Draft: 3/27/11
As adopted by the Life Insurance and Annuities (A) Committee, 3-27-11. Underlining and overstrikes show changes from the Dec. 21, 2010, draft.

STRANGER-ORIGINATED ANNUITY TRANSACTIONS
NAIC SAMPLE BULLETIN

To: All Insurers Selling Life Insurance or Annuities in [State]

From: [Commissioner, Director, Superintendent]

Date: [Insert Date]

Re: Protect Against Stranger-Originated Annuity Transactions

Insurance companies are encouraged to put safeguards in place to prevent or limit their exposure to stranger-originated annuity transactions (STOAs).

Like stranger-originated life insurance transactions (STOLI), in stranger-originated annuity transactions (STOAs), some producers and/or investors offer an individual, who is usually a "stranger" to the producer and/or investor, a nominal fee for the use of the individual's identity as the annuitant, or measuring life, in an investment-oriented annuity. Typically, individuals targeted to serve as annuitants are in extremely poor health and are not expected to live beyond the first year of the policy. In order to find individuals who meet the aforementioned criteria, these producers and/or investors have been known to take out advertisements in papers as well as solicit individuals residing in nursing homes or hospice.

Once an individual has agreed to the set of conditions posed, the producer will complete the annuity application, ensuring that particular riders, such as a bonus rider or a guaranteed minimum death benefit, are in place to maximize the rate of return for those financing the transaction. Depending on the number of companies the producer represents and the commission policies in effect, the producer may seek to use multiple policies from various companies.

To avoid added scrutiny of the policy or detection of the scheme, producers involved in STOAs will often take precautions to ensure that the dollar amount of the annuity falls below specific underwriting guidelines. A trust or an organization may additionally be named as beneficiary of the annuity in order to hide the true identity of those who will benefit from the annuitant's death.

As the financial implications of STOA transactions could be detrimental to both companies and consumers, it is suggested that companies:

- Review chargeback policies and consider reserving the right to adjust commissions if a policy is annuitized or a death benefit is paid within its first policy year and the facts indicate the policy was used to facilitate STOA transactions.

- Create detection methods to identify STOA transactions and those producers who may be involved in facilitating such transactions, including controls to flag questionable applications.

- Revisit annuity application processes to ensure that specific questions are posed with regard to the relationship between the annuitant and contract owner, and the manner in which the contract is being funded.

- Report actual and potential STOA transactions to the [Department of Insurance].

For questions regarding this matter, please contact [insert name and contact information].

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