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Federal District Court Validates Insurer's Retention of Policy Proceeds Until Receiving Proof of Death

On August 20, 2013, the United States District Court for the District of Massachusetts dismissed a putative class action over an insurer's alleged failure to timely pay life insurance policy death benefits to beneficiaries. *Feingold v. John Hancock Life Insurance Co.*, No. 1:13-cv-10185-JLT (D. Mass.). In granting the insurer's motion to dismiss, the court affirmed the insurer's practice of requiring life insurance policy beneficiaries to submit proof of death before making any payments under the policy at issue. Click [here](#) for the opinion.

The lawsuit challenged the insurer's alleged practice of holding policy proceeds until receiving proof of the insured's death, arguing that the insurer acted unreasonably in failing to investigate whether Plaintiff's mother had died. Plaintiff alleged that the insurer routinely consulted the Social Security Administration's Death Master File (DMF) to check whether annuity holders had died, so the company could halt those annuity payments immediately. At the same time, Plaintiff alleged, the insurer failed to routinely use the same database to check whether life insurance policy holders were deceased, allowing the insurer to wrongfully delay paying beneficiaries.

The insurer moved to dismiss Plaintiff's state consumer protection claims, as well as his claims for conversion, unjust enrichment, breach of fiduciary duty and declaratory relief, arguing that Plaintiff sought to "discard settled law" by requiring payment or escheatment of life insurance proceeds where a beneficiary has made no claim on the policy.

Noting the case depended on "established principles of insurance law," the court observed that "[a]n insurance policy may require a beneficiary to furnish 'due proof of loss,' in this case proof of death, before paying policy proceeds." (Slip op. at 5.) The Court also noted that "under both the Illinois and Massachusetts consumer protection statutes, an insurance company may be held liable for committing an unfair practice only if it fails to affirm or deny coverage 'after proof of loss statements have been completed.'" *Id.* (citing 215 Ill. Comp. Stat. 5/154.6; Mass. Gen. Laws ch. 176D, § 3). Thus, in the court's view, the insurer's practice of requiring the life insurance policy beneficiary to submit proof of death before payment of any amounts under the policy "comports with both Massachusetts and Illinois law."¹

In granting the insurer's motion to dismiss, the court also recognized that important policy considerations might motivate an insurer's decision to hold payment until proof of loss is provided. Specifically, "[t]he proof of loss [requirement] allows the insurer to determine whether the claim falls within the policy and to take timely further action." (Slip op. at 5.)

¹ The parties disagreed on whether the court should apply Massachusetts or Illinois law, with the insurer arguing that Massachusetts consumer protection laws should not apply to out-of-state-residents like the Illinois-domiciled Plaintiff. The court decided on dismissal without resolving the disagreement, noting that, with the exception of the Massachusetts Consumer Protection Act claim levied by Plaintiff (which was also dismissed), "Massachusetts and Illinois law are essentially the same in this case." (Slip op. at 4-5.)

The court rejected Plaintiff’s assertion that the insurer’s entry into a Global Resolution Agreement (GRA) with unclaimed property administrators of 30 states and the District of Columbia altered the company’s payment obligations under established law. Not only did Plaintiff fail to raise such argument in his complaint, the court observed, but Plaintiff also “cannot enforce the terms of a contract to which he is not a party.” (Slip op. at 6.) Because “[t]he GRA is between John Hancock and the States, and nothing suggests that they intended Feingold as a third party beneficiary,” Plaintiff could not plausibly rely on the GRA in his suit against the company. *Id.*



If you have any questions about this Legal Alert, please feel free to contact any of the attorneys listed below or the Sutherland attorney with whom you regularly work.

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