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'STOLI' and the Free Market

Just for the HALE of it

How does a free market conservative who is also a big fan of the life insurance industry deal with all the fuss about life settlements and what the industry calls "stranger owned life insurance"?

The industry bemoans STOLI while at the same time saying "legitimate" life settlements are OK. STOLI is constantly being broad-brushed as something bad when, in reality, *all* life settlements ultimately result in a life insurance policy coming to be owned by a "stranger."

Word games aside, what bothers us most are the "handcuffs" some insurance companies and broker dealers are putting on their supposedly knowledgeable and honest agent/advisors. Where these professionals aren't prohibited outright from engaging in life settlements, there are limitations and restrictions that severely curb their effectiveness.

While the industry talks reverently of "meeting needs, not just selling product" and "doing right by the client," when it comes to the growing and perfectly legitimate secondary market, it treats its representatives like children.

This is clearly appropriate and proper under these circumstances, but we won't let you do it.

They say the advisor who got a commission on selling a policy in the first place shouldn't be involved in selling or settling it later and thereby collecting again on the same policy. Why not?

If a policy is bought for all the right reasons and sold 15-20 years later – again for all the right reasons – why shouldn't the same advisor be involved in the settlement and collect a commission? It's called *client service*.

In fact, forward-thinking advisors are looking to the secondary market for new strategies to achieve complex financial planning goals for their clients. And the market is responding

with an ever-increasing range of flexible solutions, including life settlements, partial settlements and guaranteed death benefits. Increasingly, advisors can offer customized solutions, rather than boiler plate stuff.

We have to respect the convictions of life insurance "purists" who view life settlements (or stranger owned life insurance) as "poisoning the well" of their sacred institution.

But who are they to deny someone the right to dispose of personal property (a life insurance policy) and get a fair market price? Who are they to thwart someone's ability to get cash for long-term care or even another (and more suitable) insurance policy? Who are they to block a legitimate transaction that would wind up benefiting a church or charity?

Sure there are abuses and what some would consider inappropriate behavior, the most notable being the "manufacturing" of policies for the sole purpose of selling them in the secondary market. But a lot of this could be fixed by tighter underwriting, insurance companies refining their own procedures (like not selling high dollar policies to those over 75) and innovative products (like making a settlement provision part of a policy).

Both sides (insurance and settlements) say they want regulation. But judging from the intensive lobbying at an insurance regulators' meeting last fall, they differ strongly on precisely what this should be. The knee-jerk reaction to abuses or inappropriate behavior in *any* industry, particularly financial services, is *regulation*: More rules, more bureaucracy, more hassle.

Why not let the free market take its course? Slow healing is always better than a superficial quick fix.

An honest and viable secondary market can actually make life insurance a more attractive product. Why aren't we hearing more about that?