

Bloomberg

Cuomo Said to Subpoena Genworth, Unum as Insurer Probe Widens

By David Evans and Andrew Frye - Jul 30, 2010

New York Attorney General Andrew Cuomo subpoenaed Genworth Financial Inc., Unum Group and an insurer acquired by France's Axa SA as the state widens a life- insurance fraud probe, said a person briefed on the demands.

New York Life Insurance Co., Northwestern Mutual Life Insurance Co. and Guardian Life Insurance Co. of America also were ordered to turn over information, the person, who declined to be identified because the subpoenas hadn't been publicly disclosed, said yesterday. Cuomo is probing profits insurers earn on death benefits that the carriers retain on behalf of the families of deceased policyholders including military personnel.

More than 100 carriers earn investment income on \$28 billion owed to life insurance beneficiaries, Bloomberg Markets magazine reported this week. Cuomo announced an investigation yesterday into what he called "secret profits" and said he subpoenaed MetLife Inc. and Prudential Financial Inc. His probe follows reviews by the New York State Insurance Department and U.S. Department of Veterans Affairs.

"It is shocking and plain wrong for these multinational life insurance companies to pocket hundreds of millions in profits that really belong to those who have lost family members," Cuomo said in a statement yesterday. "The insurance industry appears to be hoarding millions that belong to military families whose loved ones have made the ultimate sacrifice."

Richard Jones, a spokesman for New York-based Guardian, Genworth's Thomas Topinka and Unum's James Sabourin didn't return calls for comment left after business hours. William Werfelman of New York Life and Axa's Chris Winans, who was asked about the Paris-based firm's MONY unit, had no comment. A call and e-mail to Northwestern's media department wasn't returned.

Prudential's Response

Prudential Chief Executive Officer John Strangfeld said the Newark, New Jersey-based company is in

talks with Veterans Affairs to address the agency's concerns. By holding beneficiaries' funds and allowing access on demand, the insurer provides security to its clients, he said in a statement.

"Beneficiaries are vulnerable targets for abusive sales tactics," he said yesterday. "We believe that the Alliance Account takes the pressure off beneficiaries to do something with the money -- a situation that may lead to imprudent and expensive investment decisions."

Defense Secretary Robert Gates pledged to help Veterans Affairs in its probe. Representative Patrick Murphy, a Pennsylvania Democrat and veteran who served in Bosnia and Iraq, wrote Strangfeld asking that the company disclose the amount of profit earned on the retained benefits and "return that money to the beneficiaries."

Prudential Accounts

Prudential paid survivors like Cindy Lohman, the mother of a slain Army sergeant, 1 percent interest in 2008 on their Alliance Accounts, while it earned a 4.8 percent return on its corporate funds, according to regulatory filings. Insurance companies may be violating a federal bank law, Bloomberg Markets reported. A 1933 statute makes it a felony for any company to accept deposits without state or federal authorization.

"Until today I actually believed that the families of our fallen heroes got a check for the full amount of their benefits," Gates said yesterday. "I will be very interested in the outcome of the VA investigation."

MetLife, the biggest U.S. life insurer, and Newark, New Jersey-based Prudential place death benefits in interest-bearing accounts and issue IOUs to survivors. Insurers market the accounts as a service to allow bereaved beneficiaries time to think about what they'll do with the payout. Carriers make money by investing the funds in bonds and keeping the difference between returns and the interest they credit to the accounts.

'Significant Benefit'

"Retained asset accounts provide a significant benefit to family members who are dealing with the emotional loss of a loved one," the American Council of Life Insurers, the industry lobby headed by MetLife Chief Executive Officer Robert Henrikson, said in a statement. Christopher Breslin, a spokesman for New York-based MetLife, had no comment. MetLife's Joseph Madden told the magazine that customers were happy with the accounts.

The National Association of Insurance Commissioners, a group of state regulators, said yesterday it

will reexamine rules about what life insurers must disclose to policyholders about retained-asset accounts. The New York insurance watchdog plans to probe whether any rules would prohibit insurers from providing the accounts, which aren't guaranteed by the Federal Deposit Insurance Corp.

State regulators are supposed to back life policies by raising money from insurers that do business in their state. There are no public records showing how much companies are holding in retained-asset accounts, Bloomberg Markets reported.

Interest Earned

"It appears that the substantial interest earned on these accounts mostly benefit and enrich the insurers at the expense of the families to whom the money really belongs," Cuomo said. "Beneficiaries are not adequately informed by the insurers of the details of these accounts including the fact that the insurers are making huge profits at the expense of the grieving family."

To contact the reporters on this story: [David Evans](mailto:davidevans@bloomberg.net) in Los Angeles at davidevans@bloomberg.net; [Andrew Frye](mailto:afrye@bloomberg.net) in New York at afrye@bloomberg.net.

©2010 BLOOMBERG L.P. ALL RIGHTS RESERVED.