

APPENDIX B

State of Colorado
Division of Insurance
Department of Regulatory Agencies
201 East Colfax, Room 106
Denver, Colorado 80203

September 28, 1979

To Life Insurance Companies
Operating in the United States

The National Association of Insurance Commissioners (NAIC) has been concerned for some time about the consequences to consumers resulting from high levels of lapsation experienced by some companies. As a result, the (C3) Cost Disclosure Task Force charged an industry advisory committee to study the various aspects of lapsation and to develop a lapse disclosure system which would identify companies with unusual lapse patterns.

The industry advisory committee submitted its report on lapsation, including a proposed lapse disclosure system, to the NAIC in December, 1978. After exposing the report and disclosure system to the industry for a six-month period, the (C3) Cost Disclosure Task Force asked the advisory committee to test the technical adequacy of the disclosure system using the Life Insurance Marketing and Research Association (LIMRA) as the collection and analysis center. The NAIC task force will circulate the results and interpretation of the test material to the commissioners and ask their response as to the usefulness of the information.

With this letter you will find three enclosures:

1. A reference description of the industry advisory committee's proposed lapse disclosure system. (Only the table on the first page of the reference description would be submitted to the commissioners according to the proposed system.)
2. A questionnaire concerning company informational items, current persistency efforts, cost and time factors of the proposed system, etc. *—to be completed and returned by October 31, 1979.*
3. Reporting forms for the test data, *to be completed and returned by December 28, 1979.* Auxiliary information which may be useful in further "normalizing" or explaining lapse variances is requested in addition to the test data needed for the proposed system.

Please complete the questionnaire and test data report promptly and to the best of your ability. It is requested and expected that each company will reply to the questionnaire. Those companies which are currently monitoring their lapse experience should also submit data to test the proposed system. Test data may be submitted for as many policy durations as are currently available.

Individual company questionnaire responses and actual data submitted for testing purposes will be held confidential by LIMRA staff. Results and analyses from the testing period will be submitted to the NAIC without company identification.

The purpose of a testing period is to discover the possible shortcomings of a proposed system before its adoption. It is, therefore, most important that efforts be made to submit test data for as many sectors of the insurance industry as possible in order that the system may be tested on small as well as large, on stock as well as mutual, on home service as well as ordinary companies, and on as many distribution systems as possible.

Your cooperation in these efforts will be appreciated.

Please direct your responses and inquiries to Helen T. Noniewicz, assistant vice president, manpower and market research, at LIMRA (170 Sigourney Street, Hartford, Connecticut 06105, or (203) 525-0881).

J. Richard Barnes, C.L.U.
Chairman
NAIC Life Insurance (C3) Subcommittee