The New York Times

"All the News That's Fit to Print"

Business Day

WEDNESDAY, JUNE 22, 1994

Rebuke and Revenge at Met Life

Agent's Evidence Led to Crackdown

By Michael Quint

BUTLER, Pa. - Rick Sabo came from a family in which all three sons went to work selling life insurance for the Metropolitan Life Insurance Company. So immersed were the three brothers in the business that they joked about tattooing themselves with the Met Life logo, and their parents in this town near Pittsburgh began collecting Met Life memorabilia.

The work offered a good living. "The money kind of lured me into the industry," recalled Mr. Sabo, now 30 years old. "My brother was driving a Mercedes and bought a five-bedroom house."

But within a few years, the seamy sales practices of some fellow agents who were favorites among the Met Life hierarchy in western Pennsylvania started to trouble Mr. Sabo. Unlike many of his colleagues, he began complaining to his superiors, thinking that management would be grateful. His reward: he was fired.

State Investigation

Mr. Sabo got his revenge. He gave state regulators evidence that led to an investigation and a blistering report that forced Met Life to offer restitution this past spring to more than 60,000 Pennsylvania customers who could show they were improperly persuaded to replace their old policy with a new one or were improperly sold life insurance in the guise of a retirement or savings plan.

The Pennsylvania report and the $1.5 million fine levied on Met Life are part of a growing crackdown by state regulators — there is no Federal regulation of insurance companies — on sales practices by the country's 600,000 sales agents and the 3,000 life insurance companies they represent. Met Life has recently taken the brunt of the criticism, and earlier this year was fined a record $20 million in a multistate settlement of improper sales activities conducted from its Tampa, Fla., office.

Other companies — among them Prudential Insurance, John Hancock and New York Life — have been accused of similar misdeeds in recent lawsuits by customers.

Insurance companies say that actions by a minority of agents are giving the entire industry a bad reputation. But even if that is true, there are many agents who are aware of misdeeds by their colleagues and do nothing about it. Cynthia M. Maleski, Pennsylvania's insurance commissioner, said that was why she was urging the industry to develop "some sort of self-policing and peer review" system, like that of doctors and lawyers.

In the meantime, though, the role has fallen to courageous agents like Rick Sabo.

For more than a year after he came out of the Marine Corps in 1988 and started selling insurance, Mr. Sabo was too concerned about his own job to pay much attention to grand reforms. "I was a wide-eyed company man," he said, "in my own little world on my own little career."

His first hints that not all agents did what was right for the customer came a few weeks after joining his brother Craig's office. While looking at records of what agents call "orphan" accounts — those whose original sales agent had moved on — he was surprised when another agent looking over his shoulder exclaimed about the "juice" in some of the customer accounts.

Juice, Mr. Sabo soon learned, is the cash value of insurance policies sold years ago and kept in force by customers who dutifully pay their premiums. In western Pennsylvania, such customers were the targets of agents who specialized in what the state report issued last February called churning.

Some Met Life agents would convince customers that by drawing on the accumulated cash value of old policies, they could have new, enhanced policies free. But often, the illusion of free insurance lasted only a few years, until the value of the old policy was exhausted and the customer was hit with a larger-than-expected premium payment.

The practice can produce a large commission for agents even while the consumer and insurance company suffer. Customers can be hurt because if they stop paying premiums on the new policy they lose all benefits, including the cash value accumulated in the old policy. Met Life was hurt because of unhappy customers, and the high commissions it was paying to agents who sold the new policies.

Although Met Life's training manuals discourage the practice and its record-keeping system was designed to spot the practice, agents in Western Pennsylvania knew how to beat the system. To avoid company rules barring payment of full commissions on sales of new policies that replace existing policies, agents left the existing policy in place but used the dividends from that policy to finance a new policy.

But knowing that the practice continued anyway, Met Life kept track of such sales and set a guideline under which they would account for no more than 15 percent of the policies sold by an agent. But because the Met Life computer kept track of only the first agent named on a new policy, Mr. Sabo said, agents would share their customers and split the commissions to keep below the 15 percent threshold.

Two Agents Cited

Agents who specialized in selling new policies financed by old policies were helped by Gary P. Antonino, a regional vice president who saw audit reports of the activity but took no action, according to the state report.

Mr. Sabo recalled that as a new agent he was surprised to hear so many complaints, particularly about two agents, Joel Sherman and Ronald Shram, both of whom were cited in the state report as very active in the business of restructuring old policies. "Those two guys were Gary Antonino's two best salesmen," Mr. Sabo said, noting that their success increased Mr. Antonino's pay package.

Even so, Mr. Sabo did not immediately begin pushing for change, even though it meant telling disgruntled customers that there was nothing he could do about their complaints. He noted that sales practices in the Butler office were different from those of other western Pennsylvania offices because his brother Craig, who was the branch manager, had resisted Mr. Antonino's efforts to have Mr. Sherman or Mr. Shram use the Butler branch's records to pursue customers with juice in their policies.

Nor, Mr. Sabo said, did the Butler branch succumb to Mr. Antonino's pressure to use marketing material that improperly described insurance as a savings or retirement plan. For example, the marketing literature failed to mention insurance and talked instead of customers' making deposits instead of paying premiums.

Mr. Antonino denied in an interview that he had ever put pressure on the Butler office to share its customer lists or use the "retirement" marketing literature.

A complaint from the parents of the fiancee of a co-worker he had recruited finally led Mr. Sabo to action. "If I just walked away from them, what message would I be sending to this new kid?" he asked. He told the family to take their complaint about a falsified illustration of a new policy showing incorrect benefits to Met Life's regional office in Johnstown, Pa., bypassing the local agent. Met Life issued the family a refund.

Unhappy Customer

Later in 1990, Mr. Sabo's referral to the Pennsylvania Insurance Department of another unhappy customer whose policy improperly identified him as a nonsmoker brought the customer a full refund from Met Life. But as with the earlier complaint, Mr. Sabo was rebuked by Mr. Antonino for not being a team player.

When he took complaints from unhappy customers to the company, Mr. Sabo said, he was motivated in part by self-interest. There would be more opportunity for advancement if the bad agents were weeded out. "I thought that when I proved my arguments, the company would welcome me with open arms," he said. Instead, he lamented, after he proved his colleagues acted improperly, "the company lets them fire me."

He was fired in March 1992 on what he calls trumped-up charges of disloyalty, concocted after he investigated the complaint of a third customer. Mr. Sabo said he grew angrier when Mr. Antonino opposed his claims for unemployment compensation and back pay, when his business records were withheld, and when Met Life agents tried to steal his customers.

Mr. Sabo finally took his complaints about the churning of old policies and improper marketing of insurance as a retirement plan to the state insurance department in March 1993. After the state report and a housecleaning by Met Life, Mr. Sabo said he felt "somewhat vindicated," though dismayed that agents and supervisors criticized in the state report had not lost their licenses. Some, like Mr. Antonino, have left Met Life but are still in the insurance business.

Outlet for Anger

Mr. Sabo now operates an insurance agency grandiosely named Money Concepts International; Craig Sabo has left the company for other insurance sales work; the third brother, Randy, remains a Met Life agent. After two years of being depressed and distraught, Rick Sabo has found an outlet for his anger: promoting the cause of consumers harmed by questionable sales practices. He has accused Met Life and some of its agents of racketeering in a lawsuit in state court, and has decided that "whatever I can do to keep these problems about insurance sales in the public eye is in my best interest."

Charles Sahner, a spokesman for Met Life, said that the business practices in the Pittsburgh area "should never have happened" and that the company was now "making sure that the restitution program moves forward and we fully protect policyholders from loss" as a result of improper activities. He declined to comment on Mr. Sabo's lawsuit against Met Life and former agents and supervisors in the Pittsburgh area except to say that "we are a big company and big companies are often sued by former employees."

Mr. Sabo's new activities do not pay much, however. He works as a consultant with a few law firms handling consumer lawsuits against insurance companies, but says that last year he earned less than half the $72,000 he says he earned in his last year with Met Life. His Spartan one-room office is not yet busy enough to need a full-time secretary.

And he does not expect to get rich off his whistle-blowing. Unlike workers for Government contractors, who have been rewarded with millions of dollars for reporting wrongdoing, Mr. Sabo and others like him in the insurance business do not have the benefit of laws that reward whistle-blowers and offer protection against vengeful supervisors.