House Committee on Finance
Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair

RE: HB 94, HD 1 – Relating to Insurance

Hearing Date: February 22, 2008 – Agenda #3 Time: 12:00 pm

Chair Oshiro and members of the Committee, my name is Cynthia Hayakawa, Executive Director of NAIFA ("National Association of Insurance and Financial Advisors") Hawaii, an organization made up of life insurance agents and financial advisors.

We support HB 94, HD1. This measure has been adopted by the National Conference on Insurance Legislators ("NCOIL") as the Life Settlement Model Act, at its December 2007 meeting.

Usually, in life settlement transactions, an elderly person **sells** his/her survivorship, whole, universal, variable, or term life insurance policy for a certain portion of the policy's face value. Percentages are based on life expectancy. Life settlement transactions are desirable because of many factors, including estate planning needs, rise in tax liabilities, a change of business, changes of coverage needs, or changes in life situations.

HB 94, HD 1, also includes provisions regulating Stranger Originated Life Insurance ("STOLI"). HB 94, HD1, provides needed regulation for this form of improper "wagering" of insurance policies. Our testimony will be directed at STOLI.

STOLI policies are where investors with no insurable interest in an elderly individual with high net worth, are initiating coverage on healthy elderly persons (who will be able to qualify for life insurance) and financing the premium payments. The intent is that at the expiration of the policy's two year contestability period, the insured will transfer ownership of the policy to the investors. These types of transactions circumvent the intent of the insurable interest laws and run contrary to the purpose of life insurance, which really enables families to protect their loved ones and businesses to plan for the future.

NCOIL's model law seeks to deter all manifestations of STOLI, whether in the form of a settlement, a trust or other scheme. The NCOIL model addresses STOLI by, among other things, defining and prohibiting STOLI transactions and requiring life settlement companies to annually report data to state insurance commissioners.

Insurable interest in a life insurance policy explains the relationship between the person or business entity that owns the policy (and therefore, pays for the policy premiums) and the individual named on the policy. Most life insurance policies names the spouse, children, other relatives or friends, trusts or business entity as the beneficiary – this clearly explains the insurable interest for purchasing the policy.

NAIFA continues to oppose efforts to expand state insurable interest laws to permit private investors to purchase life insurance on the lives of unrelated individuals. NAIFA along with the American Council of Life Insurers (the life insurance companies organization) has been working with both NCOIL and the NAIC (National Association of Insurance Commissioners) on this issue for the past few years.

The concept of insurable interest preserves the social purpose of life insurance...society is diminished when life insurance is used as a vehicle for wagering on human life.

It can leave insureds with unknown or undisclosed costs and legal implications and threatens to undermine the growing legitimate market for life insurance covering senior citizens – STOLI's targeted market.

We believe it is unsound public policy to turn life insurance products into commodities for investment by third parties that have no relation to the insured. This measure is necessary to prevent STOLI promoters from evading state insurable interest laws and violating the social purpose of life insurance.

Mahalo for allowing us to share our views.

NAIFA
HAWAII