

THE PROBLEM OF LAPSES.

(B. W. N. Grigg, B.A., *Mutual Life of Canada*,
Before Insurance Institute of Toronto.)

I have prepared a table showing the amount of new business written each year for the last five years in Canada, and the proportion of that new business which has been lost by surrender of the policies, by lapse, or by not being taken. The figures are given at the foot of the page.

Thus we are confronted with the fact that in the year 1914, of every \$100.00 of insurance written, \$63.00 vanished on account of surrenders, lapses or refusal to accept. In other words, 63% of the agent's work was rendered nugatory, as far as the net increase of life insurance in this country is concerned. That year was partly one of peace, partly one of war. Yet in 1913 the waste was 47.21%; in 1912, 47.86%; in 1911, 46.28%; in 1910, 51.21%. These are appalling figures. For years approximately one-half of all our effort has been thrown away. It is amazing that in view of these facts the agents and the companies have not taken more vigorous action.

It will be seen that there was, prior to 1914, a tendency toward improvement in the matter of lapsed, surrendered and not taken policies, but that unfortunately the tendency was reversed in 1914, not the only tendency towards improvement which was reversed in that fatal year. Economists do not seem to be able to predict with certainty what kind of a reaction there will be after the war, but the general belief is that there will follow an era of marked prosperity in Canada. This will be reflected in the experience of life companies. They will write more new business and they will suffer less from wastage of business. These two would work together to reduce the ratio of waste to new business, and vastly increase the total in force.

But although there was prior to 1914 a noticeable tendency to improvement, it was very gradual, and in this important matter we need a revolution rather than a slow reformation. The evil is a glaring one, from which the companies and the public suffer in common. The evil results from specific causes, and if these were checked the change would be instantaneous.

LOSS TO THE COMPANY.

We cannot too clearly recognize the fact that our progress depends both upon conserving old business and in securing new business. It is true that the net increase will be greater if the chief effort is spent on writing new risks. A vessel with a leak will fill rapidly if there is vigorous pumping in to offset the leakage. Nevertheless the leak should be stopped up. In this case to which I am referring, the leakage is one-half the inflow. But in considering wastage from lapsed and not taken policies, there is not only a loss in business in force, but in actual cash. It has been estimated by a reliable Canadian authority that the cost of replacing lapsed

and not taken policies by new business is, in Canada, not less than a million dollars annually. This loss of course, falls ultimately on the policyholder.

I have spoken of loss from lapses. Is there any compensating gain? In other words, can a Company regard lapses as in any sense a source of revenue? Under the old policies where no surrender values were given, I think it cannot be denied that there was a gain from lapsation. Moreover, in the case of well-established Friendly Societies charging level premiums, where surrenders are not given, it is probably fair to make some allowance for lapse in the calculation of the net premium, but the matter of this allowance should be left to experienced actuaries only, and even they will do wisely to handle with care, following the modern idea of "Safety First." This reduction in the premium may be roughly regarded as the equivalent of a surrender value. In case of any such allowance being made, the reserves should be accurately computed on the new basis so as to avoid any of the pitfalls into which so many of the assessment societies stumbled, owing to a disregard of correct actuarial principles. But in the case of legal reserve, old line companies, where surrenders are granted as soon as the policies become of substantial value, no allowance should be made for lapse in the calculation of premiums and reserves.

LOSS TO THE ASSURED.

But think of the loss in the aggregate to the assured who forfeit their policies! They pay a premium that is exactly the annual value of the contract, on the understanding that it matures, expires or becomes a claim. Now, if it lapses in the second year, they pay this premium for protection lasting over only twelve months. They lose the whole of the difference between the value of one year's term insurance and the premium paid. Taking the lapses altogether, the money actually thrown away in this manner is enormous. Allowing roughly \$10.00 as a one-year term premium, they lose the balance. On a hundred millions of lapses there would be a dead loss of one million five hundred thousand dollars if the average premium per \$1,000 were \$25.00. It is, therefore, a serious direct loss to the companies and to the Canadian public of between two and three million dollars. Now, is it not within the power of the companies operating in Canada to mitigate, if not abolish, the trouble? I believe it is; we need only the "will-to-conquer."

FAULTS OF SALESMANSHIP.

Having glanced at the evil, we turn to its causes. In the first place, we will indicate four faults in salesmanship that result in lapses:

Misfits. In issuing the policy in the first place, the agent and the company should endeavor to assure themselves that the prospect is not assuming obligations which he cannot discharge. The result of not assuring this is that the business lapses or is not taken, and, in the aggregate, those losses arise of which we spoke. The prospect should not only be able to

Year	New Business	Surrender Values	Per Cent. of New Business	Lapses	Per Cent. of New Business	Not Taken	Per Cent. of New Business
1910.....	\$166,500,862	\$13,222,050	7.94	\$59,478,046	35.72	\$12,572,405	7.55
1911.....	195,447,625	12,891,032	6.60	66,372,374	33.96	13,134,376	6.72
1912.....	243,765,443	14,696,429	6.03	85,217,473	34.96	16,749,908	6.87
1913.....	254,447,632	16,445,273	6.46	81,779,021	32.14	21,910,528	8.61
1914.....	238,249,754	21,478,297	9.02	104,683,181	43.94	23,823,981	10.00