighted Average
1	\$ 2.4	3.2%	15.4%	17.3%	12.3%	16.7%
2	3.1	6.6	11.6	13.5	10.7	11.0
3-5	10.7	2.6	9.0	14.3	9.0	8.1
All	\$19.9	4.9%	9.9%	14.4%	9.8%	9.7%

TABLE 6

NUMBER OF POLICIES LAPSING  
(9 COMPANIES)

Policy Year	In Force (Thousands)	Low	Median	High	Unweighted Average	Weighted Average
1	42.3	3.3%	16.0%	17.9%	13.6%	16.2%
2	57.4	5.7	12.2	19.9	11.5	10.2
3-5	182.8	3.8	9.5	15.7	9.2	7.7
All	406.6	4.7%	10.7%	15.8%	10.3%	9.7%

TABLE 7  
ANNUALIZED PREMIUM LAPSING  
(8 COMPANIES)

Policy Year	In Force (Millions)	Low	Median	High	Unweighted Average	Weighted Average
1	\$12.2	2.2%	5.8%	17.0%	7.5%	16.1%
2	14.3	1.3	4.8	11.2	5.4	10.7
3-5	48.5	2.0	6.2	11.1	6.0	7.9
All	\$99.8	3.7%	7.9%	11.3%	7.4%	9.9%

TABLE 8  
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM PERSISTING AND LAPSING

Policy Year	Face Amount*		Premium†	
	Persisting	Lapsing	Persisting	Lapsing
1	\$57,000	\$52,000	\$350	\$230
2	60,000	55,000	410	250
3-5	58,000	61,000	550	350

\*Rounded to the nearest thousand dollars.

†Rounded to the nearest ten dollars.

*Permanent Term*

TABLE 9  
FACE AMOUNT LAPSING  
(12 COMPANIES)

Policy Year	In Force (Billions)	Median	Unweighted Average	Weighted Average
1	\$2.6	7.1%	7.7%	9.4%
2	2.0	8.6	9.0	8.5
3-5	2.6	7.8	8.4	6.9
All	\$7.8	8.3%	7.5%	8.0%

TABLE 10  
NUMBER OF POLICIES LAPSING  
(11 COMPANIES)

Policy Year	In Force (Thousands)	Median	Unweighted Average	Weighted Average
1	25.6	10.4%	9.3%	11.7%
2	18.8	9.5	9.8	8.6
3-5	26.7	8.4	8.3	7.4
All	79.5	9.0%	8.2%	8.8%

TABLE 11  
ANNUALIZED PREMIUM LAPSING  
(10 COMPANIES)

Policy Year	In Force (Millions)	Median	Unweighted Average	Weighted Average
1	\$13.1	7.0%	7.5%	8.7%
2	9.1	8.0	7.8	8.0
3-5	13.4	5.6	7.0	6.1
All	\$37.2	5.8%	6.3%	7.5%

TABLE 12  
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM PERSISTING AND LAPSING

Policy Year	Face Amount*		Premium†	
	Persisting	Lapsing	Persisting	Lapsing
1	\$122,000	\$97,000	\$770	\$550
2	111,000	94,000	570	450
3-5	99,000	90,000	540	430

\*Rounded to the nearest thousand dollars.

†Rounded to the nearest ten dollars.

*Five-Year Renewable Term*

TABLE 13  
FACE AMOUNT LAPSING  
(14 COMPANIES)

Policy Year	In Force (Billions)	Low	Median	High	Unweighted Average	Weighted Average
1	\$ 2.7	5.3%	10.3%	21.2%	11.0%	9.7%
2	2.9	7.9	14.2	19.4	14.0	14.4
3-5	8.5	8.2	13.9	25.4	14.8	12.2
6-10	6.4	1.0	11.3	16.3	11.1	10.7
11 and Over	1.2	6.8	10.4	14.9	10.4	10.3
All	\$21.7	7.2%	13.1%	16.4%	12.6%	11.6%

TABLE 14  
NUMBER OF POLICIES LAPSING  
(14 COMPANIES)

Policy Year	In Force (Thousands)	Low	Median	High	Unweighted Average	Weighted Average
1	17.0	7.1%	12.5%	21.3%	13.2%	13.0%
2	19.7	10.1	16.2	21.1	15.5	16.3
3-5	59.6	8.8	14.7	25.3	14.7	12.8
6-10	57.3	1.0	11.1	16.2	11.0	10.7
11 and Over	20.1	5.1	9.8	15.0	9.9	9.2
All	173.9	7.8%	12.8%	16.1%	12.6%	12.1%

TABLE 15  
ANNUALIZED PREMIUM LAPSING  
(13 COMPANIES)

Policy Year	In Force (Millions)	Low	Median	High	Unweighted Average	Weighted Average
1	\$ 6.0	5.4%	10.4%	22.0%	11.0%	9.8%
2	6.7	5.6	11.6	18.9	12.5	13.4
3-5	22.1	6.1	14.6	33.0	17.0	11.9
6-10	23.5	1.2	11.5	22.2	12.4	11.9
11 and Over	7.9	6.7	10.1	15.2	10.1	10.5
All	\$66.3	5.5%	13.4%	22.2%	13.7%	11.7%

TABLE 16  
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM PERSISTING AND LAPSING

Policy Year	Face Amount*		Premium†	
	Persisting	Lapsing	Persisting	Lapsing
1	\$176,000	\$131,000	\$380	\$300
2	153,000	129,000	330	270
3-5	144,000	138,000	360	330
6-10	108,000	109,000	410	490
11 and Over	60,000	65,000	410	500

\*Rounded to the nearest thousand dollars.

†Rounded to the nearest ten dollars.

*Ten-Year Renewable Term*

TABLE 17  
FACE AMOUNT LAPSING  
(13 COMPANIES)

Policy Year	In Force (Billions)	Median	Unweighted Average	Weighted Average
1	\$ 5.3	8.8%	8.8%	9.5%
2	4.0	10.6	10.7	9.3
3-5	3.9	7.6	8.0	9.9
All	\$13.9	9.6%	9.7%	9.5%

TABLE 18  
NUMBER OF POLICIES LAPSING  
(13 COMPANIES)

Policy Year	In Force (Thousands)	Median	Unweighted Average	Weighted Average
1	30.0	10.6%	10.3%	11.5%
2	23.3	12.3	12.1	10.7
3-5	22.7	9.9	9.3	11.1
All	81.6	11.6%	11.0%	11.0%

TABLE 19  
ANNUALIZED PREMIUM LAPSING  
(12 COMPANIES)

Policy Year	In Force (Millions)	Median	Unweighted Average	Weighted Average
1	\$12.4	7.6%	8.5%	9.3%
2	9.7	9.6	10.5	9.5
3-5	9.3	8.0	7.9	10.1
All	\$33.0	9.0%	9.3%	9.6%

TABLE 20  
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM PERSISTING AND LAPSING

Policy Year	Face Amount*		Premium†	
	Persisting	Lapsing	Persisting	Lapsing
1	\$163,000	\$152,000	\$410	\$360
2	156,000	140,000	400	370
3-5	174,000	133,000	460	360

\*Rounded to the nearest thousand dollars.

†Rounded to the nearest ten dollars.

*Other Level Face Amount Term (Excluding 5-YRT and 10-YRT)*

TABLE 21  
FACE AMOUNT LAPSING  
(12 COMPANIES)

Policy Year	In Force (Billions)	Low	Median	High	Unweighted Average	Weighted Average
1	\$0.4	3.1%	11.6%	20.5%	11.2%	11.7%
2	0.3	7.0	11.4	25.8	12.9	9.7
3-5	0.7	5.8	8.9	40.0	11.8	9.7
6-10	0.9	2.7	8.6	20.9	9.9	9.7
11 and Over	0.6	1.9	8.9	11.9	8.0	8.5
All	\$2.9	5.3%	10.1%	31.4%	11.1%	9.7%

TABLE 22  
NUMBER OF POLICIES LAPSING  
(11 COMPANIES)

Policy Year	In Force (Thousands)	Low	Median	High	Unweighted Average	Weighted Average
1	2.5	5.7%	12.3%	19.7%	11.8%	13.3%
2	1.5	7.1	13.8	31.9	16.0	14.8
3-5	3.1	5.6	12.5	41.5	14.6	13.9
6-10	8.5	3.7	9.6	28.0	11.2	10.1
11 and Over	13.1	2.9	8.2	20.7	8.3	7.0
All	28.7	4.6%	10.2%	26.6%	11.5%	9.6%

TABLE 23  
ANNUALIZED PREMIUM LAPSING  
(10 COMPANIES)

Policy Year	In Force (Millions)	Low	Median	High	Unweighted Average	Weighted Average
1	\$0.9	3.6%	11.8%	17.7%	11.7%	11.9%
2	0.5	6.0	12.2	23.8	13.1	11.6
3-5	1.0	5.2	11.2	30.8	11.9	10.6
6-10	2.8	1.9	6.5	33.6	10.4	8.4
11 and Over	2.3	2.0	8.8	15.0	8.4	9.3
All	\$7.5	4.6%	9.4%	25.8%	10.7%	9.6%

TABLE 24  
 MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM PERSISTING AND LAPSING

Policy Year	Face Amount*		Premium†	
	Persisting	Lapsing	Persisting	Lapsing
1	\$115,000	\$95,000	\$410	\$410
2	97,000	86,000	290	240
3-5	108,000	94,000	370	200
6-10	76,000	62,000	290	270
11 and Over	31,000	28,000	170	120

\*Rounded to the nearest thousand dollars.

†Rounded to the nearest ten dollars.

## APPENDIX A DEFINITIONS

### *In-Force Policies*

A policy is considered in force if the first premium for the new policy year starting in 1989 is paid.

In-force business includes:

- Policies issued in 1989.
- Policies issued prior to 1989 whose premiums due on their 1989 policy anniversary dates are paid before the end of the grace period.

In-force business excludes:

- Policies that lapsed prior to their 1989 anniversaries and that are on extended term or reduced paid-up status.
- Limited premium payment policies that are paid up.
- Single premium policies.

Examples of in-force policies are:

- A policy issued in 1989 with the first premium paid.
- A policy issued in 1988 whose premium due in policy month 13 is paid.
- A policy issued in 1987 whose premium due in policy month 25 is paid.

### *Lapses*

A policy is considered a lapse if the first premium for the new policy year starting in 1989 is paid, but not all of the premium that comes due after the 1989 anniversary and before or on the 1990 anniversary date is paid.



**Lapsed business includes:**

- Policies surrendered after their 1989 anniversaries and before or on their 1990 anniversaries.
- Policies whose premiums due after their 1989 anniversaries and before or on their 1990 anniversaries are not paid by the end of the grace period.
- Term policies with renewal provisions that do not renew.
- Policies that go on reduced paid-up or extended-term status.

**Lapsed business excludes:**

- Death claims.
- Automatic premium loaned policies.
- Expiries and maturities.
- Conversions.
- Policies that lapse during the 1989-1990 policy year but are reinstated before or on their 1990 anniversaries.
- Policies not taken.
- Policies whose waivers of premium provision apply.

**Examples of lapsed policies are:**

- A policy issued in 1989 with the first premium paid. If any premium for policy months 2 through 13 is not paid by the end of the grace period, the policy is considered a first-year lapse.
- A policy issued in 1988 with the premium for policy month 13 paid. If any premium for months 14 through 25 is not paid by the end of the grace period, the policy is considered a second-year lapse.

**Example of a policy that is not lapsed is:**

- A policy issued in 1988 is not considered a lapse if the thirteenth policy month premium and all premiums for policy months 14 through 25 are paid.

*Annualized Premium*

- The amount of premium that would be paid if a policy remained in force for a full policy year, for example, 12 times the monthly premium or four times the quarterly premium.

*Traditional Whole Life*

- Includes:**
- Fixed cash value products including continuous pay and limited pay plans with permanent protection. Premiums may be level or indeterminate.

- Excludes:
- Interest-sensitive whole life
  - Universal life
  - Endowments
  - Graded-premium whole life
  - Whole life plans used to fund registered pension plans.

*Five-Year Renewable Term (5-YRT)*

- Includes:
- Level face amount products with premiums that increase every five years. This includes (1) nonparticipating products with indeterminate premiums that have two schedules of premiums—current and guaranteed, (2) nonparticipating products with guaranteed premiums, and (3) participating products paying dividends.

- Excludes:
- Nonlevel term (for example, decreasing term)
  - Term riders
  - Permanent term (see page 901 for definition).

*10-Year Renewable Term (10-YRT)*

- Includes:
- Level face amount products with premiums that increase every 10 years. This includes (1) nonparticipating products with indeterminate premiums that have two schedules of premiums—current and guaranteed, (2) nonparticipating products with guaranteed premiums, and (3) participating products paying dividends.

- Excludes:
- Nonlevel term (for example, decreasing term)
  - Term riders
  - Permanent term.

*Other Level Face Amount Term (excluding 5-YRT and 10-YRT)*

- Includes:
- Level face amount products. This includes (1) nonparticipating products with indeterminate premiums that have two schedules of premiums—current and guaranteed, (2) nonparticipating products with guaranteed premiums, and (3) participating products paying dividends.

- Excludes:
- 5-YRT
  - 10-YRT
  - Nonlevel term (for example, decreasing term)
  - Term riders
  - Permanent term.

*Interest-Sensitive Whole Life*

- Includes:
- Whole life plans that credit cash values with current interest rates. Premiums may be level, may vanish, or may be adjusted periodically.

- Excludes:
- Universal life.

*Permanent Term*

- Includes:
- Level face amount term products with level premiums to age 65 or older. Death benefits or premiums for these plans may be adjusted periodically (for example, every five years) to reflect changes in interest rates, mortality, and expenses. Typically the plans build no (or little) cash value and their only nonforfeiture value may be reduced paid-up insurance.

## APPENDIX B

## PARTICIPATING COMPANIES

Canada Life

COLONIA Life

Commercial Union Life of Canada

Confederation Life

Crown Life

Equitable Life of Canada

Great-West Life

Industrial-Alliance Life

Manufacturers Life (Canada)\*

Metropolitan Life

National Life of Canada\*

Royal Life of Canada\*

Standard Life (Canada)\*

Sun Life of Canada

\*New participant.

