Returning Abandoned Insurance Funds

October 18, 2010

Brendan Bridgeland
Returning Abandoned Insurance Funds

- The amount of unclaimed funds turned over by insurance companies to state abandoned property funds is substantial.
- In these difficult economic times, taking steps to help return unclaimed accounts to consumers could help millions of families.
Returning Abandoned Insurance Funds

Some background facts:

- The 50 states hold roughly $35 billion in unclaimed property.
- The laws governing abandoned insurance funds in many jurisdictions are based on model laws developed by consulting firms that examine companies to search for property to be turned over to state funds.
- These consultants can receive 10% to 15% of the proceeds as a commission.
Returning Abandoned Insurance Funds

- Some states have broadened laws in recent years to require that assets be turned over more quickly, while reducing efforts to locate owners.

- In 2001, Delaware officials found that only about 2,300 reports for the 280,000 companies incorporated in Delaware had been filed.

- States return about one-third of this property to consumers, but this can vary tremendously. Delaware's director of revenue reported that his state returns less than 5% of the unclaimed property.
Center for Insurance Research staff first became aware of the abandoned property issue while working on various demutualization transactions during the last decade.

As part of the demutualization process, converting mutual insurers were required to distribute shares or cash to their participating policyholders. During the distribution process, a number of the large life insurers had hundreds of thousands of policyholders with paid up policies that they were no longer in contact with.

Because of the poor record-keeping and search procedures, billions of dollars in demutualization compensation went unclaimed.
Returning Abandoned Insurance Funds

- Unclaimed demutualization funds are often accompanied by an unpaid death benefit.
- During my early research on the subject I located a demutualization payout in the name of deceased family friend. The father of the family had passed away when his children were in junior high, and since the policy was unknown to his widow, it went unreported for well over a decade. When she contacted the state to claim the demutualization proceeds, she also received the death benefit on the underlying insurance policy (which had been taken out when the insured was just a small child).
- This was money a family coping with the loss of a parent could have benefitted from long ago.
Returning Abandoned Insurance Funds

- In our view, insurers’ searches conducted to locate policyholders were inadequate. Secretary of state officials in several states (CT, MA, VT) located tens of thousands of these lost policyholders via their own independent searches of DMV records.

- However, state abandoned property funds did not miss out on the demutualization compensation. California and other states amended their abandoned property laws to specifically accelerate the transfer of demutualization funds into the state unclaimed property funds. These states reaped hundreds of millions collectively from the demutualization of insurance companies.
Absent the demutualization payment, the deceased’s family would have never discovered the unclaimed policy. Under state law in most jurisdictions, a life insurance policy will not be transferred into the abandoned property fund until three years after the insured would have reached his 100th birthday.

If a person perishes at the age of 80, an unclaimed life policy cannot be located in state abandoned property records for another 23 years – long after the family will have ceased searching. In the interim, the insurer retains the funds and thus has little incentive to make contact with paid up life insurance policyholders.
Returning Abandoned Insurance Funds

- The same problems apply to other lines of insurance. Searches to locate policyholders are inadequate, insurers often don’t stay in contact with policyholders once premiums are fully paid, and state abandoned property laws can make it difficult for beneficiaries and heirs to locate forgotten insurance policies.

- Issues related to abandoned insurance proceeds have risen greatly in prominence during the last year, on two important fronts:
  - The ongoing discussion over retained asset accounts; and
  - The decision to transfer uncashed rebate checks payable under the Minimum Loss Ratio guidelines to state abandoned property funds.
Returning Abandoned Insurance Funds

- Adequate data regarding unclaimed property held by insurers are lacking. A volunteer working at the Center sent a detailed survey to the abandoned property funds of the 50 states two years ago, asking (among other things):
  - How much money the abandoned property funds held;
  - How much of these funds came from insurance companies;
  - How much was turned over by Life vs. PC companies;
  - The identity of the 10 largest companies by amount of accounts turned over;
  - The identity of the 10 largest insurance companies by the amount of accounts turned over; and
  - The requirements and nature of unclaimed property reports required to be submitted by insurers.
Returning Abandoned Insurance Funds

- The response was, to say the least, underwhelming. We received only 4 responses, all of which provided only the total amount of funds held and no additional details.

- Letting unclaimed insurance funds slip through the cracks into state abandoned property funds does not benefit consumers. Taking steps to reduce the amount of insurance related funds that goes unclaimed, and providing tools for consumers to more readily locate and claim old insurance proceeds will ensure policyholders get the insurance benefits they have paid for.
The single most critical issue the NAIC must address is requiring disclosure of the abandoned property transfers in the Annual Statement. Based on inquiries during the recent RAA conference calls, neither the insurance industry nor regulators can be sure about how much in insurance proceeds are transferred into abandoned property funds on an annual basis. The E Committee is considering disclosures related to RAAs, but the proposed requirements are lacking (as noted during the RAA presentation), and only include a small subset of abandoned property transfers.
Returning Abandoned Insurance Funds: Recommendations

- The Annual Statements must be amended to require reporting total abandoned property transfers made each year, by jurisdiction and policy type so adequate data are available to evaluate the abandoned property system as a whole.

- Conduct a survey of state abandoned property funds and the industry to determine the amounts at stake, the relevant lines of business, and the method of filing abandoned property reports.

- Develop a white paper to analyze state practices regarding abandoned insurance property and the reporting duties of insurers.

- Establish standards for searches conducted by insurers for consumers before transferring funds.

- Require periodic communication between insurers and policyholders after a policy has reached paid-up status.

- Consider the development of potential changes to model abandoned property laws to better account for the unique nature of insurance products.