



FOR IMMEDIATE RELEASE

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**LIFE INSURANCE FINANCE ASSOCIATION ADVOCATES
PRESERVATION OF CONSUMERS' FINANCING CHOICES
FOR LIFE INSURANCE BEFORE NAIC COMMITTEE**

New York City, May 11, 2006 – Members of the Life Insurance Finance Association (LIFA) addressed the interim meeting and public hearing of the National Association of Insurance Commissioners (NAIC) Life Insurance and Annuities (A) Committee (the “Committee”) on *Premium Financing of Life Insurance, Life Settlements and the Relationship with State Insurable Interest Laws* on May 3, 2006. Committee Chairman and North Dakota Insurance Commissioner Jim Poolman presided over the proceeding, which the Committee convened to discuss concerns surrounding life insurance transactions which have come to be referred to variously as “Stranger-Initiated Life Insurance” (“SILI”), “Stranger-Owned Life Insurance” (“SOLI”) and Investor-Owned Life Insurance (“IOLI”), among others.

The Committee’s concerns were reflected in the remarks of several insurance commissioners throughout the day, including New York Superintendent of Insurance Howard Mills who commented that transactions designed solely for subsequent resale of a life insurance policy to disinterested third parties pose serious public policy questions. The Committee’s focus is appropriately on those transactions in which an investor with no legal insurable interest in a consumer solicits the consumer to purchase a newly issued life insurance policy and receives rights in that policy at its inception in conflict with the insurable interest laws of most, if not all, states. Further issues arise in some cases when money is paid to the insured to consummate the deal, raising issues regarding possible violations of inducement and rebating laws.

The Committee’s desire to protect sanctity of insurable interest, as well as the preferred treatment of life insurance as a tax advantaged financial product, are goals which LIFA and many others who spoke at the hearing, including the attending insurance commissioners, share. Disagreement, however, exists as to how these goals are best served and how to distinguish legitimate premium financing loans which serve the consumers’ best interest from those which seek to abrogate the public policies which the insurance commissioners and industry seek to protect.

A non-recourse loan for financing a life insurance policy does not necessarily make the financed policy SOLI, IOLI or SILI and a recourse loan for financing a life insurance policy does not necessarily make a premium finance transaction legitimate or confirm that the purchaser of the financed life insurance policy has an insurable interest in the life of the insured. James H. Sinnott, Executive Vice President of Business Development, Life Solutions International, LLC, speaking on behalf of LIFA, stated that one must look beyond labels and examine the core aspects of a transaction. When properly structured, life insurance premium finance provides a legitimate means of financing for a major asset purchase and raises none of the challenging public policy issues created by SOLI, IOLI and SILI for the following reasons:

- (1) Legitimate premium finance lenders have none of the traditional incidents of ownership of life insurance;**
- (2) Only family members or others with legally recognized insurable interests are beneficiaries at the inception of the policy;**
- (3) No wagering is involved as life insurance premium finance lenders do not unfairly benefit from the early death of the insured;**
- (4) Borrowers retain all options and rights in their property (i.e., the policy) as if they had not financed its purchase;**
- (5) The consumer receives full disclosure of all aspects of the transactions and proper counsel as to the legal and economic consequences;**
- (6) Should the borrower decide to exercise its legitimate property rights and settle the policy, the transaction is taxed in exactly the right way from a tax policy perspective (i.e., income that was deferred is then recognized and any purchaser of the policy will not receive the entire amount of the death benefits tax free).**

LIFA Director Mark Ross, President, Mark Ross and Co., Inc. challenged the life insurance industry to explain why so many of its members seem convinced that an individual, having acquired valuable permanent life insurance and having received full disclosure and proper counseling in a non-coercive environment, would so easily trade those advantages for what, in contrast, is a minor financial gain, if any. Mr. Ross encouraged the life insurance industry to have more faith in its own products and underwriting and to recognize life insurance premium financing as an effective tool in invigorating sales and providing consumers greater access to this important personal and estate planning product. Mr. Ross concluded that the focus of any regulation in this area should be on:

- (1) Disclosure to the consumer; and**
- (2) Ensuring purchasers of life insurance policies are not disadvantaged in any way, either in the ability to finance the purchase of life insurance or in the ability to retain or transfer their property, at their option.**

The key to examining these transactions is to determine whether, at the point of policy issue, the consumer retains all options with respect to the life insurance policy and is in no way compelled to dispose of the policy to a third party investor as a result of the financing transaction.

The insurance regulators, representatives of the life insurers and their agents, as well as a consumer advocate who appeared at the hearing, almost universally acknowledged that both life insurance premium finance loans and life insurance settlements are legitimate consumer financing tools in appropriate scenarios. Many also acknowledged that attempting to legislate or regulate the subjective intent of a life insurance applicant is difficult, if not impossible. LIFA agrees and supports the existing rule found in the NAIC Viatical Settlements Model Act that objectively addresses these issues by prohibiting the sale of a life insurance policy during the first two years of the policy, thus preventing the purchase of life insurance for the purpose of a “wet paper” sale to persons who do not have an insurable interest in the insured.

For additional information concerning LIFA, please contact Scott J. Cipinko, Managing Director, (404) 870-4689; fax: (404) 806-5689; e-mail: scipinko@lifaorg.org.

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LIFA is a non-profit, professional trade association whose members are comprised of individuals and companies involved in the life insurance premium finance industry. LIFA was founded to provide an open dialogue between and among life insurers, premium finance lenders, life insurance agents, brokers and state insurance regulators, to provide consumer advocacy and to foster a better understanding among participants in the life insurance and premium finance marketplace, policy makers and the general public. LIFA welcomes an intellectually honest public policy debate, based on actual facts and not misinformation, on which aspects of any life insurance premium finance transaction reflect sound public policies and which do not. LIFA welcomes insurance department oversight, review and enforcement to protect the citizens from sharp or misleading business practices in all insurance areas, including the premium finance area and looks forward to working with the Committee and regulators on legislative and other proposals which further our common goals.

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