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Controller Reaches Settlement with Insurer John Hancock

SACRAMENTO – State Controller John Chiang today announced a landmark settlement with insurer John Hancock, paving the way for reforms of wide-spread industry practices that have victimized the purchasers of life insurance policies and annuity contracts for decades. It is the first settlement resulting from an audit of 21 insurance companies that Controller Chiang began nearly three years ago.

"Too many Californians have been victimized by a company they entrusted with their retirement security and the care of their families," Chiang said. "While John Hancock is the first to be held accountable, it will not be the last. I am prepared to pursue all actions necessary – including litigation – to bring the rest of the industry into compliance."

The Controller initiated the audit investigation in July of 2008 to determine the insurance industry's compliance with state unclaimed property laws. Administered by the Controller, the California unclaimed property program generally provides that businesses must send lost or abandoned financial accounts to the State after three years of inactivity in order to safeguard private property from being lost during mergers or bankruptcies, drawn down by service or storage fees, or simply used by private interests.

The audit revealed an industry-wide practice of companies failing to pay death benefits to the beneficiaries of life insurance policies. Instead, companies would draw-down the policies' cash reserves in order to continue collecting premium payments from the deceased. Once the cash reserves were depleted, the company would cancel the policy. The audits also found that insurers did not routinely cross-check the owners of dormant accounts with government databases listing the deceased. In other cases, the company had direct knowledge of the death of a policy owner, but still did not notify the beneficiaries.

For example, a policy was issued by John Hancock on February 16, 1963, to an individual who subsequently died on April 20, 1999. For the seven years following his death, the company continued to collect premium payments by depleting the policy's cash reserves until it was finally cancelled on January 1, 2009. The policy's file does not contain any indication of when the last contact with the insured occurred, or that any efforts were made to locate the insurance owner prior to the policy lapsing. More than 11 years after the insured's death, John Hancock still has not paid the beneficiaries or sent to the State Controller's Office for safekeeping any benefits due under the policy. The company has written off all liability under the policy.

The Controller's investigation also exposed similar abuses with the administration of annuity contracts. For example, John Hancock issued a contract on June 7, 1991, to an individual who subsequently died on May 1, 1995. The company's own files contain notes revealing that the annuitant owner's mother called the company in August 2002 reporting that her son had died. Additional notations in the file dated June 15, 2005, and October 13, 2005, state that the annuitant had died. Despite these acknowledgements, the file indicates the company continued to send mail to him in 2005, 2006, and 2007 – all of which was returned as undeliverable. Another notation was made to the file on July 14, 2009, acknowledging the owner was deceased, and that the company, for the first time, had attempted to contact a relative. According to the file, on October 26, 2009 – more than 14 years after the annuitant's death – John Hancock paid the death benefit to the annuitant's estate.

Today's ground-breaking settlement requires John Hancock, a subsidiary of Manulife Financial Corporation, to do the following:

• Restore the full value of more than 6,400 impacted accounts dating back to 1992;
• Create and adhere to methods for better identifying deceased policy holders and notifying their beneficiaries;
• Fully comply with California's unclaimed property laws and cooperate with the Controller's efforts to reunite more than $20 million of death benefits and matured annuities with their owners or, in many cases, the owners' heirs;
• Pay the State of California three percent compounded interest on the value of the held amounts from 1995, or from the date of the owner's death, whichever is later, for failure to comply with unclaimed property laws.

"These policies were purchased to give the owners and their families peace of mind," said Chiang. "I will move to quickly return those benefits to their rightful owners."

The settlement and exhibits can be viewed at the Controller's website at www.sco.ca.gov.

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