

INSURANCE ROUNDTABLE: HOW INDUSTRY COLLABORATION DELIVERED A DATA SOLUTION TO JUMBO LIMIT VIOLATIONS



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“Jumbo” policy limits refer to the amount of coverage in force and applied for on an individual life for automatic reinsurance – generally \$35-\$65 million per person in the US market. Violations of these limits present a costly challenge for the insurance industry:

- Total life insurance inforce in the US = \$3.6 trillion.
- 2% of all inforce falls into jumbo risk category = \$72 billion.
- Total in actual claims that exceed jumbo limits each year = hundreds of millions of dollars.

Jumbo limit breaches take advantage of insurers’ inability to know how much coverage an applicant already has with other carriers, leaving insurers to rely solely on applicant disclosures and exposing them to potential high-value fraud. However, a new collaboration leveraging expertise and data from two of the industry’s biggest service providers – TAI and MIB – offers a highly effective solution.

We sat down with the following representatives from TAI and MIB, as well as a direct insurer (Lincoln Financial) and a reinsurer (RGA), to learn more about the MIB Jumbo Service:

- Tom Freitas, CEO at TAI (Tindall Associates, Inc.).
- Trey Reynolds, Executive Vice President, Strategy & New Business Development, MIB.
- Jordan Carreira, Chief Underwriter, Lincoln Financial.
- John Valickus, Deputy Chief Underwriter, Lincoln Financial.
- Chris Noyes, Vice President of Business Development, US Mortality Markets, RGA.

Executive Summary *This article focuses on the issues the industry has faced with jumbo breaches and brings together five industry representatives for a roundtable discussion. Jumbo limit violations can be costly for the insurance industry, and now a possible solution has been found. Join us to see how direct companies, reinsurance companies and MIB can work together to solve this problem.*

Why Are Jumbo Limit Violations Such a Big Problem?

Lincoln Financial (LF): Jumbo breaches stem from a longstanding blind spot in the industry. Despite performing our due diligence as direct insurers and not seeing any jumbo violation before issuing a policy, we can find out down the road – 20 years or more in some cases – that the policy does indeed exceed the jumbo treaty limits. We usually find this out when reinsurers decline to pay the claim due to the jumbo violation, although we had no way of knowing this at time of issue.

Direct writers often assume that reinsurers should be aware of jumbo breaches before claims time because all business funnels up to them. What we found, however, was their systems were not capable of detecting jumbo violations because of nuances in names, dates of birth, nicknames – that sort of thing, which prevented identification of coverage inforce that applicants or their agents didn’t disclose on the application. Again, it’s a blind spot for the industry and, given the high face amounts of these policies, a very costly one for insurers.

RGA: From the reinsurance perspective, we saw the fundamental problem as a lack of a central industry repository of inforce and applied-for policies. Underwriters at primary insurers can do their job properly and still not know what the total line is for a given applicant – there could be a large policy fully retained by another carrier that they, and we as the reinsurer, are completely unaware of. As a result, we often uncover jumbo violations only years later at the reinsurance level when claims are made and we are able to piece things together. By then, of course, it's too late.

MIB: When you think about how people complete the insurance application today, much of the information they provide can be verified through third-party means. Unfortunately, an applicant's inforce and pending coverage is one of those areas that's very difficult to verify. Without an inforce data vault containing this information, no amount of treaty amendments, internal checks, manual processes and phone calls can provide the type of third-party verification required, and insurers have to rely entirely on what agents and applicants tell them. This is the problem the MIB Jumbo Service addresses.

How Did the MIB Jumbo Service Come About?

MIB: The idea of bringing policy data together for the benefit of all is not new. About 15 years ago, MIB conducted a study series, known as the Reinsurance Study of Highly Insured Persons (ReSHIP), to help provide data and support carriers. However, the high volume of data included in ReSHIP often led to duplications and inconsistencies, making it difficult to work with and, since it was only produced once a year, the data was not timely.

LF: Over the years many carriers decided to no longer participate in ReSHIP due to the time, expense and overall inaccuracies. Although every now and then we might find a gold nugget in the form of a jumbo violation, it was often past the 2-year contestable period and our hands were tied. As noted earlier, some of these cases are 10 to 20 years old, giving us no proper warning to take action.

RGA: The idea for a contributory database surfaced about 10 years ago. The basic premise was that if everybody in the industry contributed into this massive database, just think of the problems we could solve. This wasn't just for jumbo or total line – we were looking at everything. The idea mustered some interest with leaders at several carriers, but we were trying to boil the ocean. Without a clear focus and a place to start, it never gained traction, especially when we started looking at all the compliance and legal issues involved. So, we went back to the drawing

board to determine a specific problem that we were going to attack.

MIB: In 2017 we conducted a study and found that around 40% of jumbo policies were at risk of being in violation, and 80% of those were outside the contestable period. In discussing these findings with our members, we learned that very few had budgeted adequately for jumbo treaty violations. Moreover, they did not realize how much money was at stake. Recognizing this was a sizable unmet need for the industry, we searched for a partner that could augment our data and add value to the innovation process.

TAI: The original concept for an inforce data vault that would become the MIB Jumbo Service came out of RGAX, the transformation engine of RGA, as a kind of an experiment to see if we could leverage TAI data, which is a good representative of inforce throughout the industry, in a way that would add value back to the industry. We conducted a pilot study a few years ago and learned that this idea had merit. From there, we set out to find a partner to help bring the value of TAI's data insights to the industry. MIB was an ideal fit. MIB already worked with all insurers on an underwriting basis, managed a contributory database as part of its Code Solutions platform, and was also FCRA (Fair Credit Reporting Act) compliant, which would be necessary to bring any product to market. Plus, MIB's access to applied-for coverage was a perfect complement to TAI's reinsurance data on inforce policies. Things came together this past year with a group of partners committed to delivering a solution and developing it through an agile process that would bring a product to market more quickly.

What Makes This Solution a Game-Changer?

MIB: TAI administers about 75% of reinsured business in the US via a common file format, including most of the big carriers, who represent the vast majority of policies in play for jumbo violations. At MIB, meanwhile, we have ongoing access to data on 99%+ applied-for policies in the US, including jumbo applications. We have combined these data sources to create an unprecedented data vault stored by MIB that, while protecting data privacy, allows carriers and reinsurers alike to identify and work to prevent potential jumbo breaches before they occur.

RGA: The risk on a particular life is constantly changing, so you really need something that stays as close to real time as possible to get a meaningful snapshot of risk-relevant information, and that includes jumbo activity. The MIB Jumbo Service provides that real-time data. It represents a big step forward for the industry.

LF: Right now, agents hold much of the control when it comes to maintaining jumbo limits. They should know how much coverage their clients have inforce and applied for, so they should then steer their clients away from limit breaches. The problem is they are not bound by jumbo policies like an insurer, who carries the risk. Agents' main motivation is trying to sell as much insurance to their client as possible. This is where fraudulent behavior comes in, which unfortunately our experience indicates makes up the majority of jumbo violations. The MIB Jumbo Service shifts control to the carriers, which is where it should be, as we have a vested interest in seeing that limits are maintained.

What Results Are You Seeing From the Product So Far?

LF: We ran through the list of cases identified by the tool in our pilot study and did indeed identify potential issues. Underwriters were able to compare the report from MIB to applications we received and other documentation to identify cases that merited further investigation. The key is to be able to catch it early enough to take action and not wait 10 years to see if a jumbo violation has occurred, and industry-wide collaboration is the only way to make that happen.

RGA: To borrow an analogy from the pandemic, by working together we're trying to "immunize" the industry. Improved immunity to jumbo violations can be achieved only if everyone participates in the solution. Our goal is to have all major carriers – the ones most affected by jumbo violations – participating and contributing data. We think that's going to happen. More and more carriers are signing on, so the momentum is growing.

MIB: Chief underwriters and others involved with reinsurance treaties with whom we've met agree that this is a valuable tool and the right place to start – having an industry-owned utility like MIB lead the effort and leveraging the tools and resources of partners like TAI to reduce costs and get the data necessary to execute. We are taking great pains to ensure that the Jumbo Service delivers an excellent return on investment, identifying potential jumbo risk during the contestable period, and providing inforce and pending data during the underwriting process to generate savings of more than 10 times the cost of the tool.

What's Next for This Solution and for This Partnership?

MIB: We have successfully produced our first semi-annual post-issue jumbo reports covering all inforce data for all participants over a 2-year contestable

period. This 6-month timeframe will make the data much more manageable than the swaths of data covering multiple years that previous programs had provided. We are currently planning our rollout of an alert feature, which will search the database of inforce and applied-for policies and inform insurers right then when individual cases bump up against common jumbo limits. Of course, we continue to add insurer and reinsurer participants and are working toward our goal of full industry participation.

Furthermore, the technology we've put in place for the jumbo product enables a continuous refresh of inforce data, which can be applied to other uses as well. After jumbo, we will move into developing MIB Total Lines, which is a similar solution but shifts the focus from the very large cases to all cases, looking for other potential fraudulent behaviors, such as stacking and, on the positive side, identifying protection gaps where insurers might be able to grow their businesses. This work should carry us through 2023 before we move on to additional tools we're considering.

TAI: We are excited about the possibilities for innovative new solutions that may come from this data and technology. Since we have all the piping set up between TAI, MIB and our partners, it may not take a huge effort to add a new data element and make necessary tweaks to create another new tool. We actually have a roadmap out to 2026, but our experience in having worked on so many large projects has taught us to focus on the next couple of years as things can change dramatically by the time you get there. Regardless, we're excited about the road ahead.

What Do You Think This Solution Could Mean for the Industry?

LF: We're excited about the opportunity to participate and to contribute to solving this longstanding industry problem. We anticipate significant savings from this solution and will be happy to avoid those awkward conversations about jumbo violations we've had with senior leadership at our reinsurance partners. We look forward to where this collaboration goes from here with Jumbo as the foundation for additional tools.

RGA: Right now, it's hard to determine exactly where the industry is headed in a lot of areas. I'm more excited about the opportunities ahead than I am worried about the challenges. If the industry continues to come together like this, we can transform the way we do business. Tools like this Jumbo Service open your eyes to larger possibilities, such as the concept of a universal ID for applicants and policyholders that would facilitate online sales. Of course, such steps

will require demonstrating to regulators that these advances benefit consumers above all.

TAI: The Jumbo Service is a great example of coopetition – insurers cooperating to solve a shared problem while still competing with one another. It shows that we can develop solutions together that are very cost-effective if we find the right partners who bring unique differentiation and unique competencies. As additional tools like this are developed, adoption rates will increase, leading to greater scale and lower costs. We can create an environment where the insurance industry is considered to be innovative when it comes to data and digitization, versus in the past when it has been slow to adopt and implement change.

MIB: When the industry comes together to solve problems, everyone benefits – direct writers, reinsur-

ers and, most importantly, consumers. The contributory database MIB and TAI have developed has the potential to address many industry challenges, jumbo treaty violations being the first. With enough critical mass, we can provide unprecedented data-driven insights in a reliable, aggregate fashion. Maintaining the database over the long term will enable us to capture data in areas such as claims and lapses, which we can use to understand trends over time. Insights gained can help the industry evolve our pricing and product development strategies, ultimately enabling us to better serve existing consumers and reach more people in need of the financial protection insurance provides.

To learn more about the MIB Jumbo Service, please contact MIB at info@mib.com.

About the Authors

Tom Freitas, as CEO, is responsible for overseeing day-to-day operations and for creating and implementing the strategic and tactical plans of the organization. He started his career in IT development in investment banking, and has spent the last 17 years in the reinsurance industry specializing in Operations and IT management. In his last corporate role he was COO for SCOR Global Life Americas, where he was responsible for Operations and Information Technology, supporting SCOR's North and South American Life business. He has expertise in process control and improvement, insurance data and data quality, and how to combine operations, data and IT into solutions for business problems and opportunities.

Trey Reynolds joined MIB in 2020 as Executive Vice President, Strategy and New Business Development. In this role, Trey is responsible for leading MIB's strategy and new business development teams, focusing on innovation, partnership, and bringing to market new value-added products and services. Prior to joining MIB, Trey served as Head of Life Insurance Distribution at Equitable, National Sales Vice President at John Hancock, Executive Vice President at Crump, and President of BRAMCO Financial Services. Trey brings over 30 years of experience in the insurance industry and holds an MBA and BA in Accounting, both from the University of Utah. He is a Certified Public Accountant (CPA), has life and health insurance licenses, and holds FINRA Series 6 and 63 designations.

Jordan Carreira is Vice President and Chief Underwriter for Lincoln Financial Group. He is a Fellow of the Academy of Life Underwriting, past President of the Hartford/Springfield Life Underwriting Association, and past President of the Impaired Risk Underwriting Association. At Lincoln, Jordan is responsible for developing and innovating company underwriting philosophy and policy & procedures for all products, underwriter training and auditing, and collaboration with product and actuarial areas on product and reinsurance underwriting matters. The office of the Chief Underwriter is also responsible for automated underwriting transformation and contestable claim reviews. Jordan has been a featured speaker at many national and regional underwriter association and customer meetings.

John Valickus was recently appointed Vice President and Chief Underwriter for Lincoln Financial. John returned to Lincoln 18 months ago as Vice President/Deputy Chief Underwriter and was previously Chief Underwriter for Symetra for 7 years. Prior to his time with Symetra, John spent a total of 19 years with Lincoln, which included time with Jefferson Pilot and Chubb Life. John started his career with Prudential as an underwriting trainee and later was instrumental in the launch of Prudential Select, its brokerage underwriting arm. John is a frequent speaker at AHOU on such topics as remote underwriting, financial underwriting and fraud. John is currently on the MIB Advisory Board and is President of the Impaired Risk Underwriting Association. John is past President of the Southeastern Underwriting Association and has his FALU, FLMI and CLU designations. John lives in Boston with his wife Kathy and has three children and three grandchildren.

Chris Noyes, Vice President, Business Development, is responsible for serving clients in the Eastern region of the US, identifying new business opportunities and increasing client awareness about RGA's products and services. Before joining RGA in 2008, he was the Managing Director of CDR Optimal Capital Group. He also has experience working as the Director of the Product Development and Consulting practice at ING Re, in addition to working for Conesco and Scottish Re. He started his career as an actuarial student with Life Partners Group. Chris received a Bachelor of Science degree in Mathematics from Colorado College. He is a Fellow of the Society of Actuaries (FSA).