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## Trafficking in Life Insurance

**September 12, 2014**

The Financial Services Commission of Ontario (FSCO) is warning consumers and life insurance agents that the selling or transferring of life insurance policies, often referred to as viatical settlements, life settlements or Stranger-Owned Life Insurance (STOLI), is a controversial practice that, depending on the circumstances, may not be legal in Ontario.


Any person, other than an insurer or its duly authorized agent, who solicits or assists Ontario policyholders in the selling, trading, transferring, pledging or assignment of life insurance policies might be in violation of [section 115 of the Insurance Act](#) .

A viatical or a life settlement is the transfer or sale of an existing life insurance policy to a third party for more than its cash surrender value, but less than its net death benefit. The third party, usually an investor, maintains the policy and changes the beneficiary designation. Upon the death of the insured, the third party receives the proceeds of the life insurance policy from the insurer.

STOLI involves arranging a life insurance policy with the intent of transferring the right to receive a death benefit to a third party, usually an investor. While such an arrangement can take many forms, typically a life insurance policy is initiated for the benefit of a third party investor who has no insurable interest in the insured person's life. The insured is induced to take out the insurance policy for an immediate payment or a loan. The investor then pays the premiums and later collects the death benefit or assigns it to other investors.

Consumers considering such transactions should proceed with caution. Life insurance agents considering advising policyholders on such transactions should undertake the appropriate due diligence. Such policies may not be valid because the third party that actually initiated the policy has no insurable interest in the life of the insured person. In addition, the insured may be giving up the benefits of obtaining and owning a life insurance policy in the future. There is a maximum amount of aggregate coverage insurance companies are willing to issue to any individual. STOLI transactions are designed to maximize profits for all participants, so insureds are often encouraged to procure the largest policy possible irrespective of the insured's future insurance needs. In doing so, the consumer uses up his/her insurability. Uninformed or ill-informed participants may unwittingly sacrifice these rights and ruin any chance of obtaining needed life insurance after they participate in a STOLI transaction.

If consumers are being approached and offered any of the above described arrangements, they should contact their insurance company or insurance agent to discuss the implications and their options.

If consumers purchase or transact insurance business from agents or insurers that are not licensed in the province, they are not protected under the [Insurance Act](#)  and the regulations that govern Ontario's licensed insurance companies and agents.

An Ontario insurance agent can provide information and advice on the risks involved with purchasing or transacting different life insurance products or services.

FSCO's website contains a list of all [insurance companies](#) and [agents](#) licensed to do business in Ontario.

## Contact

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## Additional Information

[What to Do If You Think You are a Victim of a Scam or Fraud](#)