

Robin & Peter on LIFE SETTLEMENTS



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STOLI vs. STOLI

All too frequently, we hear and see insurance industry speakers, the media, and even regulators incorrectly referring to STOLI as Stranger OWNED Life Insurance. STOLI is a legal term that has been defined by statute in many states. It means, specifically, Stranger ORIGINATED Life Insurance. The difference is quite significant as one activity is legal while the other is not.

Stranger ORIGINATED Life Insurance is a scheme to induce an insured to purchase a new life insurance policy for the purpose of getting that policy into the hands of investors/strangers who do not have an insurable interest in the insured. These activities are illegal and insureds, producers, brokers and other players involved in these transactions may be subject to both criminal and civil penalties. An insurance policy that is issued without insurable interest is a wagering contract that is illegal and against public policy.

On the other hand, Stranger OWNED Life Insurance, is a perfectly legal practice and has been so for decades. In addition to the many state court decisions supporting a consumer's right to sell their policy, this was confirmed by the United States Supreme Court way back in 1911 (*Grigsby v. Russell*, 222 U.S. 149).

Stranger OWNED Life Insurance is more commonly known, today, as a life settlement. A policy owner who purchased a policy for a legitimate insurance need some years before and now no longer wants, needs, or can afford that policy may sell it to investors/strangers for an amount exceeding the cash surrender value. This practice is so legal, in fact, that four states, Maine, Washington, Oregon, and Kentucky, have recently enacted laws requiring insurance companies to notify older insureds, who are surrendering a policy, that alternatives like life settlements exist. Other states are also considering similar legislation.

Stranger ORIGINATED Life Insurance is an abuse of both life insurance and life settlements. When the term STOLI is wrongly defined, as it all too often is, the difference between the legal and illegal activity becomes blurred and consumers and producers are led to mistakenly believe

they are one and the same. Sadly, this can be a costly disservice to consumers who, as a result, may not investigate the option of a life settlement for their policy that is about to be lapsed or surrendered.

Next Month: STOLI on the Rocks!

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