



Data-Driven Compliance: Leveraging Contributory Industry Data to Detect Adverse Behavior Patterns and Prevent Fraud

Presenters:

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The Presentation Deck

- The presentation deck is available now, on this page www.cefli.org/webinars/

Post-Event Communication

We will email the following information to you in the next few days:

- A link to the *recording*
- A copy of the *slides*
- A *Certificate of Attendance template* (to those who attended the live event)

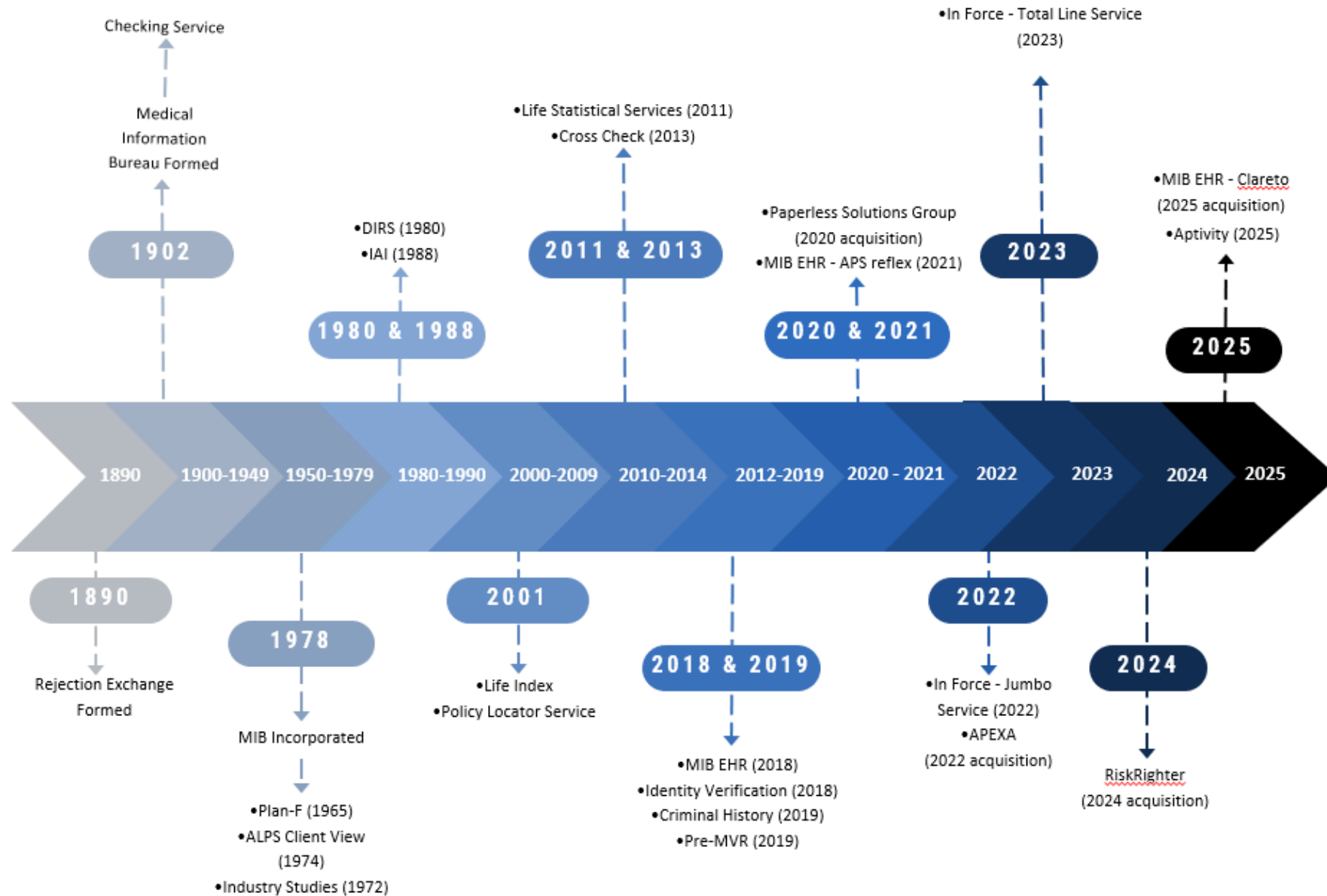
Questions are Welcomed!

- Please use the **Chat** function
- Send questions via chat to “Everyone”

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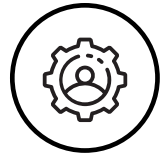
MIB Timeline





Together, we are reshaping the insurance industry—the name the life insurance industry **knows and trusts.**

- ✓ Working to meet the industry's evolving needs
- ✓ Enabling clients to gain efficiencies, manage their risks and grow profitably



CODE SOLUTIONS

Providing unique application insights exclusively to MIB members or over 100 years to facilitate underwriting risk assessment and fraud detection



MEDICAL DATA SOLUTIONS

Driving underwriting efficiencies through access to data, tools and services that streamline data collection and support the risk management and underwriting processes



IN FORCE DATA SOLUTIONS

Delivering unique insights leveraging real-time in force and pending application activity identifying potential risks and in force optimization opportunities



DIGITAL SOLUTIONS

Supporting the digitization of insurance with tools that connect the industry, simplify processes and improve the agent, application and underwriting experience.



ACTUARIAL SERVICES

Providing data analytics and actuarial services supporting industry studies, regulation and compliance requirements

DATA | INSIGHTS | DIGITAL SOLUTIONS

MIB's Legacy: Underwriting Fraud Detection and Prevention



MIB Code Solutions

For over 100 years, MIB has managed a contributory database that the life insurance industry relies upon for risk assessment and fraud detection.

Industry-wide contributory database

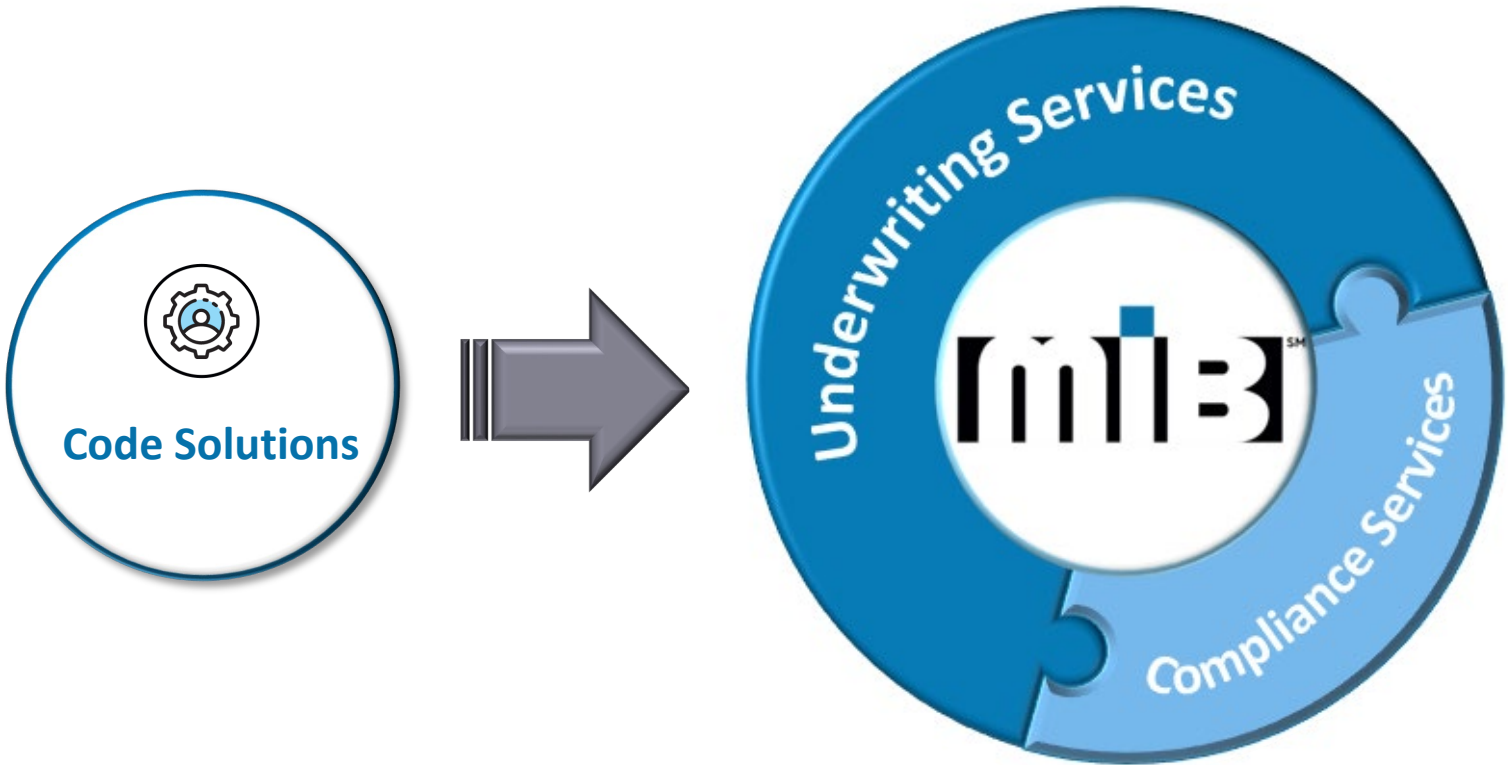
- Applicant health information of underwriting significance
- Encrypted “codes” to ensure security and privacy
- Additional information such as age, gender, face amount and product type applied for
- Available only to MIB members

Facilitates the sharing of application information

- Detect potential misrepresentations or omissions on applications
- Identify frequent application activity
- Continue to monitor for application activity containing new health information throughout the contestable period

Extending our Services Beyond Underwriting - Post Issue Compliance

MIB has evolved from an underwriting tool for fraud detection to a diversified partner of choice for data and digital solutions within the insurance industry. One of our key initiatives in this area is the development of a new unmatched data set with complete snapshot of insured's total in force and applied for coverage named **Total Line Alerts with Total Line Codes** from the MIB In Force Data Solutions: Data Vault.



Fraud Survey of 25 Life Insurers 2024

Study Scope

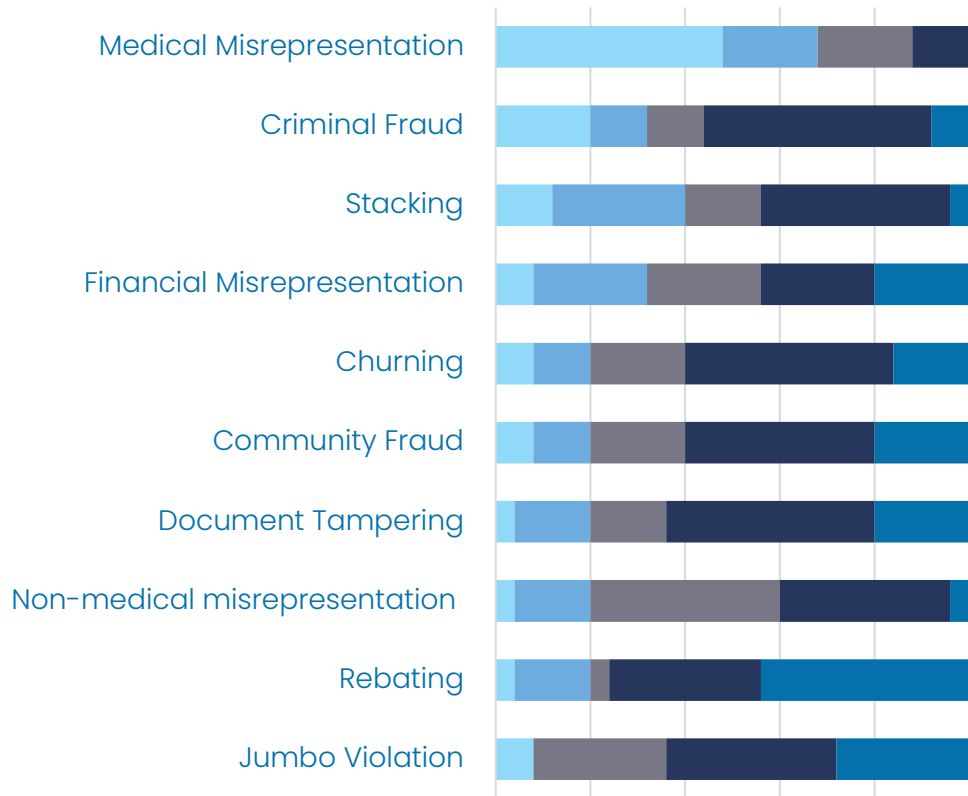
- Conducted by RGA and MIB
- Surveyed 25 U.S. life insurers
- Compared to 2016 RGA study
- Focused on fraud, misrepresentation, agent behavior and anti-selection



Challenges by Fraud Types

Level of Concern

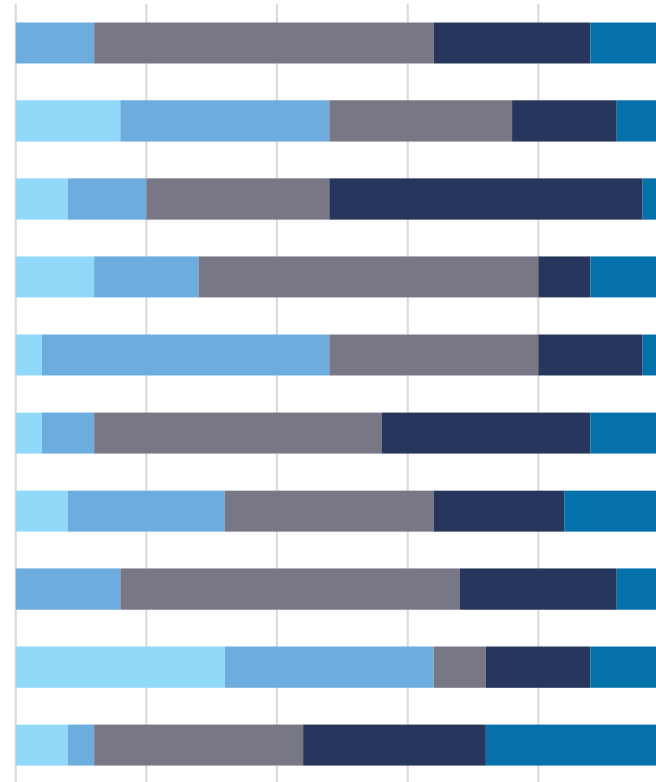
0% 20% 40% 60% 80% 100%



■ 5 = Very concerned ■ 4 ■ 3 ■ 2 ■ 1 = Not concerned

Level of Difficulty

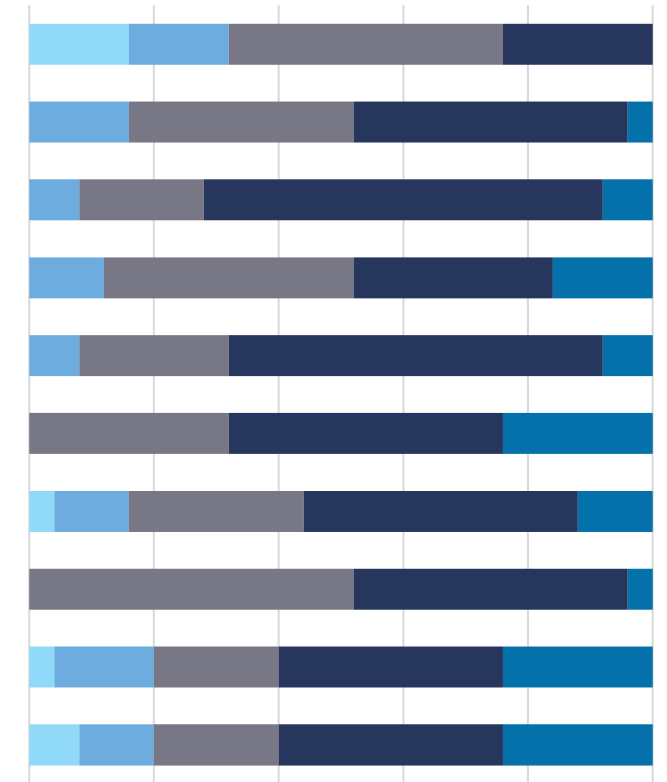
0% 20% 40% 60% 80% 100%



■ 5 = Very difficult ■ 4 ■ 3 ■ 2 ■ 1 = Not difficult

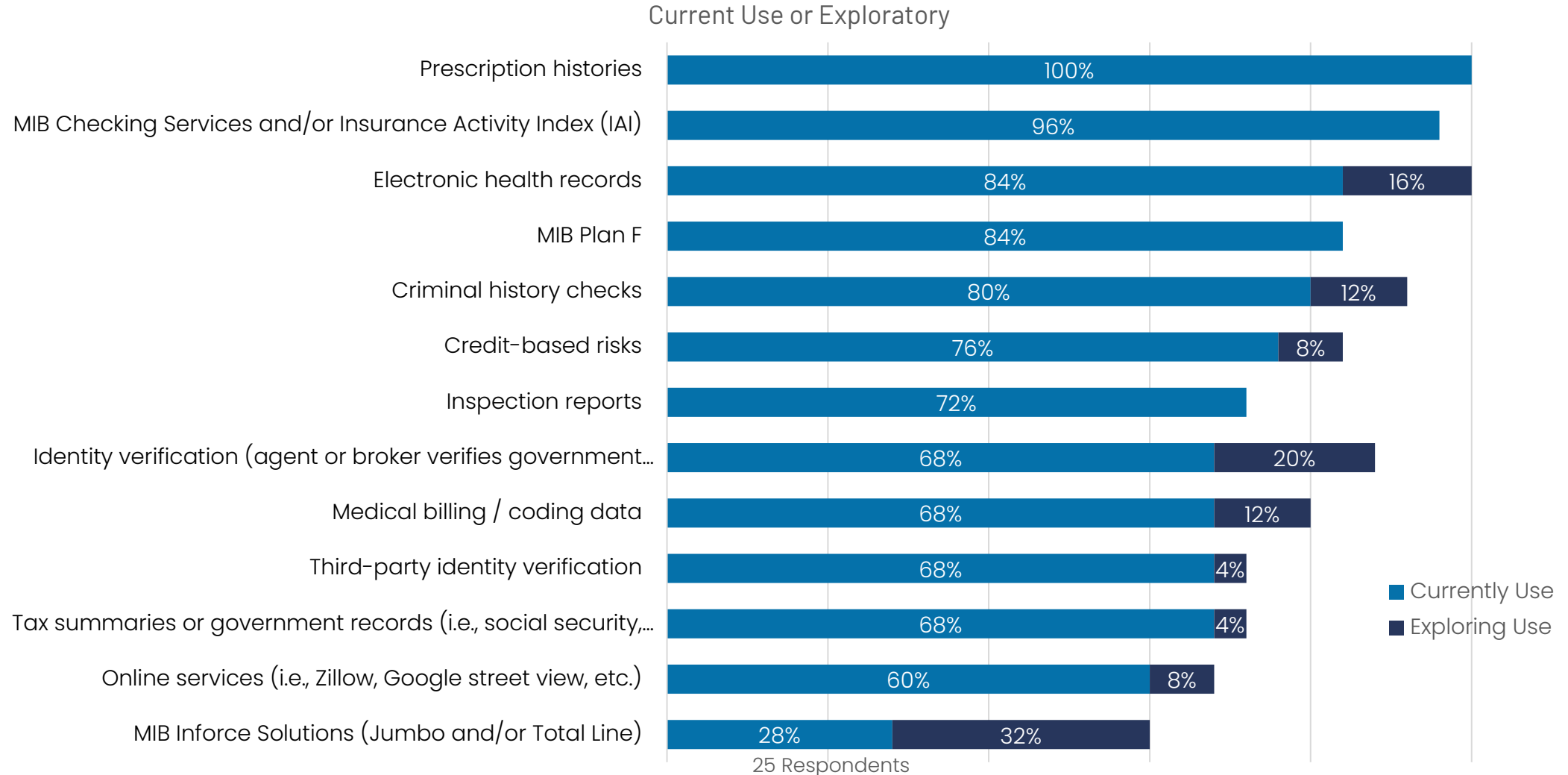
Cost to Detect or Combat Fraud

0% 20% 40% 60% 80% 100%



■ 5 = Very costly ■ 4 ■ 3 ■ 2 ■ 1 = No cost

What Tools are Available to Detect and Mitigate Fraud?



Key Survey Findings

Top Concerns Identified

- 96 percent concerned about fraud in Accelerated Underwriting (AUW)
- Medical misrepresentation is most costly and prevalent
- Churning and stacking highlighted as anti-selective behavior

Trends Since 2016

- 32 percent use algorithms/analytics to detect fraud (up from 10 percent)
- 84 percent have dedicated fraud investigation teams
- Increased training for underwriters to spot red flags

Churning/Twisting and Stacking Insights

- Often underreported and difficult to detect
- Lead to anti-selection and manipulation of underwriting

Compliance Focus: Detecting Agent Behaviors - Stacking, Churning & Twisting Definitions

STACKING

A policyholder owning **multiple** policies to **increase** the amount of **coverage** with a **lower level** of **underwriting** scrutiny than if a single large policy had been purchased. The effect of this is **higher claim amounts** than an insurer would expect to experience if the policy was underwritten for the full amount.

CHURNING & TWISTING

Replacing an existing policy with a **new policy** from the **same** or **another** company for the purpose of generating **additional commission** revenue. This can impact insurer profits. While churning primarily relates to agent behavior, stacking also reflects policyholder behavior.

Compliance Focus: NAIC Model Replacement Regulation

NAIC Model Regulation (#613, Section 4 (A) (5))

NAIC model replacement regulation requires that insurers “maintain a system of supervision and control to ensure compliance with the requirements of the regulation that shall include at least...(5) procedures to detect transactions that are replacements of existing policies or contracts by the existing insurers, but that have not been reported as such by the applicant or producer.”

This means insurers must **proactively** identify potential replacement transactions—even if the producer or applicant fails to disclose them. The goal is to prevent **undisclosed replacements**, which can lead to **consumer harm**, such as loss of benefits or higher costs, and to **curb unethical sales practices** like "twisting" or "churning."

<u>Practice</u>	<u>Policy Source</u>	<u>Misconduct Type</u>	<u>Consumer Harm</u>
Churning	Same insurer	Unnecessary replacement	Loss of value, new charges
Twisting	Different insurer	Misrepresentation	Misled into inferior coverage
Stacking	Same or different	Over-selling	Financial burden, policy lapses

Compliance Focus: How Insurers currently identify **undisclosed replacement** activity

Insurers typically implement the following procedures:

Data Matching Algorithms	Comparing new applications with existing policyholder databases to flag potential replacements
Underwriting Triggers	Alerts when a new application closely resembles an existing policy (e.g., same insured, similar face amount). Post-issue audits using MIB Plan-F
Producer Monitoring	Tracking producer behavior for patterns of frequent replacements. Use of MIB In Force Data Solutions Total Line Alerts and Codes
Customer Contact	Direct outreach to policyholders to confirm their understanding of the transaction
Audit Trails	Maintaining documentation and audit logs for compliance reviews

Compliance Focus: State Insurance Regulatory Enforcement

1. California Department of Insurance – Enforcement Against Churning

In multiple cases, the California Department of Insurance (CDI) has taken action against agents and insurers for churning practices.

An agent who replaced multiple insurance products for elderly clients within short timeframes.

The replacements were not disclosed as such, and the clients incurred surrender charges and lost benefits.

The CDI fined the agent and required the insurer to enhance its detection systems to flag patterns of frequent replacements.

This case highlighted the insurer's failure to maintain adequate procedures under Section 4(A)(5) of the NAIC model regulation.

2. New York Department of Financial Services (DFS) – Stacking and Inadequate Supervision

New York DFS has penalized insurers for allowing agents to stack multiple life insurance policies without verifying the financial suitability or replacement status:

A producer sold five policies to a single client over 18 months, funded by loans from earlier policies.

The insurer failed to detect the pattern, which was eventually flagged during a DFS audit.

DFS cited the insurer for lack of a robust supervisory system and required restitution to the affected policyholders.

3. Florida Office of Insurance Regulation – Pattern of Undisclosed Replacements

Florida regulators investigated an insurer whose agents were:

Routinely replacing existing policies with new ones from the same company.

Failing to report these as replacements, violating disclosure rules.

The insurer was fined and required to implement automated detection tools to flag potential churning and stacking behavior.

Compliance Focus: Market Conduct Exams, Penalties and Corrective Action

Example

Case: Targeted Market Conduct Examination of Life Insurance Company A

Findings: The examination revealed **deficiencies in the company's procedures for detecting unreported replacements**, particularly in life insurance transactions.

Outcome: The company entered into a **Consent Agreement** requiring:

- Implementation of corrective actions.
- Payment of a monetary penalty.
- Ongoing reporting to the Insurance Division.

Relevance: This case directly ties to **Section 4(A)(5)** of the NAIC Model Regulation, as it involved failures to detect and report replacement activity.

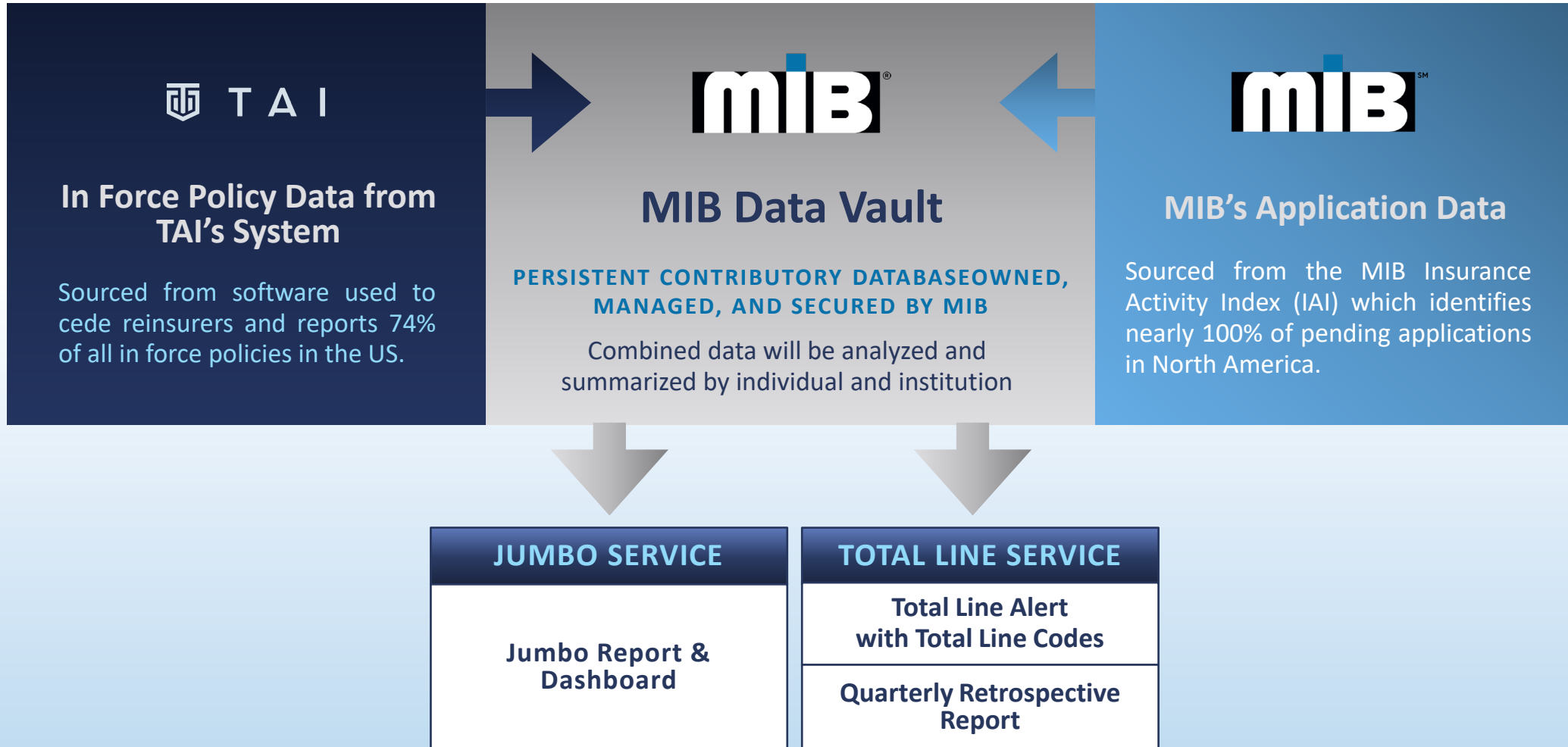
Fine: Undisclosed

Let's review two types of fraud identified in the Fraud Survey: Stacking and Churning.



MIB In Force Data Solutions: Data Vault

Unmatched data set with complete snapshot of insured's total in force and applied for coverage



Current Subscribing Members

26+ Million

In Force and Terminated policies in the vault

~450K

Pending Applications (IAI) captured per month



Example 1: What Does This Data Tell You?

Female Applicant
 48-year-old
 Female
 Policy # XXXX3210
 Company Symbol:

Total Line Alert

Alert generated September 3rd, 2024, 9:00 AM

Direct Carrier (#8)

AGGREGATE	\$3,350,000
Current Application	\$300,000
Pending (IAI)	\$1,550,000
Active (In Force)	\$1,500,000
Terminated (Inactive)	\$0

Current Application (Policy # XXXX3210) \$300,000

Pending Applications (IAI) - Last 180 days of activity \$1,550,000

Last Name	First Name	Middle Name	Date of Birth	Issue State	Carrier	Policy Number	IAI Report Date	Inquiry Reason	Product Type	Joint	Policy Status	Face Amount
Female	Applicant		48 years old		Carrier 1		7/20/2024	NB	T		Pending	\$300,000
Female	Applicant		48 years old		Carrier 2		7/19/2024	NB	T		Pending	\$250,000
Female	Applicant		48 years old		Carrier 3		5/19/2024	RE	T		Pending	1,000,000

In Force Policy Data \$1,500,000

Last Name	First Name	Middle Name	Date of Birth	Issue State	Carrier	Policy Number	Policy Issue Date	Issue Type	Product Type	Joint	Policy Status	Face Amount
Female	Applicant		48 years old	VA	Carrier 4	XXXX2345	6/23/2024	N	T		PMP	\$250,000
Female	Applicant		48 years old	VA	Carrier 5	XXXX6541	6/20/2024	N	T		PMP	\$250,000
Female	Applicant		48 years old	VA	Carrier 6	XXXX9898	2/1/2020	N	T		PMP	\$500,000
Female	Applicant		48 years old	VA	Carrier 7	XXXX5454	1/3/2020	N	T		PMP	\$500,000

Terminated Policy Data \$0

Last Name	First Name	Middle Name	Date of Birth	Issue State	Carrier	Policy Number	Policy Issue Date	Termination Date	Product Type	Joint	Policy Status	Face Amount
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Stacking Cost per Policy Calculation

Industry Database Protective Value Estimation - Stacking

Protective Value At Issue

This is a sample protective value calculation framework.

		Stacking
(1)	Face Amount	300,000
(2)	PV per 1000 of Death Benefit Factor	40
(3)	Excess Mortality	200%
(4)	PV (mortality savings)	\$12,000
(5)	% Flagged	0.41%
(6)	% Evading Age/Amount Requirements	85%
(7)	Prevalence	0.35%
(14)	Protective Value per Placed Policy	\$42.00

Example 2: What Does This Data Tell You?

Total Line Alert

Alert generated January 29th, 2025, 9:01 AM

Male Applicant
 52-years-old
 Male
 Policy #####5308
 Company Symbol

Direct Carrier (#6)

AGGREGATE	\$2,000,000
Current Application	\$1,000,000
Pending (IAI)	\$0
Active (In Force)	\$1,000,000
Terminated (Inactive)	\$4,000,000

Current Application (Policy #####5308)	\$1,000,000
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Pending Applications (IAI) - Last 180 days of activity	\$0
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Last Name	First Name	Middle Name	Date of Birth	Issue State	Carrier	Policy Number	IAI Report Date	Inquiry Reason	Product Type	Joint	Policy Status	Face Amount
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In Force Policy Data	\$1,000,000
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Last Name	First Name	Middle Name	Date of Birth	Issue State	Carrier	Policy Number	Policy Issue Date	Issue Type	Product Type	Joint	Policy Status	Face Amount
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Male	Applicant		52 years old	CA	Carrier 5	XXXX7844	2/2/2024	N	T		PMP	\$1,000,000
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Terminated Policy Data	\$4,000,000
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Last Name	First Name	Middle Name	Date of Birth	Issue State	Carrier	Policy Number	Policy Issue Date	Termination Date	Product Type	Joint	Policy Status	Face Amount
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Male	Applicant		52 years old	CA	Carrier 1	XXXX2465	3/4/2018	2/4/2019	T		LAP	\$ 1,000,000
Male	Applicant		52 years old	CA	Carrier 2	XXXX0765	3/3/2019	3/3/2020	T		LAP	\$ 1,000,000
Male	Applicant		52 years old	CA	Carrier 3	XXXX8758	2/26/2020	2/26/2021	T		LAP	\$ 1,000,000
Male	Applicant		52 years old	CA	Carrier 4	XXXX3211	2/14/2021	2/14/2022	T		LAP	\$ 1,000,000

Churning/Twisting Cost per Policy Calculation


Industry Database Protective Value Estimation - Churning

Protective Value At Issue

This is a sample protective value calculation framework.

		Churning
(1)	Face Amount	1,050,000
(9)	Premium	3,892
(10)	Commission Rate	125%
(11)	Non-commission Underwriting Expense	1,000
(12)	Non-commission Acquisition Expense	150
(13)	Expense Savings	\$6,015
(5)	% Flagged	0.55%
(6)	% Agent-Led	80%
(7)	Prevalence	0.44%
(14)	Protective Value per Placed Policy	\$26.47

Member Quote



"Based on the quarterly reports, we think we can successfully pinpoint agents who might be shopping or churning policies. We will cross-reference these flagged agents with other reports to determine what, if any, action is appropriate"

- MIB Member Americo

Analysis of Adverse Behaviors

- Potential **Churning/Twisting** Instances
 - 7,560 policies flagged
 - Impacting \$7.5 billion of face amount
 - Affecting 7,500 unique individuals
- Potential **Stacking** Behavior
 - 6,061 policies flagged
 - Representing \$1.7 billion of face amount
 - Affecting 2,035 unique individuals
- Industry Impact
 - Estimated total cost to the industry could reach \$1 Billion annually
 - Assumes majority of MIB members contribute to the **MIB In Force Data Vault**

Conclusion

- Fraud Concerns in Life Insurance
 - Fraud remains a significant issue
 - Expected to continue in the foreseeable future
- Combating Fraud
 - Requires more resources and tools
 - Enhanced data and data sources needed
 - Utilization of contributory databases like MIB's In Force Data Vault
- Opportunities in Compliance
 - Monitor activity to identify and address adverse field behavior patterns
 - Dissuading misrepresentations on applications
- Next Steps:
 - Email your Chief Underwriter: "I participated in a CELFI Webinar with MIB who introduced In Force Data Solutions. MIB discussed how this solution provides new MIB In Force or Terminated Policy Codes and Modifiers at no additional cost. In addition, MIB provides detailed reporting that may help us identify fraudulent applicant and agent behavior. Can we discuss how we can participate?"
 - Let's connect in September at the CEFLI Annual Conference in San Diego, CA!

- ✓ Please complete our **1-minute post event survey** when you receive the email shortly after we say good-bye
- ✓ The **presentation deck**, a link to the **recording** and a **Certificate of Attendance** form (for those who attended the live webinar) will be emailed within the next day or two.
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