Life Insurer/Industry Group Letter to NAIC Unclaimed Benefits Model Drafting (A) Subgroup

It has come to our attention that the Unclaimed Benefits Model Drafting (A) Subgroup is considering a model act that, if adopted, would substantially expand historical claims handling and escheatment responsibilities of life insurers.

Among other things, we understand that this proposed model act would entail extensive comparison of company records against the Social Security Administration’s Death Master File ("DMF"), including elaborate matching criteria, as well as searches for policies that were once in force but which have since lapsed, in some cases decades ago. We have never used the DMF for either life or annuity claims. Furthermore, members are on our system only once, with all certificates (policies) attached to the name, so if we are notified of a death, all policies are flagged for payment.

The administrative costs of researching records associated with policies issued decades ago (many of which have only a name, month and year of birth) in order to disprove a multitude of likely false positives produced by fuzzy match criteria will be onerous, not to mention the impact of the premature escheatment of funds to the states when those efforts fail. Moreover, it is not an exaggeration to say that, in the case of old policies with small face amounts, the costs of compliance could equal or exceed the amount of the death benefits, we still have many active (and alive) members with $250 policies.

We are aware that about 20 of the largest life companies have entered into much publicized settlement agreements with regulators and state treasurers in which they have agreed to undertake procedures of this sort. While these industry giants may have the financial and human resources to assume these undertakings, many small companies do not.

We understand the need to pay claims, as a membership organization we have a duty to, and take pride in, paying claims. We go out of our way to make sure our members are served. We also understand that states are looking for revenue and unclaimed property helps meets that need. However, imposing a very costly process on insurers will not provide the member with additional protection, actually by adding significant costs, chances are our dividends and credited rates will decrease and our premiums increase. At best, the states will get a little influx of money in the first year but it will not provide the windfall seen year after year.
Additionally, now that we require social security numbers, full dates of birth, etc. The need for a search of the (far from perfect) DMF is really unnecessary.

Some say this is just consumer protection. I even heard one regulator try to draw comparison to asbestos. Saying that people did not know about the dangers of asbestos so protection was needed. People do not need protection from us. Even in the case of the big companies all they had to do was submit a claim as proscribed in the contract and they would/will get paid. No court, no undue paperwork or cost. In fact, in most cases the paperwork is far less than the claims process required by most states’ unclaimed property law.

We are happy to pay claims, we are happy to turn over unclaimed property to the state, we are not happy with additional regulation that goes against contract (and constitutional) law. We don’t mind checking a source (if one accurate source existed) going forward as we have much better information and can price the extra cost into products. We are against imposing a costly burden for inforce certificates where we have imperfect data, the government has imperfect data and the consumer has a ready and perfect solution already in place.

Companies across the life insurance industry are not all similarly situated – they vary by size, composition of business and policyholder surplus, to name but a few ways. We are concerned that an indiscriminate, whole cloth codification of these big company settlement agreements could cause crippling financial consequences to small and even mid-sized companies. One size does not fit all. We ask you to carefully consider the fact that regulators have not just one but two main mandates: consumer protection and insurer solvency. In your efforts to address the former, you may well be undermining the latter. Please don’t allow the law of unintended consequences an opportunity to be unnecessarily punitive.

Sincerely,

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