

RGA

By: Martyn Gilling, Vice President, Business Development, RGA Canada¹

Concerns about policy lapses and the associated anti-selective mortality experience are generating frequent conversations among actuaries in North America and Australia.

Australia's advisor-driven term market consists almost entirely of yearly renewable term (YRT) policies, some of which are bundled with acceleration riders covering total and permanent disability (TPD) or critical illness. The market is experiencing 14% to 15% annual lapse rates, due to a variety of factors – primarily 12%-15% YRT premium increases and a combination of first-year advisor commissions of 100% to 110%, short responsibility periods and significant industry competition on product features encouraging advisors to consider alternatives. These high lapse rates can lead to an anti-selective lapse effect (i.e., healthy lives lapsing while impaired lives renew) and difficulties recovering deferred acquisition costs, all putting pressure on industry profitability.

Canada's main term life product is level premium term, with T10 being the most frequently selected duration. These policies renew into another level premium term period (unlike U.S. products, where post-level term renewals are generally YRT) with a significant increase in renewal premiums at the term's expiration.

A recent study by RGA Reinsurance Company, sponsored by The Society of Actuaries (U.S.)², found a high correlation in the post level term period between premium increases, resultant lapse rates and mortality experience. Reliable experience is also emerging in Canada that is showing very similar results and impacting term life product profitability.



¹ Mr. Gilling joined RGA Canada earlier this year after four years as Chief Pricing Actuary for RGA Australia. This article was featured in the September 9th, 2015 edition of the CIAs CPD newsletter.

² <https://www.soa.org/Research/Experience-Study/Ind-Life/Persistency/research-2014-post-level-shock.aspx>

