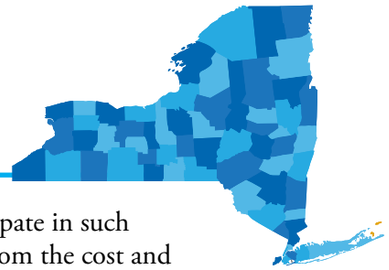
What is Life Settlement Fraud?



As with all important business transactions, policy owners and insureds must be careful not to be the victim of fraud or to commit fraud in connection with a life settlement. Individual policy owners and insureds are often older individuals who may be particularly vulnerable to fraud schemes.

The life settlement industry wants to help older adults avoid such circumstances.

The life settlement industry has observed a particular kind of transaction associated with life insurance policies and wants you to be aware of this. The transaction is known as "Stranger-Originated Life Insurance", or "STOLI". STOLI usually involves an older person being approached by a licensed life insurance agent or another party to obtain new life insurance with the policy being controlled from the start and paid for by a third party. Some older individuals may even be offered compensation for his or her participation as the insured.

What makes this problematic is that the New York Insurance Law prohibits a person from initiating or facilitating the issuance of an insurance policy for the intended benefit of a person who, at the time when the policy is issued, has no insurable interest in the life of the person being insured.

In New York, an insurable interest exists:

- between close family members who are related by blood or by law, or
- when the owner of the policy has a substantial economic interest in the continued well being of the person being insured, if they are not related.

Be wary of any life insurance agent wanting to sell you a life insurance policy if you are told you do not have to:

- pay the premiums,
- would not be liable if someone else provides funds to pay premiums, or
- will be paid to participate.

Although you may feel like you would be the victim of such a scheme or any insurance fraud, you may also be viewed as a participant depending on the circumstances, and there are consequences to those who participate in such activities, ranging from the cost and inconvenience of investigations to fines and criminal prosecution.

- Be sure to ask questions if you are approached or asked to participate in a transaction that sounds too good to be true.
- Be certain that you answer all questions asked on a life settlement application with true, accurate, complete responses.
- False or misleading information may be considered an attempt to defraud the insurer, the life settlement company, or both, which could also lead to consequences like the ones described above.
- Make sure you don't leave any blanks on a life insurance or life settlement application that could later be filled in without your permission or knowledge.

Any person who knowingly presents false information with intent to defraud on an application for a life settlement contract is guilty of a crime and may be subject to fines and criminal prosecution. This includes false information about health and financial status. You or your estate may also become liable for money damages payable to persons or companies harmed by fraud. Participation in an attempt to defraud an insurer or a life settlement company may make it difficult or impossible to obtain insurance in the future.

Where do I go for more help and information?

Coalition Against Insurance Fraud
www.insurancefraud.org

The Coalition Against Insurance Fraud has become one of America's most trusted and credible anti-fraud forces, thanks to our remarkable diversity. Together, our members are working to control everyone's insurance costs, protect the public safety, and bring this crime wave to its knees.

Since its founding in 1993, the coalition has worked effectively to:

- Enact tough new anti-fraud laws and regulations
- Educate the public how to fight back, and
- Serve as a national clearinghouse of fraud information.

New York State Department of Financial Services
Insurance Frauds Bureau
www.dfs.ny.gov
1-888-FRAUDNY

SEE BACK OF MATERIAL FOR ADDITIONAL INFORMATION >>

What is a Life Settlement?

A life settlement is a lawful and regulated transaction under New York State law. A "life settlement" can be defined simply as the sale of a life insurance policy by the policy owner to a licensed Life Settlement Provider. The original owner is paid an amount more than the cash surrender value that the owner could obtain from the insurer, and less than the current death benefit payable under the policy. In return for that payment, the buyer obtains all ownership rights under the policy, the responsibility of paying premiums, tracks the ongoing health status of the insured, and collects the death benefit paid under the policy when the insured dies.

A life settlement is an important financial decision and the New York State Department of Financial Services regulates life settlements. Existing laws and regulations that address life settlements include many requirements, including informational disclosures that owners and insureds must receive before a life settlement can be completed as well as licensing of life settlement brokers and life settlement providers (the policy buyers). A life settlement is often facilitated through a life settlement broker who represents the policy owner and owes a fiduciary duty to the owner, including a duty to act according to the owner's instructions and in the best interests of the policy owner.

The owner of an eligible life insurance policy may opt for a life settlement when:

- The life insurance policy is no longer needed or wanted
- Premium payments have become unaffordable
- Considering surrender of the policy
- Policy is about to lapse
- Change in estate planning needs
- Change in financial circumstances
- Change in life circumstances (such as divorce or death)

To further protect yourself and your loved ones considering a life settlement, make sure the life settlement broker, life settlement provider and any insurance agent is properly licensed in New York.

Additional Resources

Life Insurance Settlement Association
www.lisa.org

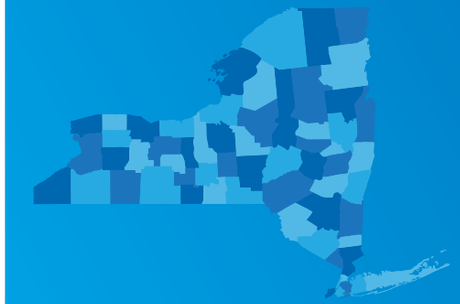
Since its inception, LISA has been the leader in promoting responsible legislation and regulation in the life settlement industry. Members and staff have contributed conceptual as well as detailed language to laws governing the industry in every regulated state. These efforts have resulted in improved public information and awareness while helping to create a competitive market place that serves consumers a valuable financial service.

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

LISA
Life Insurance Settlement Association

280 W. Canton Ave, Suite 430
Winter Park, FL, 32789
Tel. (407) 894-3797
Fax. (407) 835-0007
www.lisa.org

Preventing life settlements fraud in the state of New York



Produced by the Life Insurance Settlement Association ©