



JOURNAL OF INSURANCE REGULATION

Cassandra Cole and Kathleen McCullough
Co-Editors

Vol. 36, No. 10

Denied and Resisted Life Insurance
Claims: Recommended Changes
to Schedule F

Jill Bisco



The NAIC is the authoritative source for insurance industry information. Our expert solutions support the efforts of regulators, insurers and researchers by providing detailed and comprehensive insurance information. The NAIC offers a wide range of publications in the following categories:

Accounting & Reporting

Information about statutory accounting principles and the procedures necessary for filing financial annual statements and conducting risk-based capital calculations.

Consumer Information

Important answers to common questions about auto, home, health and life insurance — as well as buyer's guides on annuities, long-term care insurance and Medicare supplement plans.

Financial Regulation

Useful handbooks, compliance guides and reports on financial analysis, company licensing, state audit requirements and receiverships.

Legal

Comprehensive collection of NAIC model laws, regulations and guidelines; state laws on insurance topics; and other regulatory guidance on antifraud and consumer privacy.

Market Regulation

Regulatory and industry guidance on market-related issues, including antifraud, product filing requirements, producer licensing and market analysis.

NAIC Activities

NAIC member directories, in-depth reporting of state regulatory activities and official historical records of NAIC national meetings and other activities.

Special Studies

Studies, reports, handbooks and regulatory research conducted by NAIC members on a variety of insurance related topics.

Statistical Reports

Valuable and in-demand insurance industry-wide statistical data for various lines of business, including auto, home, health and life insurance.

Supplementary Products

Guidance manuals, handbooks, surveys and research on a wide variety of issues.

Capital Markets & Investment Analysis

Information regarding portfolio values and procedures for complying with NAIC reporting requirements.

White Papers

Relevant studies, guidance and NAIC policy positions on a variety of insurance topics.

For more information about NAIC publications, visit us at:

http://www.naic.org/prod_serv_home.htm

© 2017 National Association of Insurance Commissioners. All rights reserved.

ISBN:

Printed in the United States of America

No part of this book may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or any storage or retrieval system, without written permission from the NAIC.

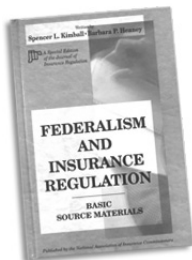
NAIC Executive Office
444 North Capitol Street, NW
Suite 700
Washington, DC 20001
202.471.3990

NAIC Central Office
1100 Walnut Street
Suite 1500
Kansas City, MO 64106
816.842.3600

NAIC Capital Markets
& Investment Analysis Office
One New York Plaza, Suite 4210
New York, NY 10004
212.398.9000

Companion Products

The following companion products provide additional information on the same or similar subject matter. Many customers who purchase the *Journal of Insurance Regulation* also purchase one or more of the following products:



Federalism and Insurance Regulation

This publication presents a factual historical account of the development of the framework for insurance regulation in the United States. It does so in part by using illustrative early statutes, presenting them chronologically, and in part by using cases that illustrate the interpretation of the crucial later statutes. Copyright 1995.



Regulation and the Casualty Actuary

This anthology reprints 20 important papers from past issues of the Journal of Insurance Regulation that are most relevant for practicing actuaries and state insurance regulators. It covers a wide range of issues, such as ratemaking, auto insurance pricing, residual markets, reserving and solvency monitoring. This invaluable reference explains these complex topics in straightforward, non-technical language. Copyright 1996.

How to Order

☎ 816.783.8300

✉ prodserv@naic.org

🌐 <http://store.naic.org>

Editorial Staff of the *Journal of Insurance Regulation*

Co-Editors

Cassandra Cole and Kathleen McCullough
Florida State University
Tallahassee, FL

Case Law Review Editor

Jennifer McAdam, J.D.
NAIC Legal Counsel II

Editorial Review Board

Cassandra Cole, Florida State University, Tallahassee, FL
Lee Covington, Insured Retirement Institute, Arlington, VA
Brenda Cude, University of Georgia, Athens, GA
Robert Detlefsen, National Association of Mutual Insurance Companies,
Indianapolis, IN
Bruce Ferguson, American Council of Life Insurers, Washington, DC
Stephen Fier, University of Mississippi, University, MS
Kevin Fitzgerald, Foley & Lardner, Milwaukee, WI
Robert Hoyt, University of Georgia, Athens, GA
Alessandro Iuppa, Zurich North America, Washington, DC
Robert Klein, Georgia State University, Atlanta, GA
J. Tyler Leverty, University of Iowa, Iowa City, IA
Andre Liebenberg, University of Mississippi, Oxford, MS
David Marlett, Appalachian State University, Boone, NC
Kathleen McCullough, Florida State University, Tallahassee, FL
Charles Nyce, Florida State University, Tallahassee, FL
Mike Pickens, The Goldwater Taplin Group, Little Rock, AR
David Sommer, St. Mary's University, San Antonio, TX
Sharon Tennyson, Cornell University, Ithaca, NY

Purpose

The *Journal of Insurance Regulation* is sponsored by the National Association of Insurance Commissioners. The objectives of the NAIC in sponsoring the *Journal of Insurance Regulation* are:

1. To provide a forum for opinion and discussion on major insurance regulatory issues;
2. To provide wide distribution of rigorous, high-quality research regarding insurance regulatory issues;
3. To make state insurance departments more aware of insurance regulatory research efforts;
4. To increase the rigor, quality and quantity of the research efforts on insurance regulatory issues; and
5. To be an important force for the overall improvement of insurance regulation.

To meet these objectives, the NAIC will provide an open forum for the discussion of a broad spectrum of ideas. However, the ideas expressed in the *Journal* are not endorsed by the NAIC, the *Journal's* editorial staff, or the *Journal's* board.

Denied and Resisted Life Insurance Claims: Recommended Changes to Schedule F

Jill Bisco*

Abstract

Life insurance is generally purchased to protect against the economic consequences associated with premature death. Consumers and producers may assume that all life companies settle death claims in one way—full payment of the life insurance proceeds. This is not always the case. Life insurers may deny or resist paying life insurance claims, and these claims are reported on the Schedule F of the statutory financial statement. This paper analyzes the claims that have been denied and resisted by life insurers and makes recommendations to modify the current Schedule F so that it is more informative to consumers, producers and state insurance regulators.

* College of Business Administration, CBA217, 259 S. Broadway Street, Akron, OH 44325; jbisco@uakron.edu.

Introduction

The basic purpose of life insurance is to protect against the economic risk of death (ACLI Factbook, 2013). Those who purchase life insurance must determine which insurer to select to meet this need. In making this determination, there are four major factors that should be considered in the purchase decision: 1) the financial stability (solvency) of the insurer; 2) whether the insurer (agent/representative) offers the kinds and amounts of insurance coverage (services) that the individual needs; 3) the reputation of the insurer as a fair and equitable insurer, specifically as it applies to claims handling; and 4) the price of the insurance product and coverage desired (Weisbart, 1976).

This paper looks at the claims handling practices of life insurers, specifically as they apply to denied or resisted claims.¹ When individuals purchase life insurance, they may assume that all insurance companies handle claims in the same manner (Weisbart, 1976). Producers may hold this same belief and omit the consideration of denied and resisted claims when recommending insurance carriers or products to their clients. There can be significant subjectivity involved in the settlement of property/casualty (P/C) claims (i.e., liability settlements or the valuation of property). Consumers may believe that there is less flexibility in life insurance and that the only possible outcome for the settlement of life insurance claims when the insured passes away is the full

1. Denied claims are considered those claims where the insurer refuses to make any payment towards the proceeds of the life insurance policy. Resisted claims are those where the insurer makes a partial payment of the face value of the policy and denies the balance. Also included in resisted claims are those claims where the insurer is still disputing the payment of the claim and retains an amount as still outstanding on the financial records of the company (Bisco, McCullough, and Nyce, *forthcoming*). The Schedule F of the statutory annual statement lists both denied and resisted claims. (See Table 1 for an example.) According to the NAIC, a claim is considered resisted when it is in dispute and not resolved on the financial statement date. A denied claim is one where the insurer has determined the claim will not be paid (NAIC, 2010). In addition, claims that are denied or resisted and close within the same year must still be reported as denied and resisted on Schedule F (Bisco, McCullough, and Nyce, *forthcoming*). Denied and resisted claims do not include life insurance claims that are being reviewed (not disputed) and those claims where the company is holding payment for sufficient evidence or where a beneficiary has made a claim and then withdraws it. These claims are considered as “in the course of settlement” (Fleming, 2013).

payment of death proceeds (Bisco, McCullough and Nyce, *forthcoming*). However, this is not the case. There are three possible outcomes for the life insurance claim. The insurer: 1) pays the claim in full; 2) denies the claim in its entirety; or 3) negotiates an amount less than the full amount of the policy (Weisbart, 1976). In other words, it is possible that an insurer may not pay out the full proceeds of a life insurance policy at the death of the insured.

According to Weisbart (1976), there are six reasons that insurers either deny the entire claim or pay an amount less than the full face value of the policy: 1) the contract never went into effect; 2) there was a material misrepresentation or some other form of fraud; 3) the policy was not in force when the death occurred; 4) the claim made is for a benefit that the policy does not provide (i.e., the insured's death is the result of suicide during the first two years in force); 5) misstatement of age;² and 6) the beneficiary designation is imprecise or contested by other potential beneficiaries. These claims are referred to as either a denied (no benefit is paid) or resisted (something less than face value is paid) claim (Bisco, McCullough, and Nyce, *forthcoming*).

Once a policy is issued, material misrepresentation, as a reason to deny and resist claims, is generally limited by the incontestability clause.³ From the date of policy issuance, insurers have the opportunity to dispute or contest the insurance in force for a period set forth in this clause, which is generally two years (McDowell, 1984).⁴ The incontestability clause is used to balance the interest of the insured, who in good faith relied on the coverage that was applied for, and the interest of the insurer to avoid coverage they did not intend to undertake (Schuman, 1995). It is unlikely and rare that a consumer would purchase a life insurance policy expecting to die within the incontestability period. However, it may occur. There is

2. Insurance contracts include a misstatement of age clause that states that if the insured's age is misstated, the amount payable under the claim is the amount that the premiums paid would have purchased if the correct age had been used (Rejda and McNamara, 2013). Therefore, in the case of resisted claims where age was indicated as the reason, the insured's actual age would have been greater than the age depicted on the contract, leading to a lower death benefit paid.

3. The incontestability clause was first used in the U.S. in 1861 and is now required in all states.

4. The incontestability period is generally two years. However, some policies may contain a period of one year or less (Bisco, McCullough, and Nyce, *forthcoming*).

significant literature that considers the use and legal aspects of the incontestability clause within life insurance policies (e.g., Goodman, 1968; Salzman, 1969; McDowell, 1984; and Schuman, 1995).

There are exceptions whereby an insurer can deny and resist claims past the period provided by the incontestability clause. Specifically, there are three instances where the insurer can deny or resist coverage after the period set forth in the incontestability clause. These include: 1) the beneficiary takes out a policy with the intent of murdering the insured; 2) the applicant for insurance has someone else take a required medical examination; and 3) an insurable interest does not exist at the inception of the policy⁵ (Rejda, 2013). With the exception of these reasons, policies that have exceeded the time frame set forth in the incontestability clause should not be contested or denied by the insurer (Bisco, McCullough, and Nyce, *forthcoming*).⁶

Unlike P/C insurers who are not required to report submitted claims that are closed without payment, life insurers are required to report denied and resisted claims on the Schedule F of the statutory annual statement. Schedule F provides limited information regarding the claim that is under dispute or that is being denied.⁷ This information, although helpful, lacks some specific details that would allow consumers, producers and state insurance regulators a better understanding of the reason for and the time frame involved with denied and resisted claims.

5. The principle of insurable interest states that a person must be in a position to lose financially if a loss occurs (Rejda 2013). In life insurance, Insurable interest must apply when the policy is issued.

6. Insurance is regulated at the state level and, therefore, states may establish differing rules and regulations regarding the incontestability period. For instance, Article 1 Section 27-15-4 of the Alabama Insurance Code states that after the period of two years, life insurance policies can only be contested for nonpayment of premium. (Exception is granted for disability benefits or additional benefits in the event of death by accident or accidental means.) Other forms of fraud may also allow for the denial of claims following the incontestability period. These include an insurer faking his/her death in an attempt to collect the proceeds of a life insurance policy or someone other than insured taking control of a life policy and changing the beneficiary (Sheridan, 2013). In addition, the courts may interpret the incontestability period more leniently providing additional reasons for insurers to deny claims.

7. Schedule F of the life insurers' statutory annual statement currently includes the following information: 1) the insurance contract number; 2) the claim number assigned by the insurer; 3) the state of residence of the claimant; 4) the year of claim for death or disability; 5) the amount claimed; 6) the amount paid during the year; 7) the amount resisted as of Dec. 31 of the current year; and 8) a description of why the claim is compromised or resisted.

Consumers or producers interested in obtaining information on the claims handling practices of insurers would need to search out consumer complaints, or for life insurers, review the Schedule F of the statutory annual statement. With limited information, the Schedule F may not provide the information necessary for producers and consumers to obtain a picture of the claims handling process or practices of any given insurer. For example, it is not possible to determine how long a claim has been resisted (i.e., whether one year or five years) or whether the claim is within the incontestability period when the insured passes away. Without this information, the usefulness of the Schedule F is limited—for consumers and producers.

State insurance regulators currently use the Schedule F information as part of the Market Conduct Annual Statement (MCAS) (NAIC, 2014).⁸ The MCAS was developed by the NAIC in conjunction with state insurance regulators and is currently used by at least 46 states (NAIC, 2014). As part of this analysis, denied and resisted life insurance claims are reviewed for companies where the total number of claims with payment—plus the claims denied, resisted or compromised—exceeds 100. Once meeting this qualification, the ratio of denied, resisted or compromised claims to policies in force is analyzed against the industry (NAIC, 2014). Due to the limited information on the Schedule F, state insurance regulators are limited in their ability to further analyze the denied and resisted claims. The additional information proposed would assist state insurance regulators in their analysis of the claims handling practice of life insurers. This is important because consumers depend on state insurance regulators to ensure that insurers are meeting their contractual obligations.

In this paper, I review the level of denied and resisted claims and discuss the utilization of this practice by life insurers. In addition, I discuss the current structure of the Schedule F of the life insurers' statutory annual statement and make recommendations to expand the

8. The Market Conduct Annual Statement (MCAS) was developed as a uniform “analysis tool for certain key market data elements” that allows for a comparison of performance among companies. If a company’s performance appears unusual compared to other companies, the state insurance regulator will review this company more closely (NAIC, 2014).

information provided to consumers, producers and state insurance regulators. Modifying the Schedule F would provide more information about the insurer's claims handling practices and allow producers to make proper recommendations and consumers to make a more informed purchasing decision.

The remainder of this paper is arranged as follows: The next section describes the existing literature. This is followed by a section that explains the data and level of denied and resisted claims. Recommendations for changes to the statutory annual statement are in the next section. The conclusion is shown in the final section.

Literature Review

The research associated with denied and resisted claims has been extremely limited. There are currently three papers that specifically look at the characteristics of such claims and the insurers that deny and resist claims.

Weisbart (1976) analyzes the demographic qualities of insurers that deny or resist life insurance claims to determine if intercompany differences in claims handling practices exist. Due to data limitations at the time, his research is limited to life insurers doing business in the state of Georgia and only those policies written in the state of Georgia. His sample includes 121 insurers that sold ordinary life insurance⁹ continuously from 1962 to 1972.¹⁰ Of these insurers, 45.5% denied or resisted at least one claim during the 10-year period, with approximately 10% of insurers in the study contesting more than 3% of their incurred claims (Weisbart, 1976).

Under ideal circumstances, any research regarding denied and resisted claims should differentiate between legitimate and illegitimate claims. However, simply reviewing the information on

9. The Statutory Annual Statement provides the following line of business categories for life and health insurers: industrial life, ordinary life, individual annuities, credit life, group annuities, group accident and health, credit accident and health, individual accident and health, and other. Ordinary life insurance refers to term insurance and all forms of permanent insurance (e.g., universal, variable, variable universal, whole) sold to individuals (Fleming, 2013).

10. For 1972, the 121 insurers included in the sample held 80% of the ordinary life insurance in force in Georgia (Weisbart, 1976).

the Schedule F of the statutory financial statement does not make this possible (Weisbart, 1976). Although Weisbart's empirical results are statistically insignificant, he indicates that underwriting standards are most likely the cause of the different levels of denied and resisted claims.

Colquitt and Hoyt (1997) look at denied and resisted claims documented in the 1994 annual statements of insurers licensed to do business in the state of Georgia. Specifically, this research looks to investigate the level of fraud in ordinary life and accidental death insurance. Unlike Weisbart (1976), Colquitt and Hoyt (1997) do attempt to identify those claims that are legitimate. During their research, only 43 of the 7,596 denied and resisted claims were specifically identified as fraudulent. They did identify numerous others that "can be viewed as representing claiming behavior that is fraudulent" (Colquitt and Hoyt, 1997). It is possible that insurers would deny or resist legitimate claims. However, the incentive of fair dealing, the fear of reputational harm or the costs of litigation would keep such events low (Colquitt and Hoyt, 1997).

Bisco, McCullough, and Nyce (*forthcoming*) use a more robust data set to investigate whether insurers that deny or resist claims are implementing a process of post-claim underwriting. Post-claim underwriting occurs when an insurer does not assess an insured's eligibility for insurance based on the risks he/she poses until after a claim has been made (Cady and Gates, 1999). To investigate this underwriting process, the authors look at all denied and resisted ordinary life claims for U.S. insurers from 2003 to 2010. They propose that if an insurer is operating under a post-claim underwriting process, those insurers with denied and resisted claims should have lower initial underwriting expenses (a measure of initial underwriting) and higher investigative expenses (a measure of post-claim underwriting)¹¹ (Bisco, McCullough, and Nyce, *forthcoming*).

11. Expenses associated with post-claim underwriting are recorded according to *Statement of Statutory Accounting Principles (SSAP) No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, paragraph 6d. According to this provision, claim adjustment expenses include legal and investigative costs expected to be incurred in connection with the adjustment and recording of life claims. Therefore, if a life insurer revisits any underwriting practices during the claims handling process, the expenses associated with such a practice would be recorded under investigation and claim settlement expense (Bisco, McCullough, and Nyce, 2016).

When using this measure of post-claim underwriting, they find that post-claim underwriting does exist.

Not all insurers deny and resist claims and those that do, do so at different levels. For instance, more financially stable insurers are less likely to deny and resist claims (Bisco, McCullough, and Nyce, *forthcoming*). It is possible that the concern for reputational harm may affect whether insurers choose to deny and resist claims. In addition, smaller insurers and those that have been in business for fewer years deny and resist claims to a greater extent (Bisco, McCullough, and Nyce, *forthcoming*).¹²

It is clear that understanding the issues related to denied and resisted claims would be of importance to consumers interested in purchasing life insurance, the producers who often make the recommendation to purchase specific products to consumers and the state insurance regulators that oversee the life insurance industry. In order to understand the implications, it is important to understand the limitations of the data provided on the Schedule F of the statutory annual statement, the main source of information regarding denied and resisted claims.

Data and Analysis

To investigate the claims that are listed as denied and resisted and the information reported, I collected the denied and resisted claims from the Schedule F of the statutory annual statement for all U.S. domiciled life insurers for the period 2001 to 2014. To understand the limitations of the information provided by the Schedule F, it is important to understand the types of claims that are denied and resisted and for what reasons this might occur.

12. Bisco, McCullough, and Nyce (2016) also propose a theoretical model whereby an opportunistic individual is likely to misrepresent in order to obtain life insurance. It is not possible to identify these individuals, *a priori*. Therefore, post-claim investigation is necessary. Therefore, it is possible that demographic characteristics of the insureds (i.e., occupation, level of wealth or age) not measured by Bisco, McCullough, and Nyce (2016) may also affect the level of denied and resisted claims.

Table 1 provides two examples of Schedule F from the 2014 annual statements of two separate life insurers.¹³ In the top panel, Company A shows several claims that have been denied, and in the bottom panel, Company B shows several resisted claims. From the excerpt, you can see that the Schedule F includes the contract number, the claim number, the state of residence of the claimant, the year of the claim, the amount claimed, the amount paid during the year, the amount resisted through Dec. 31 of the year, and the reason for the denial or the resistance of the claim. The contract number is the life insurance policy number of the insured that passed away. For life insurance, the year of the claim is the year of the death of the insured (Caswell, 2015).

Table 1: Example of Schedule F

ANNUAL STATEMENT FOR THE YEAR 2014 OF COMPANY A¹⁵

1	2	3	4	5	6	7	8
Contract Numbers	Claim Numbers	State of Residence of Claimant	Year of Claim for Death or Disability	Amount Claimed	Amount Paid During the Year	Amount Resisted Dec. 31 of Current Year	Why Compromised or Resisted
20054066	4067653332	VA	2014	500,000		2,372	SUICIDE
20394243	4088094126	MI	2014	170,386	170,386		SUICIDE
20222946	4067980677	PA	2014	700,000		3,244	SUICIDE
17018956	4062390116	ME	2005	250,000		554	SUICIDE
18659421	4065099161	VA	2011	99,024		4,685	MISREPRESENTATION

ANNUAL STATEMENT FOR THE YEAR 2014 OF COMPANY B

1	2	3	4	5	6	7	8
Contract Numbers	Claim Numbers	State of Residence of Claimant	Year of Claim for Death or Disability	Amount Claimed	Amount Paid During the Year	Amount Resisted Dec. 31 of Current Year	Why Compromised or Resisted
00730007U		CO	2008	43,653		43,653	Plaintiff claims the incorrect beneficiary was paid.
001342429		KS	2011	250,000		250,000	Misrepresentation by the policy holder on the application and reinstatement application.
001456636		WI	2012	250,000		250,000	This claim was rescinded due to material misrepresentation in the application.
001435350		OK	2014	150,000		150,000	Contestable policy that was rescinded for nondisclosure of tobacco use.
001492631		WY	2014	150,000		150,000	Applicant died before policy was issued, claim under Temporary Insurance Agreement, claim denied due to material misrepresentation in application.

Schedule F shows all claims for death losses and all other contract claims resisted or compromised during the year, and all claims for death losses and all other contract claims resisted Dec. 31 of the current year. The above are excerpts from Schedule F for 2014.

As previously stated, not all life insurance companies record denied and resisted claims. For each year between 2001 and 2014 of the sample, approximately 22.8% of life insurers in the U.S. listed at least one denied or resisted claim on their statutory annual statement.

13. For the purpose of this research, the names of the life insurance companies are withheld. The companies will be referred to as Company A and Company B.

The number of claims denied or resisted per year also varies widely among the insurers. For insurers that deny and resist claims, some insurers only have one recorded denied or resisted claim in a given year, whereas others have 400 or more. For these same insurers, the average number of claims denied or resisted is 21.42 per 1,000 claims submitted.¹⁴ Although the number of claims denied and resisted is small in comparison to the total number of life insurance claims submitted, the impact to the beneficiaries affected by the postponement of the payment or the denial of coverage in its entirety is significant and, depending on the life insurance policy affected, may affect the financial stability of the family.¹⁵

For the period 2001 to 2014, there were a total of 140,106 denied and resisted life insurance claim observations.¹⁶ Of these, 100,282 (71.58%) were denied claims and 39,824 (28.42%) were resisted claims. Table 2 provides a breakdown of the denied and resisted claims by year and by life insurance category (i.e., ordinary life, group life, credit life or industrial life). Of the life insurance claims included on Schedule F, 98,613 (70.38%) were ordinary life insurance claims; 15,156 (10.82%) were credit life; 25,561 (18.24%) were group life; and 776 (0.55%) were industrial life. While the number of ordinary life and group life denied and resisted claims has remained fairly steady throughout the period under review, the

14. For insurers that deny and resist life insurance claims, the annual average of the number of claims affected from 2001 to 2014 ranges from a low of 16.74 per 1,000 claims (2009) submitted to a high of 25.17 per 1,000 claims (2004).

15. It is possible that beneficiaries can recover life insurance proceeds through legal action against the insured. In addition, if state insurance regulators identify inappropriate actions by an insurer, they may take action against the insurer. For instance, on Dec. 21, 2016, the New York State Insurance regulator ordered Columbian Mutual Life Insurance Company to pay death benefits of 257 deceased policyholders and to pay a fine of \$257,000. The state insurance regulator stated that during the period of 2006 to 2015, the insurer wrongfully denied coverage and unilaterally rescinded policies when policyholders died within the two-year contestability period (New York, 20017). Whether the insurer files legal action against the insurer or the department of insurance brings action, the payments to the beneficiaries will be significantly delayed.

16. A denied and resisted claim could be listed on the Schedule F of the statutory annual statement for multiple years. Therefore, consistent with Bisco, McCullough and Nyce (forthcoming), a denied or resisted claim is evaluated and measured for each year that it remains on the Schedule F. In other words, a claim that is being disputed over the course of five years and appears on the Schedule F for each of these years will be counted as five observations, one for each year it remains disputed. The amount under dispute will be adjusted each year to account for any amount paid to the beneficiaries during the year.

number of credit life and industrial life claims has declined significantly. As the majority of the denied and resisted claims are ordinary life insurance, I will evaluate this category going forward.

**Table 2: Breakdown of Denied and Resisted Claims
(Reporting Year and Category of Life Policy)**

Year	Ordinary Life		Credit Life		Group Life		Industrial Life	
	Denied	Resisted	Denied	Resisted	Denied	Resisted	Denied	Resisted
2001	4314	2133	1438	652	1278	603	17	193
2002	4687	2251	1402	649	1361	670	20	151
2003	5202	2244	1297	428	1245	750	40	126
2004	5589	2026	699	245	1175	815	23	84
2005	5560	2054	955	263	1325	742	12	26
2006	5041	2153	824	333	1505	523	9	30
2007	5139	2180	801	380	1250	597	2	8
2008	5484	1991	910	168	1404	495	5	9
2009	5071	1947	666	194	1292	553	1	0
2010	4617	2123	646	133	1375	322	0	6
2011	4416	1809	507	122	1499	331	6	1
2012	5016	1663	357	128	1327	337	0	0
2013	4975	1669	373	95	1304	242	0	1
2014	5382	1877	390	101	1049	192	0	6
Total	70,493	28,120	11,265	3,891	18,389	7,172	135	641

A denied and resisted claim could be listed on the Schedule F of the statutory annual statement for multiple years. Therefore, consistent with Bisco, McCullough and Nyce (forthcoming), a denied or resisted claim is evaluated and measured for each year that it remains on the Schedule F. In other words, a claim that is being disputed over the course of five years and appears on the Schedule F for each of these years will be counted as five observations—one for each year it remains disputed. The amount under dispute will be adjusted each year to account for any amount paid to the beneficiaries during the year.

The reason that life insurance claims are denied and resisted would be of significant interest to consumers, producers and state insurance regulators. Schedule F provides a free-form entry of the reason for denied and resisted claims. In other words, there is no consistent entry for insurers to indicate the reason for denying or resisting a claim.¹⁷ In order to understand why insurers deny and resist claims, I manually code the reason entered by the insurer. Not

17. For instance, material misrepresentation in the “Why Compromised or Resisted” field may be indicated as: material misrepresentation, misrepresentation, material information withheld, mat mis, MM, or numerous other notations or explanations.

all claims include a reason.¹⁸ For ordinary life only, Table 3 provides a breakdown of the top seven reasons identified. Of the total records included in the initial list of ordinary life, denied and resisted claims, 59,628 (60.47%) were denied or resisted for one of seven reasons: 1) material misrepresentation, 55,250 (56.03%); 2) suicide, 3,091 (3.13%); 3) age, 957 (0.97%)¹⁹; 4) alcohol, 146 (0.15%); 5) disappearance, 87 (0.09%); 6) murder, 65 (0.07%); and aviation (0.03%). The remaining 38,985 claims had various reasons why they were denied or resisted including a statement of the outcome of the review (e.g., “claim settled,” “rescinded policy”) or various other reasons (e.g., “health history,” “questionable”) that may or may not be the same as one of the six reasons detailed in the top seven. With 55,250 denied and resisted claims, material misrepresentation was the leading reason for insurers not to pay the full amount of the death proceeds.

Given the current information provided by the Schedule F, it is not possible to confirm that the claims denied or resisted for material misrepresentation are within the incontestability period of the policy.²⁰ As previously indicated, a two-year incontestability period is standard. However, insurers may have a shorter period if defined within the contract (Bisco, McCullough, and Nyce, *forthcoming*).

Unlike the annual statements for P/C, life insurers are required to report denied and resisted life insurance claims.²¹ The Schedule F of the statutory annual statement, where these claims can be found for life insurers, provides some valuable information for consumers and state insurance regulators. Unfortunately, the information is limited and does not allow for a thorough review and interpretation of the claims included. For this reason, changes are recommended to the Schedule F.

18. From the full sample, 288 ordinary life, 394 group life and 109 credit life observations did not include a description of why the claim was denied or resisted. There were no observations for industrial life that lacked an explanation of why the claim was denied or resisted.

19. Refer to footnote 2.

20. Appendix A provides more detailed information regarding the claims reported on the Schedule F of the statutory annual statements and the issues with determining how long the claims have been resisted.

21. Property/casualty (P/C) insurers are not required to report denied claims or claims where the insurer and the insured dispute the amount being paid. For feedback on claims handling practices of P/C insurers, consumers may want to investigate complaints to the state’s insurance regulatory body. Consumer complaint counts for insurers are often made public.

Table 3: Breakdown of Reason for Denied and Resisted Claims (Ordinary Life Only)

Year	Material							Other/ None
	Misrep.	Suicide	Age	Alcohol	Disappear	Murder	Aviation	
2001	3820	265	38	2	16	8	1	2297
2002	3689	262	25	0	12	9	2	2939
2003	3729	236	27	3	10	5	0	3436
2004	4173	212	35	10	10	4	2	3169
2005	4302	238	25	6	9	5	3	3026
2006	3627	217	71	8	5	6	4	3256
2007	4066	219	43	1	3	4	4	2979
2008	4437	247	107	0	5	4	2	2673
2009	4049	215	133	0	4	4	2	2611
2010	3903	265	117	42	4	3	2	2404
2011	3445	198	98	40	1	4	2	2437
2012	3861	197	80	30	4	5	4	2498
2013	3973	164	73	2	4	3	4	2421
2014	4176	156	85	2	0	1	0	2839
TOTAL	55250	3091	957	146	87	65	32	38985
Percentage	56.03%	3.13%	0.97%	0.15%	0.09%	0.07%	0.03%	39.53%

Recommended Changes to Schedule F

Schedule F of the life insurers’ statutory annual statement currently includes the following information: 1) the insurance contract number; 2) the claim number assigned by the insurer; 3) the state of residence of the claimant; 4) the year of claim for death or disability; 5) the amount claimed, 6) the amount paid during the year; 7) the amount resisted as of Dec. 31 of the current year; and 8) a description of why the claim is compromised or resisted.²² Although useful, this information lacks some crucial details that would allow consumers and state insurance regulators to more fully interpret the data.

Given the current data, it is not possible to tell whether a claim, with certainty, is within the incontestability period as indicated within the contract for the policy. One could assume that claims with a reason for “Why Compromised or Resisted” listed as material misrepresentation are within the incontestability period because it is

22. Refer to Table 1 for an example of Schedule F.

only during this period when such claims can be denied or resisted. However, this would not be the case for many of the other reasons listed by insurers. To address this, a check box or indicator could be added to the Schedule F to indicate which policies are being denied and resisted during the incontestability period. Insurers could be instructed to select the indicator whenever a claim that is being denied or resisted is within the incontestability period. With varying incontestability periods among policy types and insurers, the indicator would allow for a quick interpretation of the level of denied and resisted claims falling in this period.²³

In addition to the indicator and to provide even more detailed information, Schedule F should be modified to include the date of policy issuance, including month, day and year, and then expand the date of claim (the insured's date of death) to include month and day. This would allow consumers and state insurance regulators to see the length of time the policy was in-force when the insured passed away. This would allow for answers to important questions: What is the average length denied and resisted claims are in-force? Do insurers deny and resist claims more in the first six months or first year after policy issuance?

When analyzing the Schedule F of the statutory annual statement for any given year, claims may be listed where the insured passed away more than 30 years before.²⁴ It is unclear whether the beneficiaries or parties to the estate of the deceased just found the policy or were just made aware of the policy and the claim was made many years after the death of the insured or whether the insurer has been resisting the claim for decades. This would certainly be of interest to consumers, producers, and regulators. Understanding the length of time the insurers resist claims – sometimes before a partial or full payment is made – would help producers recommend insurers that limit denied and resisted claims and would help consumers, when not utilizing a producer, in selecting an insurer to purchase life insurance from. State insurance regulators should also want this information in order to determine if insurers are acting in the best interest of their policyholders and the beneficiaries of the policies.

23. Refer to footnote 4.

24. Refer to Appendix A.

For this reason, the date the claim is submitted, including month, day and year, should be added to the Schedule F of the statutory annual statement.

Finally, guidance should be provided for the “Why Compromised or Resisted” field. Currently, insurers can enter anything in this field and while flexibility in defining the specific reason for the action might be convenient, the variability in the answers allows for limited interpretation of why insurers are denying and resisting claims. While reviewing the reasons for why insurers deny and resist claims, as indicated in Table 3, claims denied or resisted for a reason of material misrepresentation were listed in many different ways including, but not limited to, material misrepresentation, misrepresentation, material information withheld, mat mis and MM. Providing uniformity in reporting structure, at least for the top seven reasons indicated in Table 3 (material misrepresentation, suicide, age, alcohol, disappearance, murder, and aviation) would provide for easier interpretation of why insurers deny and resist claims.

The analysis of the Schedule F and the recommended changes would not be complete without at least a cursory discussion of the costs associated with the recommended changes. The information requested is already within the data management systems of the life insurers. For the life insurers, the costs associated with the recommended changes would be limited to programming changes to generate the reports used to build the statutory annual statement. The actual cost of the changes would vary depending on the complexity of the system used by the insurer.

The changes indicated here would provide consumers, producers and state insurance regulators a better understanding of the reasons for, and the use of, denied and resisted claims by insurers. Knowing why insurers deny and resist claims and for how long would provide invaluable information to all interested parties.

Conclusion

Selecting a life insurance company can be a daunting task for consumers and their advisors, who are told to do so carefully. Many factors can affect this decision, including the financial stability (solvency) of the insurer; whether the insurer (agent/representative) offers the kinds and amounts of insurance coverage (services) that the individual needs; the reputation of the insurer as a fair and equitable insurer, specifically as it applies to claims handling; and the price of the insurance product and coverage desired (Weisbart, 1976).

The Schedule F of the statutory annual statement could be a useful tool in understanding the claim handling practices of U.S. life insurers. However, the information currently reported on this schedule only provides a partial understanding of why insurers may deny or resist claims. In order to provide more information such as how long claims are denied and resisted and whether such claims are within the incontestability period would require some modifications to the current structure of the Schedule F. To accommodate this, changes would include an indicator to show whether the claim is within the incontestability period, a field to indicate the date the policy was issued, an enhancement to the claim date (date of death for the insured) including the month and day of death, and some guidance on the entry of the reason that claims may be denied and resisted, leading to better uniformity.

Insurance producers, who sometimes educate consumers and recommend insurers and insurance products when appropriate, would likely benefit from the recommended changes to the Schedule F. Producers should understand the claims handling practices of the insurer and be able to explain this to insureds when recommending a specific insurance company.

Not only would this information provide added details for producers and consumers, but also it would provide additional information for state insurance regulators whose job it is to ensure that insurers meet their contractual obligations. Understanding why insurers deny and resist claims and for how long would allow state insurance regulators to more closely monitor insurers who might

abuse the ability to deny or delay payments on life insurance policies.

Appendix A

Denied and Resisted Claims (Ordinary Life Only) – By Claim Year (1970–2014)

Statement Year	CLAIM YEAR									
	2010–2014	2005–2009	2000–2004	1995–1999	1990–1994	1985–1989	1980–1984	1975–1979	1970–1974	Before 1970
2001	-	-	5003	1189	163	40	22	1	3	0
2002	-	-	5949	803	128	32	11	1	2	0
2003	-	-	6789	502	84	22	9	2	2	0
2004	-	-	7251	282	44	12	7	1	2	0
2005	-	4149	3230	186	34	6	4	1	2	0
2006	-	5728	1295	126	21	8	4	2	2	0
2007	-	6388	814	85	19	6	3	2	2	0
2008	-	6903	482	64	14	4	4	1	2	0
2009	-	6678	284	38	13	1	1	2	0	0
2010	3835	2644	218	27	11	2	0	0	0	0
2011	4706	1099	139	25	9	2	0	0	0	0
2012	5523	668	165	27	8	2	0	0	0	0
2013	6091	336	89	15	8	3	0	0	0	0
2014	6951	182	77	19	5	2	0	0	0	0

This table provides a count, by statement year, of the claims that are shown as denied and resisted on the statutory annual statements. For each statement year, the number of claims listed is shown by five-year claim periods. For instance, on the 2001 statutory annual statements for life insurers, there were 5,003 denied and resisted claims with claim years listed as 2000 to 2004. On the 2001 statements, there were also three claims listed for claim years 1970 to 1974. It was not until the 2009 statements when all claims for the 1920 to 1974 period were cleared from the Schedule F. Claim year, as indicated in Schedule F of the statutory annual statement, is the year of the insured's death (Caswell, 2015). 197 claims have no claim year listed. 761 claims have invalid years (listed as after 2014).

Denied and Resisted Claims (Ordinary Life Only) – By Claim Year (1970–2014)

Statement Year	CLAIM YEAR													
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
2001	-	-	-	-	-	-	-	-	-	-	-	-	-	3510
2002	-	-	-	-	-	-	-	-	-	-	-	-	3770	1616
2003	-	-	-	-	-	-	-	-	-	-	-	3928	1878	625
2004	-	-	-	-	-	-	-	-	-	4085	1930	675	325	
2005	-	-	-	-	-	-	-	-	4149	1836	759	342	195	98
2006	-	-	-	-	-	-	-	3962	1766	593	342	195	98	
2007	-	-	-	-	-	-	3904	1877	607	371	217	110	70	
2008	-	-	-	-	-	4179	1788	595	341	215	114	75	50	
2009	-	-	-	-	4147	1608	480	267	176	102	68	53	41	
2010	-	-	-	3835	1585	543	239	156	121	74	47	46	38	
2011	-	-	3324	1381	579	238	132	80	70	49	24	25	32	
2012	-	3477	1512	534	313	128	70	97	60	52	15	22	64	
2013	-	3867	1499	496	229	157	61	51	47	20	21	12	17	29
2014	4317	1712	545	261	116	78	30	26	33	15	17	12	19	23

To get a more granular look at the data, this table shows the denied and resisted claim counts for claim years 2001 to 2014 on an individual claim year basis. For instance, in 2001, there were 3,510 denied or resisted claims listed on the Schedule F for life insurers. By 2014, there were only 23 claims still listed as denied and resisted for 2001. Unfortunately, given the limited information on Schedule F, it is not possible to determine if the 23 claims listed for claim year 2001 on the 2014 Schedule F were included in the numbers from the 2001 statement or if these were claims not identified until a later date.

References

- American Council of Life Insurers (ACLI), 2014. *2014 Life Insurers Factbook*, accessed at <https://www.acli.com/Tools/Industry%20Facts/Life%20Insurers%20Fact%20Book/Pages/RP14-012.aspx>.
- Bisco, J., K. McCullough, and C. Nyce, forthcoming. "Post Claim Underwriting and the Verification of Insured Information: Evidence from the Life Insurance Industry," *Journal of Risk and Insurance*.
- Cady, T.C. and G.L. Gates, 1999. "Post Claim Underwriting," *West Virginia Law Review*: 809–868.
- Caswell, M.K., 2015. Data Quality Audit Manager, National Association of Insurance Commissioners (NAIC), e-mail communication, Nov. 13, 2015.
- Fleming, D., 2013. Senior Insurance Reporting Analyst, Financial Regulatory Department, NAIC, e-mail communication, Nov. 12, 2013.
- Goodman, O.R., 1968. "Public Policy and the Age and Incontestable Clauses in Life Insurance Contracts," *Journal of Risk and Insurance*, 35(4): 515–535.
- McDowell, B., 1984. "The Misrepresentation Defense in Insurance: A Problem for Contract Theory," *Connecticut Law Review*, 16: 513–540.
- NAIC, 2010. "2010 Life & Annuity Market Conduct Annual Statement," accessed at www.naic.org/documents/industry_mcas_2010_la_data_call_elements_definitions.pdf.
- NAIC, 2014. "MCAS Best Practices Guide," accessed at www.naic.org/documents/committees_d_mapwg_mcas_best_practices_guide.pdf.
- NAIC, 2015. "Life and Annuities Data Call & Definitions," accessed at www.naic.org/documents/committees_d_mapwg_life_annuities_mcas_data_call_def_2015.pdf.
- New York Department of Financial Services, 2017. "In the Matter of Columbian Mutual Insurance Company, Consent Order," accessed at <http://dfs.ny.gov/about/ea/ea161221.pdf>.
- Rejda, G.E., and M.J. McNamara, 2013. *Principles of Risk Management and Insurance, 12th Edition*, 233–234: Pearson Education.
- Salzman, G., 1969. "The Incontestable Clause in Life Insurance Policies," *Insurance Law Journal*, 142–166.
- Schuman, G., 1995. "Health and Life Insurance Applications: Their Role in the Claims Review Process," *Defense Counsel Journal*, 62: 225–243.
- Sheridan, T., 2013. "Faked Deaths and Other Life Insurance Fraud," accessed at <https://www.bankrate.com/finance/insurance/faked-deaths-life-insurance-fraud.aspx>.
- Weisbart, S.N., 1976. "Contested Claims in Life Insurance. An Explanatory Study," *Journal of Risk and Insurance*, 53 (4): 611–627.

Journal of Insurance Regulation

Guidelines for Authors

Submissions should relate to the regulation of insurance. They may include empirical work, theory, and institutional or policy analysis. We seek papers that advance research or analytical techniques, particularly papers that make new research more understandable to regulators.

Submissions must be original work and not being considered for publication elsewhere; papers from presentations should note the meeting. Discussion, opinions, and controversial matters are welcome, provided the paper clearly documents the sources of information and distinguishes opinions or judgment from empirical or factual information. The paper should recognize contrary views, rebuttals, and opposing positions.

References to published literature should be inserted into the text using the “author, date” format. Examples are: (1) “Manders et al. (1994) have shown. . .” and (2) “Interstate compacts have been researched extensively (Manders et al., 1994).” Cited literature should be shown in a “References” section, containing an alphabetical list of authors as shown below.

Cummins, J. David and Richard A. Derrig, eds., 1989. *Financial Models of Insurance Solvency*, Norwell, Mass.: Kluwer Academic Publishers.

Manders, John M., Therese M. Vaughan and Robert H. Myers, Jr., 1994. “Insurance Regulation in the Public Interest: Where Do We Go from Here?” *Journal of Insurance Regulation*, 12: 285.

National Association of Insurance Commissioners, 1992. *An Update of the NAIC Solvency Agenda*, Jan. 7, Kansas City, Mo.: NAIC.

“Spreading Disaster Risk,” 1994. *Business Insurance*, Feb. 28, p. 1.

Footnotes should be used to supply useful background or technical information that might distract or disinterest the general readership of insurance professionals. Footnotes should not simply cite published literature — use instead the “author, date” format above.

Tables and charts should be used only if needed to *directly support* the thesis of the paper. They should have descriptive titles and helpful explanatory notes included at the foot of the exhibit.

Papers, including exhibits and appendices, should be limited to 45 double-spaced pages. Manuscripts are sent to reviewers anonymously; author(s) and affiliation(s) should appear only on a separate title page. The first page should include an abstract of no more than 200 words. Manuscripts should be sent by email in a Microsoft Word file to:

Cassandra Cole and Kathleen McCullough
jireditor@gmail.com

The first named author will receive acknowledgement of receipt and the editor's decision on whether the document will be accepted for further review. If declined for review, the manuscript will be destroyed. For reviewed manuscripts, the process will generally be completed and the first named author notified in eight to 10 weeks of receipt.

Published papers will become the copyrighted property of the *Journal of Insurance Regulation*. It is the author's responsibility to secure permission to reprint copyrighted material contained in the manuscript and make the proper acknowledgement.

NAIC publications are subject to copyright protection. If you would like to reprint an NAIC publication, please submit a request for permission via the NAIC Web site at www.naic.org. (Click on the "Copyright & Reprint Info" link at the bottom of the home page.) The NAIC will review your request.