

# Due Diligence and Fraud Prevention Tips

Some helpful due diligence and fraud prevention tips:

1. Review applications, documents and forms for completeness, and to assure that all questions have been answered and all blanks have been completed or otherwise indicated as “not applicable.”
2. Never allow a client to sign any application, document or form that has not been appropriately completed.
3. Conduct business only with persons holding a current and proper license as required by New York law. The background of licensed persons and entities has been reviewed by the New York State Department of Financial Services to determine those qualified to conduct the business of life settlements in the State of New York.
4. Transact life settlements involving policies that are contestable only when the policy meets all requirements of New York law. Transactions involving contestable policies have a special set of requirements that must be met for these transactions to be lawful.
5. Review copies of all relevant documents related to the application for issuance of a life insurance policy, and if the policy was premium financed, all documents related to the financing. New York law prohibits certain types of premium financing if entered into prior to the issuance of the policy, or if entered into during the first two years after the issuance of a policy.
6. Review trust documents to ascertain that the trust does not violate New York insurable interest or life settlement laws.

## Where do I go for more help and information?

### New York Law

For further study of New York Insurance Law and to find out your duties as a life settlement industry participant, please review:

- o Article 78 (§ 7801-7820) is the Life Settlements sections of New York Insurance Law.
- o Article 4 - Insurance Frauds Prevention, and more specifically §411 - Life Settlements Fraud Prevention Plans.

### New York State Department of Financial Services Criminal Investigations Unit

[www.dfs.ny.gov](http://www.dfs.ny.gov)

To report suspected fraud: 1-888-FRAUDNY

### Life Insurance Settlement Association

[www.lisa.org](http://www.lisa.org)

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This printed material was produced by the Life Insurance Settlement Association. For more information, please contact us!

# Informational Guide

for Insurance Producers and Life Settlement Professionals



New York

THIS BROCHURE IS PUBLISHED AS A PUBLIC SERVICE FOR THE EDUCATION OF INSURANCE PRODUCERS, FINANCIAL PROFESSIONALS AND LICENSED LIFE SETTLEMENT BROKERS INTERESTED IN OR ENGAGED IN LIFE SETTLEMENT TRANSACTIONS

Produced by the Life Insurance Settlement Association®



According to data from the National Association of Insurance Commissioners and a recent study from the United States Government Accountability Office, consumers are well protected in life settlement transactions and reports of consumer harm involving life settlements have been rare. This positive record of consumer protection is a product of best practices by life settlement industry participants and life settlement laws that have been enacted by the States over the past few years.

It is always, however, important for all participants in life settlements - brokers, providers, intermediaries, financial professionals, and others - to remain vigilant in guarding against fraudulent conduct. Such fraudulent conduct usually involves a third party that is seeking to profit at the time a new policy is taken out and sometimes at the time of a life settlement - or sometimes both. Life insurance companies and their agents are primarily responsible for preventing fraud at the inception of a new policy. However, licensed life settlement professionals are required under New York law to adopt a fraud prevention plan for the detection, investigation and prevention of fraudulent life settlement acts no matter who is the target of the fraud.

## Why Fraud Deserves Attention

While there has been little evidence of fraud or consumer harm involving life settlements over the past decade, it is always important to be vigilant in detecting and preventing fraud. First and foremost, fraud harms consumers by potentially causing a negative impact on the value of their life insurance. Fraudulent activity is also damaging to the legitimate life insurance and life settlement markets, increasing the costs of conducting business, and discouraging investment in the secondary market.

## What is Stranger Originated Life Insurance?

According to New York Insurance Law §7815, Stranger-Originated Life Insurance (STOLI) is “any act, practice or arrangement, at or prior to policy issuance, to initiate or facilitate the issuance of a policy for the intended benefit of a person who, at the time of policy origination, has no insurable interest in the life of the insured under the laws of this state, including:

- o the purchase of life insurance with resources or guarantees from or through a person that, at the time of policy initiation, could not lawfully initiate the policy;
- o an arrangement or other agreement to transfer the ownership of the policy or the policy benefits to another person; or
- o a trust or similar arrangement that is used, directly or indirectly, for the purpose of purchasing one or more policies for the intended benefit of another person in a manner that violates the insurable interest laws of this state.”

In other words, STOLI is the manufacturing of NEW life insurance by a third party that does not have insurable interest in the life of the insured. In a STOLI transaction, the third party owns or controls the policy at inception, in violation of long-standing insurance laws. Under New York Law, a fraudulent life settlement act may be punishable as a felony.

The statute makes clear that LIFE SETTLEMENTS ARE NOT STOLI and that many other life insurance transactions are not STOLI. Read New York Law carefully to fully understand what STOLI is and what STOLI is not.

## Who must be licensed?

Effective May 18, 2010, New York’s new life settlement law went into effect. It governs the transaction of life settlements and requires that life settlement providers and life settlement brokers obtain licensure and that life settlement intermediaries be registered.

If you are a licensed life insurance agent that wishes to transact a life settlement under New York State jurisdiction, then you must obtain a life settlement broker’s license PRIOR to solicitation of the life settlement.

## What Should Life Insurance and Life Settlement Professionals Do?

In the detection and prevention of fraud, life insurance producers, life settlement brokers, and life settlement providers should:

1. Adopt and follow anti-fraud plans in accordance with New York statutory and regulatory requirements.
2. Report unresolved material inconsistencies – such as discrepancies in medical history as reported in the insurance application when applying for the policy and later when medical records are submitted in a life settlement transaction - to the proper authorities in accordance with New York law.
3. Engage in life settlement transactions only with those holding licenses as required by New York law.
4. Deliver to policy owners and insureds all written disclosures required under New York Insurance Law. These include disclosures concerning the life settlement transaction generally:
  - o That advice should be sought from a professional tax advisor regarding the potential tax effects of receiving proceeds through a life settlement;
  - o The possible adverse impact on eligibility for public assistance or government benefits or entitlements;
  - o Proceeds from a life settlement may be subject to claims of creditors;
  - o The right to rescind a transaction from the time of execution of the contract until 15 days after receipt of the life settlement proceeds; and
  - o The names of those involved in the settlement transaction.
5. Do not engage in any transaction that involves the application and purchase of a new policy by someone who does not have an insurable interest in the life of insured, or any transaction where there is an agreement at policy inception to sell or transfer the policy to a person or entity lacking insurable interest in the insured.