Prudential Illegally Denied Hundreds of Life Insurance Claims, Federal Investigation Finds

In a settlement with the U.S. Department of Labor, the financial giant agrees to revise its claims-handling practices.
by Christopher Hazlehurst, J.D.

LOS, CALIFORNIA, UNITED STATES, June 20, 2023 /EINPresswire.com/ -- According to federal investigators, Prudential Financial unlawfully rejected more than 200 life insurance claims over a recent three-year period. Prudential denied the payouts based on a missing form from the application, despite happily collecting premiums for years. (Settlement Agreement between the Prudential Insurance Company of America and the United States Department of Labor, Doc # DC-31 343431 v.4). You can read the Settlement Agreement by following this link.

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> *Robert Gianelli, California Insurance Law Attorney*

According to a DOL Press Release announced on April 19, 2023, Prudential's unlawful practices concerned supplemental life insurance policies offered as an employee benefit. Employees can elect to purchase supplemental life insurance coverage on top of the coverage provided by their employer. To obtain the additional coverage, the insured is meant to demonstrate "evidence of insurability," a standard requirement for underwriters. Insured parties must prove their insurability by filling out a form stating they are in good health before they will be covered by the employer-sponsored supplemental insurance.

According to the Department of Labor, from at least 2017-2020, Prudential denied more than 200 claims based on a lack of "evidence of insurability." Many of the claims related to policies that had been in effect for years, including some for more than a decade. Prudential had been collecting premium payments on these policies for the duration, never informing plan participants that they weren't actually covered because of the missing insurability form.

The DOL recently reached a settlement with Prudential, under which the insurance provider must pay out on claims if they collected premiums regardless of whether the account includes evidence of insurability. Group policyholders, such as the employers sponsoring the plans, that collect premiums may also be on the hook for claims made by policyholders if they knew but failed to notify plan participants that their evidence of insurability had not been accepted by

Prudential.


Robert S. Gianelli, Los Angeles Insurance Attorney

No fines were imposed, however, as the law governing the investigation--the Employee Retirement Income Security Act of 1974 (commonly referred to as ERISA)--does not permit monetary penalties.

Robert S. Gianelli, an insurance law attorney at the California insurance law firm Gianelli & Morris, explains some of the differences between plans overseen under ERISA versus those governed by state law. “California law requires insurance companies to exercise good faith and fair dealing when processing claims,” he says. “If insurance companies act unreasonably and wrongfully deny claims or partake in unjustified delays, they can be sued for bad faith and held liable for an array of legal damages, including compensatory damages such as emotional distress as well as punitive damages in egregious cases.”

In contrast, Gianelli clarifies that the ERISA statute does not provide an avenue for holding insurance companies liable for bad faith actions. Although ERISA policyholders can appeal a claim denial and eventually file a civil suit in court, the damages they can receive are limited to the value of the benefits that were denied. “ERISA claims don’t allow for recovery of non-economic compensatory or punitive damages,” Gianelli says.

DOL officials heralded an end to the unscrupulous practice. The head of the Employee Benefits Security Administration, the DOL agency that conducted the investigation, emphasized that workers “should be confident that their beneficiaries will get the benefits they purchased” when they pay their life insurance premiums. “The Employee Benefits Security Administration will take appropriate action against any insurance company that collects regular premium payments from plan participants, and later plays a game of ‘gotcha’ to wrongfully deny benefits based on technicalities like ‘insurability’ after the participant passes away,” said Assistant Secretary for Employee Benefits Security Lisa M. Gomez.

The DOL and policyholders have pursued other enforcement actions in recent years, targeting insurers who deny claims despite collecting premium payments for years. The DOL settled a similar claim in 2021 with United of Omaha Life Insurance and, in 2022, the Eighth Circuit upheld a judgment against Reliance Standard Life Insurance Company for a wrongful claim denial based on similar “evidence of insurability” grounds.

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