Originally published in ON THE RISK, The Journal of the Academy of Life Underwriting, December 2024

Tackling a *billion-dollar* annual cost to the life insurance industry.

Executive Summary

*The life insurance industry loses **over $1 Billion annually** due to adverse behavior generated by 1) a small percentage of applicants who apply for insurance at low face amount levels with the intent of avoiding underwriting requirements, 2) agents who replace policies with the sole objective of earning a new commission, and 3) agents who intentionally don't disclose pending or in force applications to hide the total amount of retained or reinsured insurance available.*

While bad actors will likely continue to scheme to stay ahead of risk officers, underwriters and technologists, we can leverage new data plus tools to deter their tactics. MIB has published extensive articles about the risk and cost of jumbo treaty violations, as such, we will focus our attention on stacking and churning behaviors in this publication.

In listening to concerns raised by our members, MIB partnered with TAI to develop a contributory database, enabling life insurance companies to 1) proactively identify non-disclosure on applications during the underwriting process, 2) ensure the right level of medical underwriting and financial due diligence is performed based on the total line of coverage, and 3) quickly identify costly applications with high lapse assumptions.

ADVERSE BEHAVIORS, SUCH AS STACKING AND CHURNING, COST THE INDUSTRY NEARLY *$1 BILLION ANNUALLY*

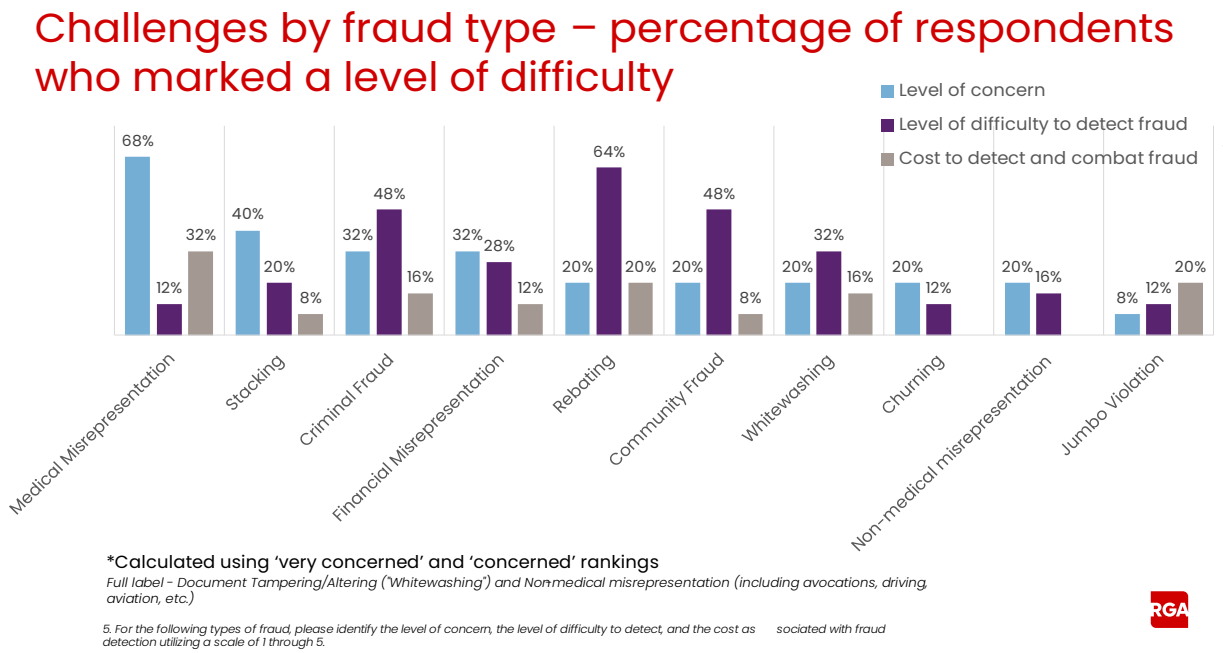
The MIB Total Line Service has a proven ability to expose applicant and or agent behaviors like stacking and churning upon application submission. A February 2024 white paper by MIB and RGA[1] provided an analysis of data from 10 companies participating in the MIB In Force Data

[1]Julianne Callaway, L. A. (2024, February). *Impact of Anti-Selective Behavior on the Life Insurance Industr*. Retrieved from RGA: https://www.rgare.com/knowledge-center/article/impact-of-anti-selective-behavior--on-the-life-insurance-industry

Vault. The analysis flagged 7,560 policies as potential churning instances, impacting $7.5 billion of face amount from 7,500 unique individuals. Potential stacking was another behavior identified with 6,061 policies flagged, representing $1.7 billion of face amount from 2,035 unique individuals. When extending this calculation to assume the majority of MIB members contribute to the MIB In Force Data Vault, we can estimate ***the total cost to the industry for applications associated with adverse behaviors, such as stacking and churning, could reach $1 Billion annually***.

A CURRENT TOTAL LINE SUBSCRIBER REPORTED 7% OF REVIEWED APPLICATIONS CONTAINED DISCREPANCIES REGARDING PENDING AND IN FORCE COVERAGE.

To augment these findings, RGA and MIB also completed an industry-wide survey in July 2024 to identify concerns with specific types of application fraud. Respondents ranked stacking as the second highest area of concern related to fraud, falling only behind medical misrepresentation, and both stacking and churning were identified as areas of concern with a high level of difficulty to detect. These non-disclosure situations have historically been difficult to identify during the underwriting of new applications, presenting significant challenges to mitigating fraud. The MIB In Force Data Vault addresses these challenges through insights provided by the Jumbo Service and Total Line Alerts and Codes.



Introduction:

The NAIC estimates the insurance industry recognizes a loss of $75 billion annually due to fraud, misrepresentation, and anti-selection practices. Given approximately 9.5 million policies were issued in 2022[2], representing $1.87 trillion of face amount, these challenges are significant, and fraud remains one of the highest costs for policyholders and life insurance companies.

For over 100 years, MIB has hosted and managed the industry's largest contributory database in support of detecting applicant misrepresentation and fraud. To provide awareness of additional potential fraudulent practices during the underwriting process, MIB began working with RGA and 7 carriers to design and develop a new contributory database focused on in force and terminated policies. The hypothesis was that in force and terminated policy data, when combined with MIB Inquiry information (pending application proxy), would help underwriters determine if application non-disclosure existed on an insurance application. With the exception of accidental omission, typical examples of application non-disclosure scenarios could be (a) omission of in force policies in an effort to receive more insurance than is financially justified (b) acquisition of insurance beyond the retention or automatic binding limits of a carrier, causing a jumbo violation (c) concealing the total number of applications submitted and policies in force to eliminate additional necessary underwriting requirements (d) hiding other potential harmful behaviors such as stacking and churning.

Based on the initial results from current subscribers to the MIB Total Line Service, recent industry feedback through surveys, and the analysis of data in the MIB Vault, we have developed insights into applicant and agent behaviors. The contributory database within the MIB In Force Data Vault contains over 25 million historical in force and terminated policies, allowing us to review and analyze the protective value tied to the identification of stacking and churning. This is the industry's first effort to better understand the cost of these two behaviors and the value associated with proactive identification during the underwriting process.

Theory

There are several techniques actuaries, chief risk officers, pricing actuaries and underwriters can use to attempt to quantify the protective value of using tools to help detect elements of the application that are incomplete and inaccurate. There are also assumptions made when pricing products to protect companies from the applicants and agents who intentionally mislead underwriters by omitting key parts of the application. Eliminating these applicant and agent risks allow remaining applications to flow smoothly through the accelerated underwriting process, maximizing efficiencies and minimizing costly carrier exposure. It also enables insurers

[2]2023 Life Insurers Fact Book. (2023, November 7). Retrieved from ACLI: https://www.acli.com/about-the-industry/life-insurers-fact-book/2023-life-insurers-fact-book

the ability to price individual risk, minimizing the need to spread the cost of fraud across all policyholders.

In order to further assess the potential exposure, we must first **define stacking and churning**:

- **Stacking** is defined as multiple smaller applications submitted to one or more carriers with the intent to circumvent additional underwriting requirements traditionally required on larger face amounts. These smaller applications may also be submitted through an accelerated underwriting system.
- **Churning** is defined as a policy that has been replaced by another policy within the same carrier. For purposes of this assessment, we have included twisted policies (those that have been replaced by another policy through a different carrier) in the churning definition.

For purposes of our study, we used the following definitions of stacking and churning:

Definition of Stacking:

Three or more policies, each with a face amount less than $1 million, placed by one individual with three or more different carriers within a single year.

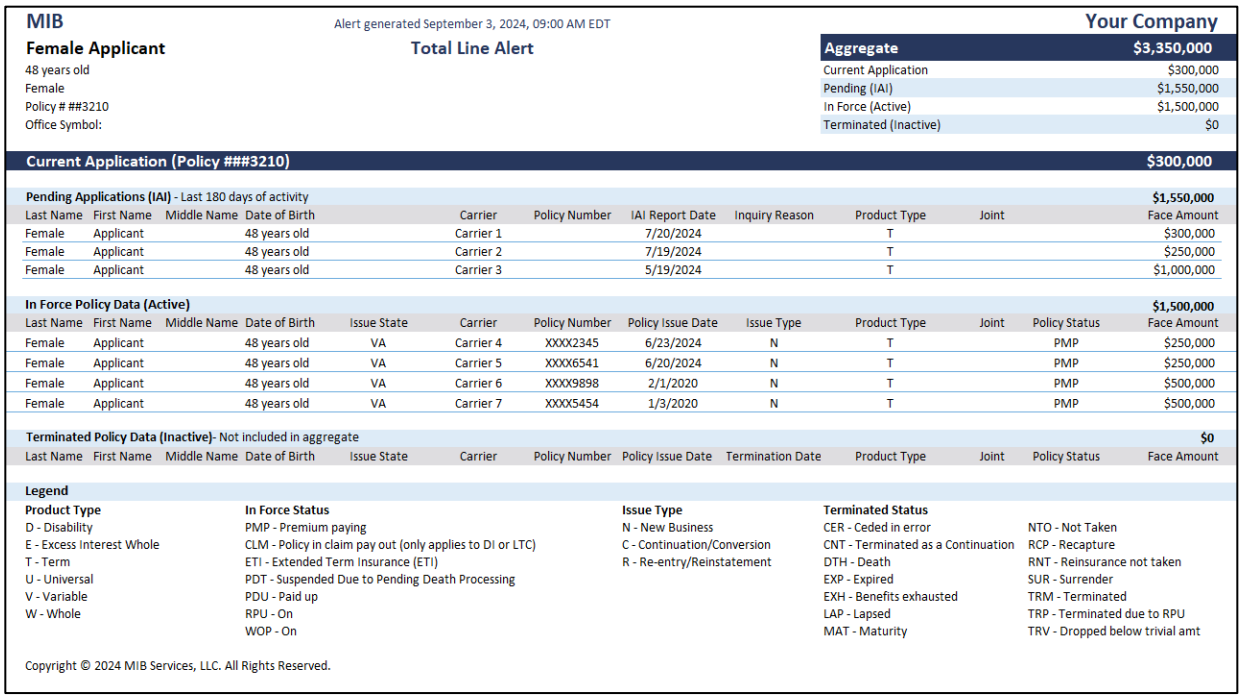
The submission of smaller applications can lead to a lower level of underwriting scrutiny than if a single, large policy had been purchased. This can potentially result in higher claim amounts than an insurer would anticipate if the policy was underwritten for the full amount.

Definition of Churning

A placed policy that lapsed within 1-4 years of issue, followed by a new policy being issued at a different carrier within 60 days.

This behavior is often led by agents looking to generate additional commission, potentially without the applicant's best interest in mind.

First, let's illustrate what stacking looks like using a real-world MIB Total Line Alert. By combining new application activity within the most recent 180 days and historical in force data from the newly developed MIB In Force Data Vault, we see specific and actual behavior.



MIB

Alert generated September 3, 2024, 09:00 AM EDT

Female Applicant
48 years old
Female
Policy # ##3210
Office Symbol:

Total Line Alert

Your Company

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

Current Application (Policy ###3210) — **$300,000**

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

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

In Force Policy Data (Active) — **$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 (Inactive)- Not included in aggregate — **$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

Legend

Product Type	In Force Status	Issue Type	Terminated Status	
D - Disability	PMP - Premium paying	N - New Business	CER - Ceded in error	NTO - Not Taken
E - Excess Interest Whole	CLM - Policy in claim pay out (only applies to DI or LTC)	C - Continuation/Conversion	CNT - Terminated as a Continuation	RCP - Recapture
T - Term	ETI - Extended Term Insurance (ETI)	R - Re-entry/Reinstatement	DTH - Death	RNT - Reinsurance not taken
U - Universal	PDT - Suspended Due to Pending Death Processing		EXP - Expired	SUR - Surrender
V - Variable	PDU - Paid up		EXH - Benefits exhausted	TRM - Terminated
W - Whole	RPU - On		LAP - Lapsed	TRP - Terminated due to RPU
	WOP - On		MAT - Maturity	TRV - Dropped below trivial amt

In this example, the applicant is applying for life insurance from more than three carriers and has a total of $1.5M in force coverage split up over four policies, all with face amount below $1M. While there are good reasons to apply for and place a policy with more than one company (i.e., diversification, business owners), the Total Line Alert allows the underwriter to have visibility during the underwriting process so that they can assess if further questions are needed.

Second, let's explore the "cost" side of stacking, which is a portion of the total protective value of the MIB Total Line Service. The costs associated with stacking are directly tied to mispriced mortality. When applicants apply for insurance at face amounts beneath underwriting requirement thresholds, without admitting to the full amount of insurance applied for (or anticipated to be applied for), an offer of coverage may be provided without full requirements. This means labs, APSs/EHRs, claims/Rx checks, or other data elements that would traditionally be required for a more thorough risk assessment had the total amount of coverage been revealed, may not be requested or reviewed. This risk is rapidly increasing as more applicants and agents use accelerated underwriting platforms to acquire insurance. The "cost" to an insurer is an early claim on a potentially mispriced policy.

The assumptions for "costs" associated with stacking in our protective value model is explained below.

Note – this list leverages averages for variables that are considered carrier specific. However, the methodology can be applied to your own company's information to help assess the protective value on your specific in force book.

Stacking "costs" involve the following:

Face Amount is the average face amount of single life policies flagged for stacking. This was calculated based upon 25,000,000 policies housed in the MIB In Force Data Vault.

PV per $1000 of Death Benefit Factor is the present value of future death benefits for an average policy. Each carrier sets their own PV assumptions. We are judgmentally setting at 40.

Excess Mortality is caused by circumventing underwriting scrutiny where anti-selection is occurring. To quantify the mortality impact of this anti-selection, we looked at research published by the Society of Actuaries 2022 Accelerated Underwriting Practices Survey Report[3] and Munich Re Life US's February 2024 Article on Mortality Slippage for Accelerated Underwriting[4]. Both reports used random holdouts and post-issue audits, generating the below findings:

- The research estimated that approximately 15% of individuals were placed into inadequate risk classes (with 85% placed into the correct or favorable risk classes), resulting in a total mortality slippage for the group at 15%.
- The misclassified policies have twice the mortality of appropriately classified policies. This is evident because the 15% of misclassified policies cause a proportionate 15% increase in the mortality of all policies.

Excess Mortality is set at 200%.

[3]2023 Life Insurers Fact Book. (2023, November 7). Retrieved from ACLI: https://www.acli.com/about-the-industry/life-insurers-fact-book/2023-life-insurers-fact-book

[4]Accelerated underwriting: Mortality slippage study and monitoring best practices. (2024, February 13). Retrieved from Munich Re: https://www.munichre.com/us-life/en/insights/future-of-risk/mortality-slippage-study-and-monitoring-best-practices.html

We used the historical data from the MIB In Force Data Vault to determine the prevalence of stacking in our existing data. We refer to this as "stacking prevalence." While it is unlikely applicants are traditionally looking to place multiple policies at low face amounts, we recognize there may be a few instances where this is logical planning technique such as diversification or separate policies to accommodate different types of ownership. We attempted to exclude these instances by including a calculation titled "evading prevalence." Below are the details on stacking prevalence.

Stacking Prevalence

Stacking Prevalence is the % Flagged x the % Evading Age/Amount Requirements.

- **% Flagged** is the proportion of policies flagged for stacking, with an identified baseline of 0.08% based on data from 10 carriers in the MIB In Force Data Vault. As companies are added to the MIB In Force Data Vault, additional policies associated with individuals performing stacking will be uncovered. If all carriers participated in the MIB In Force Data Vault, we estimate a % Flagged of up to 0.41%, resulting from full applicant exposure. Therefore, we set the **% Flagged to be 0.41%.**
- **% Evading Age/Amount Requirements** is the portion of policyholders who are acquiring a minimum of three unique policies for the purpose of avoiding underwriting scrutiny. **This was judgmentally set at 85%.**

Stacking Prevalence= [% Flagged] x [% Evading Age/Amount]

= [.41%] x [85%]

= 0.35%

Using these assumptions, we can build a model to estimate the cost of stacking per placed policy for all MIB members. While some of the assumptions may change member to member, using the data in our in force contributory data base, the anticipated cost would be approximately $42.00 per placed life insurance policy.

(The cost of an instance of stacking = [Face Amount] x [PV per 1000 of Death Benefit Factor] / 1000 x [Excess Mortality – 100%])

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***

In order to focus on the behaviors we view as most damaging to a carrier, applicant, and industry, the protective value study is focused on the area that is most difficult for carriers to detect - policies replaced by a different carrier at a frequency that suggests it is being done in order for the agent to receive new compensation.

Our next example of an actual MIB Total Line Service Alert focuses on churning - and highlights the cost assumptions involved in determining the protective value of data for preventing instances of churning.

MIB

Alert generated August 5th 2024, 01:00 PM

Male Applicant

60 years old
Male
Policy ####5309
Company Code:

Total Line Alert

Your Company	
Aggregate	**$9,250,000**
Current Application	$3,000,000
Pending (IAI)	$3,000,000
In Force (Active)	$3,250,000
Terminated (Inactive)	$9,000,000

Current Application (Policy ####5309) — **$3,000,000**

Pending Applications (IAI) - Last 180 days of activity — **$3,000,000**

Last Name	First Name	Middle Name	Date of Birth	Carrier	Policy Number	IAI Report Date	Inquiry Reason	Product Type	Joint	Face Amount
Male	Applicant		60 years old	Carrier 1		7/21/2024		T		$3,000,000

In Force Policy Data (Active) — **$3,250,000**

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
Male	Applicant		60 years old	FL	Carrier 2	XXXX09564	9/17/2022	N	T		PMP	$3,000,000
Male	Applicant		60 years old	FL	Carrier 3	XXXX9810	7/14/2015	N	W		PMP	$250,000

Terminated Policy Data (Inactive)- Not included in aggregate — **$9,000,000**

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
Male	Applicant		60 years old	FL	Carrier 4	XXXX124365	2/1/2019	3/14/2020	T		LAP	$3,000,000
Male	Applicant		60 years old	FL	Carrier 5	XXXX07800	3/10/2020	5/2/2021	T		LAP	$3,000,000
Male	Applicant		60 years old	FL	Carrier 6	XXXX875525	5/15/2021	8/25/2022	T		LAP	$3,000,000

Legend

Product Type	In Force Status	Issue Type	Terminated Status	
D - Disability	PMP - Premium paying	N - New Business	CER - Ceded in error	NTO - Not Taken
E - Excess Interest Whole	CLM - Policy in claim pay out (only applies to DI or LTC)	C - Continuation/Conversion	CNT - Terminated as a Continuation	RCP - Recapture
T - Term	ETI - Extended Term Insurance (ETI)	R - Re-entry/Reinstatement	DTH - Death	RNT - Reinsurance not taken
U - Universal	PDT - Suspended Due to Pending Death Processing		EXP - Expired	SUR - Surrender
V - Variable	PDU - Paid up		EXH - Benefits exhausted	TRM - Terminated
W - Whole	RPU - On		LAP - Lapsed	TRP - Terminated due to RPU
	WOP - On		MAT - Maturity	TRV - Dropped below trivial amt

Upon review of this data, it is evident that the applicant has lapsed three individual $3 million policies, each issued by different carriers, and each terminated around the 13-to-15-month timeframe. In this example, it is clear the agent is waiting just beyond any potential commission draw back period to place a new policy. You can also see the agent is placing new policies with new carriers to help disguise this harmful behavior. What is the impact to the policyholder? In a very small number of instances, the policyholder may benefit from a new policy. However, for the large majority of policyholders lapsing policies and placing new policies results in higher costs, new underwriting requirements, and surrender charges and penalties resetting.

The “costs” associated with churning occur when the surrender of the new policy occurs before a company can recover the paid commissions and/or other acquisition expenses. This is very different from the assumptions we used in stacking, which were tied to the excess mortality caused by applicants/agents who are misrepresenting medical history and health concerns. Identifying a pattern of churning early in the underwriting process allows companies to minimize underwriting and acquisition expenses and prevent the payout of commissions on fraudulent, non-disclosure applications.

Here are the assumptions we used to determine the “cost” of churning.

Churning "costs" involve the following policy features:

Face Amount is based on the average face amount of single life policies which were flagged for churning within the MIB In Force Data Vault.

Premium is based on the average annualized premium of a single life policy. This premium required for the churning protective value calculation was derived using the product mix of the MIB In Force Data Vault. Note that the premium may directly impact the commission earned by the agent.

First Year Commission Rate is set at 125%.

Non-commission Underwriting Expense is set at $1,000.

Non-commission Acquisition Expense is set at $150.

The Churning Prevalence is the % Flagged x the % Agent Led.

- **% Flagged** is the proportion of policies flagged for churning, with an identified baseline of 0.10% based on the analysis of 10 carriers in the MIB In Force Data Vault. As companies are added to the MIB In Force Data Vault, **we estimate the % Flagged will increase up to 0.55%.**
- **% Agent Led** assumes that the policy churning is due to applicants being influenced by agents to apply for a new policy and lapse existing coverage, providing the agent with commissions on new sales. **The % Agent Led was judgmentally set at 80% of policies.**

Similar to our assumptions for stacking prevalence, we used the historical data in the MIB In Force Data Vault to determine which policies demonstrated churning behavior. We also assumed a portion of those behaviors could be justified, such as when a new policy is better for the applicant (premium reduction, new type of product). Here is the methodology we use to determine prevalence in the Churning protective value calculation.

Churning Prevalence

= [% Flagged] x [% Agent Led]

= [.55%] x [80%]

= 0.44%

(The cost of an instance of churning = [Premium] x [Commission Rate] + [Non-commission Underwriting Expense] + [Non-commission Acquisition Expense])

Using these assumptions, we built a model to estimate the cost of churning per placed policy for all MIB members. While some of the assumptions may change, member to member, using the data in our in force contributory data base, we estimate the cost to be $26.47 per placed life insurance policy.

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***

Bringing it all together, our model estimates the cost per placed policy for stacking to be $42.00 while the cost for churning stands at $26.47, resulting in combined unnecessary costs of $68.47. When factoring in other adverse behaviors such as jumbo violations, and the total volume of life insurance applications across the industry, ***the total cost for applications linked to adverse behaviors could approach $1 Billion annually.***

Assumptions must, of course, be made to complete any such study. So, while the theory may be straight forward and correct, the results are only as good as the assumptions contained in the various input parameters. When possible, companies should always use their own real data in the calculations of cost and savings.

Conclusion:

While applicant misrepresentation has historically been difficult to detect during the underwriting process, the cost to carriers is significant. Insurance companies are limited to examining their own block, producing their own data and analysis, to try and detect this activity. The challenge is that with this type of fraudulent activity, policies are deliberately placed across multiple carriers in order to mask intent. Contributory data, at industry-wide scale, is the best approach to identify both unintentional and intentional misrepresentation, providing insurers an opportunity to review a holistic view of the case.

As we identified previously, the cost for adverse behaviors such as stacking, churning and jumbo violations equates to approximately $68.47 in unnecessary cost for each policy placed. While we have identified two specific behaviors that may cost the industry a billion dollars annually, contributory data can be used to detect and resolve other behaviors such as lapse propensity, formal shopping, community fraud and others. In order for carriers to remain competitive, it is imperative to root out as much fraud and misrepresentation as possible. To ensure carriers with accelerated and/or automated underwriting platforms deliver the experience both applicants and agents expect, it is critical they incorporate fraud awareness into processing automation. This helps ensure that the broad percentage of consumers looking to acquire life insurance to protect their families are not negatively impacted by the fraudulent behaviors of the minority.

A core mission at MIB is to collect and leverage contributory data on behalf of our members to help expose and eliminate fraudulent behaviors like stacking and churning. Our expanding Total Line Service is delivering data, through codes and detailed alerts, to assist underwriters, risk officers and distribution leaders in identifying and preventing bad behavior. The adoption and scaling of this solution will enhance the value it provides for all insurance carriers across the United States and Canada. Please reach out to your MIB contact today to see how you can get involved.

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Updated: 10/16/2024