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New York investigates veterans' life insurers

By Andrew Frye and David Evans, Bloomberg News | July 30, 2010

NEW YORK — New York Attorney General Andrew Cuomo began a fraud inquiry into the life insurance industry and subpoenaed MetLife Inc. and Prudential Financial Inc. for information about profits on death benefits retained from the families of deceased policy holders including military personnel.

"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 yesterday. "The insurance industry appears to be hoarding millions that belong to military families whose loved ones have made the ultimate sacrifice."

Cuomo's investigation into what he called "secret profits" was prompted by Bloomberg Markets magazine report and joins reviews by the New York State Insurance Department and US Department of Veterans Affairs. More than 100 carriers earn investment income on \$28 billion owed to life insurance beneficiaries, the magazine reported. New York-based MetLife, the biggest US life insurer, and number two Prudential are among firms that administer so-called retained-asset accounts.

"It's troubling that people are not getting an immediate payment and that the insurance companies at least seem to be making some effort to make money off this," said Matthew Gaul, head of the New York regulator's life insurance division.

Cuomo's subpoena demands information about the difference in interest income earned by the insurers and the rate paid to beneficiaries. His office is also seeking information about how survivors are told about the conditions of the accounts.

Insurance companies might be violating a federal bank law. A 1933 statute makes it a felony for any company to accept deposits without state or federal authorization. The insurer accounts are not guaranteed by the Federal Deposit Insurance Corp.

"We're looking at the legality of this whole process," Gaul said. "There's a question of whether this is really a banking business."

"The possibility that life insurance companies are profiting inappropriately from these service members' sacrifice is completely unacceptable," said Mike Walcoff, acting undersecretary for the VA Veterans Benefit Administration. ■

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