# How Insurers can Win the Battle over Unclaimed Death Benefits

*A Sutherland Global Services Insurance Perspective*

Unclaimed death benefits, protected nationwide by both state and federal law, have recently become a battleground defined by state treasurers on one side and insurers on the other. With state treasurers increasingly trying to collect on these assets, and both sides accusing the other of unfair practices, where is the middle ground, and what measures can insurers take to defend themselves? The best offense against accusations of noncompliance is a good defense in the form of an integrated back office/front office framework capable of proactively handling unclaimed death benefits as a separate, efficiently managed business process. New capabilities in robotic process automation (RPA) can prevent carriers from incurring millions of dollars in fines, and enhance their customer service reputation in the public eye.

## Different Views of the Same Laws

For years, state unclaimed property administrators have enforced laws designed to protect life insurance companies as well as consumers regarding unclaimed property, which includes intangible assets such as cash, stocks, or bonds held by an entity for someone else. This includes life insurance proceeds. From the state treasurer's perspective, part of the role of these property administrators is to return unclaimed property to the rightful owner or heir. Typically, items are surrendered to the state treasurer if they remain unpaid for at least five years and the insurance carrier is unable to locate the owners. The treasurer's office is required by law to hold those assets for the beneficiaries indefinitely.

Beginning in 2011, state treasurers in at least 19 states have asserted that some insurance companies try to avoid handing over unclaimed property because they are profiting from interest earned from investments made with someone else's assets. State unclaimed property laws, generally based on the Uniform Unclaimed Property Act (UUPA), require life insurers to report unclaimed proceeds. Allowing decades to pass following a death not only needlessly harms the policyholder's beneficiaries; it also drastically reduces the possibility of finding the rightful heirs. However, the UUPA, intended to provide more uniformity to state laws, recognizes that life insurance cannot be unclaimed until it matures or, if there is no claim, until the insured reaches the limiting age: currently 120.

In fighting back, insurers assert that they are following UUPA regulations as well as individual states' unclaimed property laws for life insurance policies. But state treasurers have begun conducting unclaimed property audits of life insurers, using private audit firms to maximize limited audit resources. These firms allegedly collect unclaimed property on behalf of the state for a contingency fee. This increases the state treasury's profit-making potential when economic downturns tighten state budgets. Unclaimed death benefits are currently a concern for midsize and regional life insurers who are now being scrutinized by state treasuries looking to cover budget shortfalls.

Because private audit firms have taken an aggressive approach to interpreting and enforcing unclaimed property laws, their practices have raised numerous concerns requiring oversight and accountability, while placing additional burdens on life insurers. The increased risk of audits and fines has shot up to the point where at least 21 large carriers have entered into voluntary settlements with state treasurers and regulators for failure to consistently use the U.S. Social Security Death Master File (DMF) database. These settlements come despite numerous court decisions which state that insurers are not required to conduct external database searches for information related to the possible payment or escheatment of life insurance benefits.

## What Insurers Can Do to Defend Themselves

The best way for insurers to head off current and upcoming regulatory pressure is to create a more dynamic and integrated operational framework that combines people, process, technology, and data to tie back-office operations to front-end customer service. Such a framework should enable insurers to:

*Proactively Search for Information*

Nineteen states so far have enacted laws to enforce consistency in requirements for life insurance companies to conduct database searches, reach out to beneficiaries, and report their findings to state insurance regulators going forward. It is expected that more states will follow suit as more states cast their eyes upon unclaimed benefits as a source of revenue. Currently, most states require semi-annual database searches, except for New York, which requires quarterly database searches.

Insurers must therefore make more of an effort to confirm and validate potential DMF matches in the performance of thorough beneficiary research. This enables timely notifications to heirs and prompt reporting to state regulators. The carriers that entered into settlements with state regulators have agreed to use the DMF database to regularly check for deceased insureds, just as they use it to check for deceased annuitants and to escheat any unclaimed death benefits to the state identified through that process.

Unfortunately, the large amount of inaccurate data in the DMF is one contributor to the controversy underlying how much due diligence is required to confirm whether an insured has died. Progressive insurers can get ahead of this problem with a team of trained personnel using systems capable of cross-checking internal and external data with a minimum of manual intervention. Often, a Business Process Outsourcing (BPO) solution is easiest and most cost effective, especially one that leverages advances in robotic process automation to correlate the masses of new and historical information held by or available to insurers.

*Anticipate the Law*

In attempting to bring uniformity and resolution to the handling of unclaimed death benefits, two model laws have been developed which are still under consideration:

1) In November 2011, the National Conference of Insurance Legislators (NCOIL) passed a resolution supporting a model law that addresses unclaimed property policies for insurers. Known as the Unclaimed Life Insurance Benefits Act (ULIBA), this resolution is retroactive and applies to new and existing life insurance policies, annuity contracts, and retained asset accounts. It mandates the use of the DMF as a cross-reference against an insurer's list of in-force life insurance policies and retained asset accounts each quarter. Additionally, once decedents have been identified and confirmed, the NCOIL model requires the insurer to perform a good-faith effort to seek out and locate any beneficiaries and provide the necessary claim forms and instructions. In the event that benefits go unclaimed, this model provides direction to life insurers for notifying state treasury departments and properly escheating the funds.

2) The National Association of Insurance Commissioners (NAIC) Model Act has been developed with the support of lead state (California, Florida, Illinois, New Hampshire, North Dakota, and Pennsylvania) proposals by 18 large insurers which together represent over 60% of the U.S. life insurance industry's assets. The model considers three underlying issues:

    1. Whether the model will impose fines for past non-compliance

    2. Whether the Unclaimed Property Model Act should apply equally to both large and small insurers

    3. Whether exceptions should be included in the NAIC model for certain life insurance policies that are exempted under the NCOIL model, e.g., credit life policies

Currently the industry is focused on comparing the lead states' draft model act and the NCOIL's model act. Though various state laws have been enacted, neither of these two model laws has yet been fully agreed upon or enacted. Uniformity and consistency in the identification and handling of unclaimed death benefits thus remain of concern to life insurers, state treasurers, and state insurance regulators. States are interpreting state law to mandate using the "Date of Death" when completing audits that have requested the life insurer to conduct another search through policy data. In some instances this means delving as far back as 1990, including lapsed policies. Scattered or inaccurate data can result in the insurer being considered late and thus subject to paying state escheated benefits plus fines.

To protect themselves, life insurers need to individually choose a strategy on how to approach handling unclaimed death benefits. These include:

1) Voluntarily searching data for all 50 states and escheating benefits to the state, resulting in possible payment of more benefits than needed

2) Following the current mandated laws within the 19 states for unclaimed death benefits and resorting to litigation for settlement in the remaining states

3) Settling with states individually as to how to handle unclaimed death benefits and using those individual strategies moving forward

Twenty-one major insurers are already working through strategies centered on categories 1 and 2 above, based on their voluntary settlements with states. Others are considering litigation to protect their data where state treasurers are performing audits using outside firms working on contingency. Such litigation will force state courts to mandate future handling. An example of this is the Illinois Treasurer lawsuit regarding Kemper, which can be viewed here .

Whatever the strategy, it should include flexible processes that can accommodate changing regulations and data requirements, and automated business rules that enhance searching large datasets and flagging appropriate handling authorities for action. More effective processes and targeted technologies are the foundation for faster identification of decedents and beneficiaries and proper disposition of benefits.

*Create a Proactive Operations Framework*

Sutherland Global Services has identified four key elements of a proactive approach to improving compliance and more quickly and accurately identifying beneficiaries of unclaimed death benefits. Together they form the framework of the type of effective, BPO-based solution that has been proven to take operations models from reactionary to progressive.

- People: Consider a separate team to minimize disruption of daily processes when dealing with unclaimed death benefits. These specialists can confirm whether policyholders are living or deceased, thus overcoming the deficiencies of the DMF database and any gaps in automated data matching. Their focus can then shift to identifying beneficiaries, their location,

[1] Source: http://www.bressler.com/news/will-uniformity-in-application-of-unclaimed-property-laws-to-life-insurance-benefits-ever-be-achieved
[2] Source: http://www.pwc.com/us/en/insurance/publications/assets/pwc-naic-meeting-notes-summer-2015.pdf

and their contact information through death documentation. This team can be situated in-house or can be outsourced.

- Process: The most efficient way to handle death benefits is to separate the process from normal claims handling, allowing individual processes to change as required with minimal disruption to the rest. Insurers should use automation where possible to facilitate efficient process handling and improvements, and utilize high-quality “fuzzy logic” matching when building and validating evidence.
- Technology: The most effective operations use a single platform with automation capabilities, which enhances data validation and faster initial identification of beneficiaries. This facilitates smoother processing of unclaimed death benefits.
- Data: Efficient data searches employ parameters which can be set to determine how many years’ worth of data will be retroactively captured as well as how much new data will be included moving forward. Insurers need to build systems capable of creating high-quality data sets that use at least three pieces of evidence for validation. Employing fuzzy logic can drive faster data matching across multiple standard sources.

## The Value of a Proactive Approach

This offering increases productivity of the claims department allowing the staff to focus on regular life claims. Sutherland can reduce cycle time by providing an IBPO solution - handling back-office tasks offshore at night and customer facing tasks onshore during the day. Research, risk data modeling, and analytics performed offshore on the collected information while searching for beneficiaries will be a value added offering to the life insurance carrier to better understand the demographic and life patterns and trends of their insured base. This will add critical insights towards the carrier’s underwriting algorithms. Utilizing a ‘right shore’ model results in meeting or exceeding regulatory requirements while providing measurable operating efficiency to the insurer.

## For More Information & Inquiries

For more information on Sutherland Global Services’ Insurance BPO capabilities and whitepapers, please visit:
www.sutherlandglobal.com/insurance.

For detailed inquiries or to schedule an exploratory discussion, please e-mail us at SGS.Insurance@sutherlandglobal.com or call 1-800-388-4557 ext. 6123.

Efficient processing of death benefits demonstrates social responsibility to insureds and regulators alike. It can also lead to increased market share because companies who are good at paying benefits have brand recognition and gain market share. Insurers whose processes assist agents in reaching out to beneficiaries and quickly delivering death benefits are perceived to be “doing the right thing.” Quite aside from avoiding the regulator’s suspicious eye and accusations of foot-dragging in releasing benefits, insurers who help to reduce the burden on grieving families reap incalculable benefits in good will and public trust. Families who feel they have been treated well by their insurance company are far more likely to entrust that insurer with investment of those funds and be open to buying other products.

The growing attention to unclaimed death benefits means that insurers must address their operations soon or risk unwelcome attention from state regulatory authorities and stiff fines that could easily have been avoided. With cash-strapped states looking for every dollar, insurers would be wise to head off legislators with strong processes and tools for quickly identifying deceased insureds and beneficiaries for prompt claims processing.

## About the author

Vik Renjen has been Senior Vice President and Global Head of Banking, Financial Services & Insurance (BFSI) of Sutherland Global Services, Inc. since July of 2007. Mr. Renjen joined Sutherland from AIG where he was a Senior Executive responsible for formulating and executing the global sourcing strategy. Mr. Renjen’s prior positions include eight years at Prudential, starting in Healthcare and Relocation then moving to the Mortgage Capital entity where he was Senior Vice President of Global Operations. He also served as a Vice President for Chase Manhattan Bank for seven years in various operations and systems roles. Mr. Renjen earned an MBA from American University in Washington DC, and graduated from University of Pennsylvania, The Wharton School’s Executive Development Program. He is based in the New York City area.

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