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Global Pacific Financial Services Ltd.

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Submitted by Josh on November 4, 2014 - 10:02am

About viatical settlements and stranger-owned life insurance

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Canada Life Bulletin

This message is sent on behalf of Phil Marsillo, Senior Vice-President, Canada Life Distribution.

Here?s the latest issue of the eBulletin from Canada Life with information to help you in your business with us. Please forward to your advisors where appropriate.

About viatical settlements and stranger-owned life insurance

Viatical settlements, also known as life settlements, and a similar scheme known as stranger-owned or originated life insurance (STOLI) ? have recently been the subject of increased promotion by third parties.

Viatical settlements involve the transfer of an existing life insurance policy, for more than the policy?s cash surrender value but less than its net death benefit, to a third party who is a ?stranger? to the policyowner and life insured, having no insurable interest.

STOLI involves incenting an individual to apply for a new life insurance policy by typically offering a loan and payment of the policy premiums in exchange for assigning the policy to the third party after issue. Typically, in the case of STOLI, the third party is an investor group or company previously unknown to the policyowner. The third party pays the policy premiums and is designated as the beneficiary or assignee to receive the policy benefits upon the death of the life insured. The policy death benefit may be significantly more than the amount of the loan.

A viatical settlement may appear attractive to the policyowner at the time, but later he or she may regret having given up coverage. In the case of STOLI, future capacity for coverage on the life insured needed to provide for family protection, debt protection, or estate taxes and planning, may be reduced or eliminated

Our company position

As stated in the advisor code of conduct, Canada Life neither supports nor condones the creation or sale of viatical settlements, or the packaging of viatical settlements for investment purposes. Further we do not support or condone involvement in the creation or placing of stranger owned life insurance. Evidence of direct or indirect advisor involvement in such sales could lead to termination of that advisor?s contract.

What to watch for

If you receive a request to transfer ownership from an individual to an unrelated company, be cautious if any of the following apply:

- The new owner is an investment company
- The policy has only been in force for a few years
- The insured is in an older age group.

Also, be cautious regarding assignments by individuals to an unrelated company or where a third party is settlement or STOLI ? for example, a collateral assignee or beneficiary, with no apparent insurable interest, paying the premium.

Alternatives to viatical settlements and STOLI

Where a life insured who is also the policy owner is suffering from a terminal illness, advance payments (an Accelerated Death Benefit) may be made available on request to the insurer where a portion of the policy?s death benefit may be paid prior to the death of the life insured. Also, where there is sufficient cash value, policy loans are contractually available to automatically pay premiums, or can be taken at competitive rates where money may be required to fund other expenditures.

Maintaining a compliant practice

Industry and Regulatory bodies, including Advocis and the Financial Services Commission of Ontario (FSCO), are aware of these arrangements. FSCO has issued a warning regarding STOLI: http://www.fsco.gov.on.ca/en/about/warning-notices/Pages/warning-trafficking-life-insurance-09-12-2014.aspx If you have questions about viatical settlement or stranger-owned life insurance arrangements or become aware of what might appear to be such an arrangement, please contact:

- Ryan Carter andMilan Legris for product-related information
- Emily Hassin for compliance-related information