NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

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Interim Report of the Superintendent
Pursuant to Section 308 of the New York Insurance Law
Relating to Investigating Claims and Locating Beneficiaries Owed Death Benefits
Under Life Insurance Policies, Annuity Contracts, and Retained Asset Accounts

December 5, 2011

Summary

LIFE INSURERS SHOULD REGULARLY MATCH life insurance policies against a reliable death list, rather than just waiting for claims to be filed. The technology exists, and it is clear that some insurers have been utilizing such death list databases in determining whether to curtail annuity payments. In response to the Department's investigation, life insurers that have undertaken the prescribed matching efforts have made $52.6 million in payments to almost 8,000 beneficiaries that would not have otherwise been made. About $16.9 million of that sum has been paid to New York payees. Moreover, matching done as a result of the Department's review has already produced another almost 28,000 matches for which claims processing has been initiated and located another almost one million initial matches that need further checking, but will likely result in substantial additional payments.

Background

THE DEPARTMENT OF FINANCIAL SERVICES (the "Department" or "DFS") has been conducting an inquiry into allegations of unfair claims and trade practices by authorized life insurers and fraternal benefit societies (collectively, "insurers") based on concerns that insurers may not be adopting and implementing proper standards for investigating claims and locating beneficiaries with respect to death benefits under life insurance policies, annuity contracts, and retained asset accounts. In particular, there may be instances where a death has occurred and no claim has been filed, but premiums continue to be deducted from the account value or cash value until the policy lapses. In some instances beneficiaries may be unaware that they have been named as a beneficiary and not realize that they need to file a claim. In the context of retained asset accounts, funds may simply remain dormant after the death of the accountholder because the beneficiary, if a beneficiary was designated at all, may not be aware of the account. In all of these instances, a valid death benefit is either not paid or the payment is delayed.

Recently, the Department issued a letter pursuant to Section 308 of the New York Insurance Law ("308 letter") advising all insurers that a cross-check of all life insurance policies, annuity contracts, and retained asset accounts on their administration data files, including group policies for which an insurer maintains detailed insured records, should be performed with the latest updated version of the U. S. Social Security Administration's Death Master File ("SSA-DMF")—or another database or service that is at least as comprehensive as the SSA-DMF—to identify any death benefit payments that may be due under life insurance policies, annuity contracts, or retained asset accounts as a result of the death of an insured or contract or account holder. The Department supplemented the 308 letter with guidance to the life industry in New York issued August 8, 2011, September 28, 2011, and October 14, 2011.

Findings to Date

BASED ON THE DEPARTMENT'S INVESTIGATION, including responses to the Department's 308 requests, it appears that some insurers have utilized the SSA-DMF to stop annuity payments once a contract holder dies, but have not used the SSA-DMF to determine if any death benefit payments are due under life insurance policies, annuity contracts, or retained asset accounts.

In addition, technology has now advanced to the point that all insurers can and should be adopting standard procedures to cross-check life insurance policies, annuity contracts and retained asset accounts on their administration data files with SSA-DMF, or another database or service that is at least as comprehensive as SSA-DMF, on a regular basis as a supplement to the historical death claim reporting processes. Many life insurers already purchase SSA-DMF or subscribe to a service that utilizes SSA-DMF for some purposes (e.g., terminating annuity payments). Best practices require that insurers that do not currently purchase SSA-DMF or subscribe to a service that utilizes such do so going forward, and that all insurers should be utilizing SSA-DMF or a database that is at least as comprehensive, to determine if any death benefit payments are due as a result of unreported claims.

DFS received first-stage reports from insurers in response to the inquiries on October 31, 2011. Subsequent progress reports will be forthcoming, with a final report due March 31, 2012. This Interim Report is based upon the information the Department received in the first-stage reporting (7 insurers, 2 life insurers and 5 fraternals have not yet submitted responses; DFS is pursuing those insurers for follow up).

Based on what has been reported to the Department thus far, recipients of the inquiry letters have paid approximately $52.6 million to beneficiaries since the start of DFS's investigation, including approximately $16.9 million paid to New York payees.

The earliest year of death for which a benefit payment has been made thus far is 1970, and the largest benefit payment made thus far is $673,485. Average payments have ranged from $2,786 to $36,363, depending on the type of business. See the table below for further details set forth by type of business:

Type of Business	Earliest Date of Death	Largest Amount Paid	Average Amount Paid
Individual Life	1970	$673,485	$6,994
Group Life	1989	$199,827	$2,786
Individual Annuity	1994	$365,264	$36,363
Group Annuity	1988	$167,821	$6,978
Retained Assets	2005	$137,690	$17,836

It should be noted that many insurers have not made any payments through October 31, 2011. However, the Department originally expected that only the matching process would be completed by the October 31, 2011 due date, and that for the most part companies would be reporting payments in subsequent progress updates. The October reports reflect that companies are at different stages of the project, and at least some insurers already are making payments.

Separately, several insurers have reported to the Department about similar ongoing initiatives that pre-date the Department's inquiry. Those separate efforts have resulted in payments totaling approximately $299.3 million. These initiatives and payments highlight the merit of the Department's 308 initiative and its plan to issue a regulation requiring all insurers to proceed similarly.

Overall, insurers report that they have cross-checked approximately 79.22 million policy records against the SSA-DMF. This has resulted in approximately 2.68 million initial matches. Many initial matches have been eliminated for reasons such as: policies not in force at time of death, match is not with the same person, and claim already submitted. Insurers are still in the process of validating and/or investigating approximately 950,000 initial matches. Approximately 7,934 payments have already been made to individuals totaling approximately $52.6 million, including about 1,209 payments made to New York payees totaling approximately $16.9 million. Insurers have also initiated claims processing for approximately 27,889 other matches.

Insurers also report that they have scheduled for escheatment or escheated approximately $4.3 million to various states. For any deaths that are confirmed where the insurer cannot locate the beneficiary, insurers are expected to escheat the death benefits to the appropriate state, within the state's statutorily-prescribed timeframe.

With regard to specific practices involving utilization of the SSA-DMF, there are a small number of insurers that have been performing regular SSA-DMF cross-checks for a number of years including Massachusetts Mutual Life Insurance Company and Prudential Insurance Company of America. Some other insurers have more recently adopted regular cross-check procedures, including Metropolitan Life Insurance Company. However, many insurers have not made regular use of SSA-DMF cross-checks to pay unreported insurance benefits. Among the insurers that currently do regular cross-checks, there also appears to be a move toward doing the cross-checks more frequently—quarterly and even monthly.