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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2009

A N A C T

RELATING TO INSURANCE -- LIFE SETTLEMENTS ACT

Introduced By: Representatives Kennedy, San Bento, Gemma, Lima, and E Coderre

Date Introduced: January 28, 2009

Referred To: House Corporations

It is enacted by the General Assembly as follows:

1 SECTION 1. Title 27 of the General Laws entitled "INSURANCE" is hereby amended
2 by adding thereto the following chapter:

3 CHAPTER 72

4 LIFE SETTLEMENTS ACT

5 **27-72-1. Title.** – This chapter may be cited and shall be known as the "Life Settlements
6 Act."

7 **27-72-2. Definitions.** – As used in this chapter:

8 (1) "Advertisement" means any written, electronic or printed communication or any
9 communication by means of recorded telephone messages or transmitted on radio, television, the
10 Internet or similar communications media, including film strips, motion pictures and videos,
11 published, disseminated, circulated or placed before the public, directly or indirectly, for the
12 purpose of creating an interest in or inducing a person to purchase or sell, assign, devise, bequest
13 or transfer the death benefit or ownership of a life insurance policy or an interest in a life
14 insurance policy pursuant to a life settlement contract.

15 (2) "Broker" means a person who, on behalf of an owner and for a fee, commission or
16 other valuable consideration, offers or attempts to negotiate life settlement contracts between an
17 owner and provider. A broker represents only the owner and owes a fiduciary duty to the owner
18 to act according to the owner's instructions, and in the best interest of the owner, notwithstanding
19 the manner in which the broker is compensated. A broker does not include an attorney, certified

1 public accountant or financial planner retained in the type of practice customarily performed in
2 their professional capacity to represent the owner whose compensation is not paid directly or
3 indirectly by the provider or any other person, except the owner.

4 (3) "Business of life settlements" means an activity involved in, but not limited to,
5 offering to enter into, soliciting, negotiating, procuring, effectuating, monitoring, or tracking, of
6 life settlement contracts.

7 (4) "Chronically ill" means:

8 (i) Being unable to perform at least two (2) activities of daily living (i.e., eating, toileting,
9 transferring, bathing, dressing or continence);

10 (ii) Requiring substantial supervision to protect the individual from threats to health and
11 safety due to severe cognitive impairment; or

12 (iii) Having a level of disability similar to that described in subdivision (i) as determined
13 by the United States Secretary of Health and Human Services.

14 (5) "Commissioner" means the director of the department of business regulation or his or
15 her designee.

16 (6) "Financing entity" means an underwriter, placement agent, lender, purchaser of
17 securities, purchaser of a policy or certificate from a provider, credit enhancer, or any entity that
18 has a direct ownership in a policy or certificate that is the subject of a life settlement contract, but:

19 (i) Whose principal activity related to the transaction is providing funds to effect the life
20 settlement contract or purchase of one or more policies; and

21 (ii) Who has an agreement in writing with one or more providers to finance the
22 acquisition of life settlement contracts.

23 "Financing entity" does not include a non-accredited investor or purchaser.

24 (7) "Financing transaction" means a transaction in which a licensed provider obtains
25 financing from a financing entity including, without limitation, any secured or unsecured
26 financing, any securitization transaction, or any securities offering which either is registered or
27 exempt from registration under federal and state securities law.

28 (8) "Fraudulent life settlement act" includes:

29 (i) Acts or omissions committed by any person who, knowingly and with intent to
30 defraud, for the purpose of depriving another of property or for pecuniary gain, commits, or
31 permits its employees or its agents to engage in acts including, but not limited to:

32 (A) Presenting, causing to be presented or preparing with knowledge and belief that it
33 will be presented to or by a provider, premium finance lender, broker, insurer, insurance producer
34 or any other person, false material information, or concealing material information, as part of, in

- 1 support of, or concerning a fact material to one or more of the following:
- 2 (I) An application for the issuance of a life settlement contract or insurance policy;
- 3 (II) The underwriting of a life settlement contract or insurance policy;
- 4 (III) A claim for payment or benefit pursuant to a life settlement contract or insurance
- 5 policy;
- 6 (IV) Premiums paid on an insurance policy;
- 7 (V) Payments and changes in ownership or beneficiary made in accordance with the
- 8 terms of a life settlement contract or insurance policy;
- 9 (VI) The reinstatement or conversion of an insurance policy;
- 10 (VII) In the solicitation, offer to enter into, or effectuation of a life settlement contract, or
- 11 insurance policy;
- 12 (VIII) The issuance of written evidence of life settlement contract or insurance;
- 13 (IX) Any application for or the existence of or any payments related to a loan secured
- 14 directly or indirectly by any interest in a life insurance policy; or
- 15 (X) Enter into any practice or plan which involves stranger originated life insurance
- 16 (STOLI).
- 17 (B) Failing to disclose to the insurer where the request for such disclosure has been asked
- 18 for by the insurer that the prospective insured has undergone a life expectancy evaluation by any
- 19 person or entity other than the insurer or its authorized representatives in connection with the
- 20 issuance of the policy.
- 21 (C) Employing any device, scheme, or artifice to defraud in the business of life
- 22 settlements.
- 23 (D) In the solicitation, application or issuance of a life insurance policy, employing any
- 24 device, scheme or artifice in violation of state insurable interest laws.
- 25 (ii) In the furtherance of a fraud or to prevent the detection of a fraud any person commits
- 26 or permits its employees or its agents to:
- 27 (A) Remove, conceal, alter, destroy or sequester from the commissioner the assets or
- 28 records of a licensee or other person engaged in the business of life settlements;
- 29 (B) Misrepresent or conceal the financial condition of a licensee, financing entity, insurer
- 30 or other person;
- 31 (C) Transact the business of life settlements in violation of laws requiring a license,
- 32 certificate of authority or other legal authority for the transaction of the business of life
- 33 settlements;
- 34 (D) File with the commissioner or the chief insurance regulatory official of another

1 jurisdiction a document containing false information or otherwise concealing information about a
2 material fact from the commissioner;

3 (E) Engage in embezzlement, theft, misappropriation or conversion of monies, funds,
4 premiums, credits or other property of a provider, insurer, insured, owner, insurance, policy
5 owner or any other person engaged in the business of life settlements or insurance;

6 (F) Knowingly and with intent to defraud, enter into, broker, or otherwise deal in a life
7 settlement contract, the subject of which is a life insurance policy that was obtained by presenting
8 false information concerning any fact material to the policy or by concealing, for the purpose of
9 misleading another, information concerning any fact material to the policy, where the owner or
10 the owner's agent intended to defraud the policy's issuer;

11 (G) Attempt to commit, assist, aid or abet in the commission of, or conspiracy to commit
12 the acts or omissions specified in this subsection; or

13 (H) Misrepresent the state of residence of an owner to be a state or jurisdiction that does
14 not have a law substantially similar to this chapter for the purpose of evading or avoiding the
15 provisions of this chapter.

16 (9) "Insured" means the person covered under the policy being considered for sale in a
17 life settlement contract.

18 (10) "Life expectancy" means the arithmetic mean of the number of months the insured
19 under the life insurance policy to be settled can be expected to live as determined by a life
20 expectancy company provider, broker, or financing entity considering medical records and
21 appropriate experiential data.

22 (11) "Life insurance producer" means any person licensed in this state as a resident or
23 nonresident insurance producer who has received qualification or authority for life insurance
24 coverage or a life line of coverage pursuant to chapter 27-2.4.

25 (12) "Life settlement contract" means a written agreement entered into between a
26 provider and an owner, establishing the terms under which compensation or any thing of value
27 will be paid, which compensation or thing of value is less than the expected death benefit of the
28 insurance policy or certificate, in return for the owner's assignment, transfer, sale, devise or
29 bequest of the death benefit or any portion of an insurance policy or certificate of insurance for
30 compensation; provided, however, that the minimum value for a life settlement contract shall be
31 greater than a cash surrender value or accelerated death benefit available at the time of an
32 application for a life settlement contract. "Life settlement contract" also includes the transfer for
33 compensation or value of ownership or beneficial interest in a trust or other entity that owns such
34 policy if the trust or other entity was formed or availed of for the principal purpose of acquiring

1 one or more life insurance contracts, which life insurance contract insures the life of a person
2 residing in this state.

3 (i) "Life settlement contract" also includes:

4 (A) A written agreement for a loan or other lending transaction, secured primarily by an
5 individual or group life insurance policy; or

6 (B) A premium finance loan made for a policy on or before the date of issuance of the
7 policy where:

8 (I) The loan proceeds are not used solely to pay premiums for the policy and any costs or
9 expenses incurred by the lender or the borrower in connection with the financing; or

10 (II) The owner receives on the date of the premium finance loan a guarantee of the future
11 life settlement value of the policy; or

12 (III) The owner agrees on the date of the premium finance loan to sell the policy or any
13 portion of its death benefit on any date following the issuance of the policy.

14 (ii) "Life Settlement Contract" does not include:

15 (A) A policy loan by a life insurance company pursuant to the terms of the life insurance
16 policy or accelerated death provisions contained in the life insurance policy, whether issued with
17 the original policy or as a rider;

18 (B) A premium finance loan, as defined herein, or any loan made by a bank or other
19 licensed financial institution, provided that neither default on such loan nor the transfer of the
20 policy in connection with such default is pursuant to an agreement or understanding with any
21 other person for the purpose of evading regulation under this chapter;

22 (C) A collateral assignment of a life insurance policy by an owner;

23 (D) A loan made by a lender that does not violate Rhode Island general laws chapter 19-
24 14.6, provided such loan is not described in subdivision (i) above, and is not otherwise within the
25 definition of life settlement contract;

26 (E) An agreement where all the parties:

27 (I) are closely related to the insured by blood or law; or

28 (II) have a lawful substantial economic interest in the continued life, health and bodily
29 safety of the person insured, or are trusts established primarily for the benefit of such parties;

30 (F) Any designation, consent or agreement by an insured who is an employee of an
31 employer in connection with the purchase by the employer, or trust established by the employer,
32 of life insurance on the life of the employee;

33 (G) A bona fide business succession planning arrangement:

34 (I) Between one or more shareholders in a corporation or between a corporation and one

1 or more of its shareholders or one or more trust established by its shareholders;

2 (II) Between one or more partners in a partnership or between a partnership and one or
3 more of its partners or one or more trust established by its partners; or

4 (III) Between one or more members in a limited liability company or between a limited
5 liability company and one or more of its members or one or more trust established by its
6 members;

7 (H) An agreement entered into by a service recipient, or a trust established by the service
8 recipient, and a service provider, or a trust established by the service provider, who performs
9 significant services for the service recipient's trade or business; or

10 (I) Any other contract, transaction or arrangement from the definition of life settlement
11 contract that the commissioner determines is not of the type intended to be regulated by this
12 chapter.

13 (13) "Net death benefit" means the amount of the life insurance policy or certificate to be
14 settled less any outstanding debts or liens.

15 (14) "Owner" means the owner of a life insurance policy or a certificate holder under a
16 group policy, with or without a terminal illness, who enters or seeks to enter into a life settlement
17 contract. For the purposes of this article, an owner shall not be limited to an owner of a life
18 insurance policy or a certificate holder under a group policy that insures the life of an individual
19 with a terminal or chronic illness or condition except where specifically addressed. The term
20 "owner" does not include:

21 (i) Any provider or other licensee under this chapter;

22 (ii) A qualified institutional buyer as defined in Rule 144A of the Federal Securities Act
23 of 1933, as amended;

24 (iii) A financing entity;

25 (iv) A special purpose entity; or

26 (v) A related provider trust.

27 (15) "Patient identifying information" means an insured's address, telephone number,
28 facsimile number, electronic mail address, photograph or likeness, employer, employment status,
29 social security number, or any other information that is likely to lead to the identification of the
30 insured.

31 (16) "Policy" means an individual or group policy, group certificate, contract or
32 arrangement of life insurance owned by a resident of this state, regardless of whether delivered or
33 issued for delivery in this state.

34 (17) "Premium finance loan" is a loan made primarily for the purposes of making

1 premium payments on a life insurance policy, which loan is secured by an interest in such life
2 insurance policy.

3 (18) "Person" means any natural person or legal entity including, but not limited to, a
4 partnership, limited liability company, association, trust or corporation.

5 (19) "Provider" means a person, other than an owner, who enters into or effectuates a life
6 settlement contract with an owner, a provider does not include:

7 (i) Any bank, savings bank, savings and loan association, credit union;

8 (ii) A licensed lending institution or creditor or secured party pursuant to a premium
9 finance loan agreement which takes an assignment of a life insurance policy or certificate issued
10 pursuant to a group life insurance policy as collateral for a loan;

11 (iii) The insurer of a life insurance policy or rider to the extent of providing accelerated
12 death benefits or riders or cash surrender value;

13 (iv) Any natural person who enters into or effectuates no more than one agreement in a
14 calendar year for the transfer of a life insurance policy or certificate issued pursuant to a group
15 life insurance policy, for compensation or anything of value less than the expected death benefit
16 payable under the policy;

17 (v) A purchaser;

18 (vi) Any authorized or eligible insurer that provides stop loss coverage to a provider;
19 purchaser, financing entity, special purpose entity, or related provider trust;

20 (vii) A financing entity;

21 (viii) A special purpose entity;

22 (ix) A related provider trust;

23 (x) A broker; or

24 (xi) An accredited investor or qualified institutional buyer as defined; respectively, in
25 regulation D, rule 501 or rule 144A of the Federal Securities Act of 1933, as amended, who
26 purchases a life settlement policy from a provider.

27 (20) "Purchased policy" means a policy or group certificate that has been acquired by a
28 provider pursuant to a life settlement contract.

29 (21) "Purchaser" means a person who pays compensation or anything of value as
30 consideration for a beneficial interest in a trust which is vested with, or for the assignment,
31 transfer or sale of, an ownership or other interest in a life insurance policy or a certificate issued
32 pursuant to a group life insurance policy which has been the subject of a life settlement contract.

33 (22) "Related provider trust" means a titling trust or other trust established by a licensed
34 provider or a financing entity for the sole purpose of holding the ownership or beneficial interest

1 in purchased policies in connection with a financing transaction. In order to qualify as a related
2 provider trust, the trust must have a written agreement with the licensed provider under which the
3 licensed provider is responsible for ensuring compliance with all statutory and regulatory
4 requirements and under which the trust agrees to make all records and files relating to life
5 settlement transactions available to the commissioner as if those records and files were
6 maintained directly by the licensed provider.

7 (23) "Settled policy" means a life insurance policy or certificate that has been acquired by
8 a provider pursuant to a life settlement contract.

9 (24) "Special purpose entity" means a corporation, partnership, trust, limited liability
10 company, or other legal entity formed solely to provide either directly or indirectly access to
11 institutional capital markets:

12 (i) For a financing entity or provider; or

13 (ii) In connection with a transaction in which the securities in the special purpose entity
14 are acquired by the owner or by a "qualified institutional buyer" as defined in Rule 144
15 promulgated under the Federal Securities Act of 1933, as amended; or

16 (iii) The securities pay a fixed rate of return commensurate with established asset-backed
17 institutional capital markets.

18 (25) "Stranger-originated life insurance" or "STOLI" is a practice or plan to initiate a life
19 insurance policy for the benefit of a third-party investor who, at the time of policy origination, has
20 no insurable interest in the insured. STOLI practices include, but are not limited to, cases in
21 which life insurance is purchased with resources or guarantees from or through a person, or
22 entity, who, at the time of policy inception, could not lawfully initiate the policy himself/herself
23 or itself, and where, at the time of inception, there is an arrangement or agreement, whether
24 verbal or written, to directly or indirectly transfer the ownership of the policy and/or the policy
25 benefits to a third party. Trusts, that are created to give the appearance of insurable interest, and
26 are used to initiate policies for investors, violate insurable interest laws and the prohibition
27 against wagering on life. STOLI arrangements do not include those practices set forth in this
28 chapter.

29 (26) "Terminally ill" means having an illness or sickness that can reasonably be expected
30 to result in death in twenty-four (24) months or less.

31 **27-72-3. Licensing requirements.** – (a) No person, wherever located, shall act as a
32 provider or broker with an owner or multiple owners who is a resident of this state, without first
33 having obtained a license from the commissioner. If there is more than one owner on a single
34 policy and the owners are residents of different states, the life settlement contract shall be

1 governed by the law of the state in which the owner having the largest percentage ownership
2 resides or, if the owners hold equal ownership, the state of residence of one owner agreed upon in
3 writing by all owners.

4 (b) Application for a provider, or broker, license shall be made to the commissioner by
5 the applicant on a form prescribed by the commissioner, and the application shall be accompanied
6 by a fee reasonable in an amount established by the commissioner.

7 (c) A life insurance producer who has been duly licensed as a resident insurance producer
8 with a life line of authority in this state or his or her home state for at least one year and is
9 licensed as a nonresident producer in this state shall be deemed to meet the licensing
10 requirements of this section and shall be permitted to operate as a broker.

11 (d) Not later than thirty (30) days from the first day of operating as a broker, the life
12 insurance producer shall notify the commissioner that he or she is acting as a broker on a form
13 prescribed by the commissioner, and shall pay any applicable fee to be determined by the
14 commissioner. Notification shall include an acknowledgement by the life insurance producer that
15 he or she will operate as a broker in accordance with this chapter.

16 (e) The insurer that issued the policy that is the subject of a life settlement contract shall
17 not be responsible for any act or omission of a broker or provider or purchaser arising out of or in
18 connection with the life settlement transaction, unless the insurer receives compensation for the
19 placement of a life settlement contract from the provider or purchaser or broker in connection
20 with the life settlement contract.

21 (f) A person licensed as an attorney, certified public accountant or financial planner
22 accredited by a nationally recognized accreditation agency, who is retained to represent the
23 owner, whose compensation is not paid directly or indirectly by the provider or purchaser, may
24 negotiate life settlement contracts on behalf of the owner without having to obtain a license as a
25 broker.

26 (g) Broker licenses may be renewed on a schedule prescribed by the commissioner and
27 upon payment of the reasonable renewal fee as prescribed by the commissioner. Failure to pay the
28 fee within the terms prescribed shall result in the automatic revocation of the license requiring
29 periodic renewal.

30 (h) The term of a provider license shall be perpetual; provided, that the provider files the
31 annual report and pays the fee as prescribed by the commissioner. Failure to file the annual report
32 or pay the fees on or before the due date shall result in immediate suspension of the license.

33 (i) The applicant shall provide such information as the commissioner may require on
34 forms prepared by the commissioner. The commissioner shall have authority, at any time, to

1 require such applicant to fully disclose the identity of its stockholders (except stockholders
2 owning fewer than ten percent (10%) of the shares of an applicant whose shares are publicly
3 traded), partners, officers and employees, and the commissioner may, in the exercise of the
4 commissioner's sole discretion, refuse to issue such a license in the name of any person if not
5 satisfied that any officer, employee, stockholder or partner thereof who may materially influence
6 the applicant's conduct meets the standards set forth in this chapter.

7 (j) Upon the filing of an application and the payment of the license fee, the commissioner
8 shall make an investigation of each applicant and may issue a license if the commissioner finds
9 that the applicant:

10 (1) If a provider, has provided a detailed plan of operation;

11 (2) Is competent and trustworthy and intends to transact its business in good faith;

12 (3) Has a good business reputation and has had experience, training or education so as to
13 be qualified in the business for which the license is applied;

14 (4) If the provider applicant is a legal entity, is formed or organized pursuant to the laws
15 of this state or is a foreign legal entity authorized to transact business in this state, or provides a
16 certificate of good standing from the state of its domicile; and

17 (5) Has provided to the commissioner an anti-fraud plan that meets the requirements of
18 this chapter and includes:

19 (i) A description of the procedures for detecting and investigating possible fraudulent acts
20 and procedures for resolving material inconsistencies between medical records and insurance
21 applications;

22 (ii) A description of the procedures for reporting fraudulent insurance acts to the
23 commissioner;

24 (iii) A description of the plan for anti-fraud education and training of its underwriters and
25 other personnel; and

26 (iv) A written description or chart outlining the arrangement of the anti-fraud personnel
27 who are responsible for the investigation and reporting of possible fraudulent insurance acts and
28 investigating unresolved material inconsistencies between medical records and insurance
29 applications.

30 (k) The commissioner shall not issue any license to any nonresident applicant, unless a
31 written designation of an agent for service of process is filed and maintained with the
32 commissioner or unless the applicant has filed with the commissioner the applicant's written
33 irrevocable consent that any action against the applicant may be commenced against the applicant
34 by service of process on the commissioner.

1 (l) Each licensee shall file with the commissioner on or before the first day of March of
2 each year an annual statement containing such information as the commissioner by rule may
3 prescribe. The department may have this annual statement renewed and analyzed by outside
4 consultant(s) and the total cost of that review shall be borne by, billed directly to and paid by the
5 provider filing the annual statement.

6 (m) A provider may not use any person to perform the functions of a broker as defined in
7 this chapter unless the person holds a current, valid license as a broker, and as provided in this
8 section.

9 (n) A broker may not use any person to perform the functions of a provider as defined in
10 this chapter unless such person holds a current, valid license as a provider, and as provided in this
11 section.

12 (o) A provider, or broker shall provide to the commissioner new or revised information
13 about officers, ten percent (10%) or more stockholders, partners, directors, members or
14 designated employees within thirty (30) days of the change.

15 (p) An individual licensed as a broker shall complete, on a biennial basis, fifteen (15)
16 hours of training related to life settlements and life settlement transactions, as required by the
17 commissioner; provided, however, that a life insurance producer who is operating as a broker
18 pursuant to this section shall not be subject to the requirements of this subsection. Any person
19 failing to meet the requirements of this subsection shall be subject to the penalties imposed by the
20 commissioner.

21 **27-72-4. License suspension, revocation or refusal to renew.** – (a) The commissioner
22 may suspend, revoke or refuse to renew the license of any licensee if the commissioner finds that:

23 (1) There was any material misrepresentation in the application for the license;

24 (2) The licensee or any officer, partner, member or director has been guilty of fraudulent
25 or dishonest practices, is subject to a final administrative action or is otherwise shown to be
26 untrustworthy or incompetent to act as a licensee;

27 (3) The provider demonstrates a pattern of unreasonably withholding payments to policy
28 owners;

29 (4) The licensee no longer meets the requirements for initial licensure;

30 (5) The licensee or any officer, partner, member or director has been convicted of a
31 felony, or of any misdemeanor of which criminal fraud is an element; or the licensee has pleaded
32 guilty or nolo contendere with respect to any felony or any misdemeanor of which criminal fraud
33 or moral turpitude is an element, regardless whether a judgment of conviction has been entered by
34 the court;

1 (6) The provider has entered into any life settlement contract using a form that has been
2 approved pursuant to this chapter;

3 (7) The provider has failed to honor contractual obligations set out in a life settlement
4 contract;

5 (8) The provider has assigned, transferred or pledged a settled policy to a person other
6 than a provider licensed in this state, a purchaser, an accredited investor or qualified institutional
7 buyer as defined respectively in Regulation D, Rule 501 or Rule 144A of the Federal Securities
8 Act of 1933, as amended, financing entity, special purpose entity, or related provider trust; or

9 (9) The licensee or any officer, partner, member or key management personnel has
10 violated any of the provisions of this chapter.

11 (b) Before the commissioner denies a license application or suspends, revokes or refuses
12 to renew the license of any licensee under this chapter, the commissioner shall conduct a hearing
13 in accordance with this state's laws governing administrative hearings.

14 **27-72-5. Contract requirements.** – (a) No person may use any form of life settlement
15 contract in this state unless it has been filed with and approved, if required, by the commissioner
16 in a manner that conforms with the filing procedures and any time restrictions or deeming
17 provisions, if any, for life insurance forms, policies and contracts. The commissioner is
18 authorized to contract with outside consultants to review life settlement forms and the total cost
19 of that review shall be borne by, billed directly to, and paid by the provider filing the form(s).

20 (b) No insurer may, as a condition of responding to a request for verification of coverage
21 or in connection with the transfer of a policy pursuant to a life settlement contract, require that the
22 owner, insured, provider or broker sign any form, disclosure, consent, waiver or acknowledgment
23 that has not been expressly approved by the commissioner for use in connection with life
24 settlement contracts in this state.

25 (c) A person shall not use a life settlement contract form or provide to an owner a
26 disclosure statement form in this state unless first filed with and approved by the commissioner.
27 The commissioner shall disapprove a life settlement contract form or disclosure statement form if,
28 in the commissioner's opinion, the contract or provisions contained therein fail to meet the
29 requirements of this chapter or are unreasonable, contrary to the interests of the public, or
30 otherwise misleading or unfair to the owner. At the commissioner's discretion, the commissioner
31 may require the submission of advertising material. The commissioner is authorized to contract
32 with outside consultants to review life settlement forms and/or advertising and the total cost of
33 that review shall be borne by, billed directly to, and paid by the provider filing the form(s).

34 **27-72-6. Reporting requirements and privacy.** – (a) For any policy settled within five

1 (5) years of policy issuance, each provider shall file with the commissioner on or before March 1
2 of each year an annual statement containing such information as the commissioner may prescribe
3 by regulation. In addition to any other requirements, the annual statement shall specify the total
4 number, aggregate face amount and life settlement proceeds of policies settled during the
5 immediately preceding calendar year, together with a breakdown of the information by policy
6 issue year. The annual statement shall also include the names of the insurance companies whose
7 policies have been settled and the brokers that have settled said policies.

8 (1) Such information shall be limited to only those transactions where the insured is a
9 resident of this state and shall not include individual transaction data regarding the business of
10 life settlements or information that there is a reasonable basis to believe could be used to identify
11 the owner or the insured.

12 (2) Every provider that willfully fails to file an annual statement as required in this
13 section, or willfully fails to reply within thirty (30) days to a written inquiry by the commissioner
14 in connection therewith, shall, in addition to other penalties provided by this chapter, be subject,
15 upon due notice and opportunity to be heard, to a penalty of up to two hundred fifty dollars
16 (\$250) per day of delay, not to exceed twenty-five thousand dollars (\$25,000) in the aggregate,
17 for each such failure.

18 (3) The department may have this annual report reviewed and analyzed by outside
19 consultant(s) and the total cost of that review shall be borne by, billed directly to, and paid by the
20 provider filing the annual statement.

21 (b) Except as otherwise allowed or required by law, a provider, broker, insurance
22 company, insurance producer, information bureau, rating agency or company, or any other person
23 with actual knowledge of an insured's identity, shall not disclose the identity of an insured or
24 information that there is a reasonable basis to believe could be used to identify the insured or the
25 insured's financial or medical information to any other person unless the disclosure:

26 (1) Is necessary to effect a life settlement contract between the owner and a provider and
27 the owner and insured have provided prior written consent to the disclosure;

28 (2) Is necessary to effectuate the sale of life settlement contracts, or interests therein, as
29 investments, provided the sale is conducted in accordance with applicable state and federal
30 securities law and provided further that the owner and the insured have both provided prior
31 written consent to the disclosure;

32 (3) Is provided in response to an investigation or examination by the commissioner or any
33 other governmental officer or agency or pursuant to the requirements of this chapter;

34 (4) Is a term or condition to the transfer of a policy by one provider to another provider,

1 in which case the receiving provider shall be required to comply with the confidentiality
2 requirements of this chapter;

3 (5) Is necessary to allow the provider or its authorized representatives to make contacts
4 for the purpose of determining health status. For the purposes of this section, the term "authorized
5 representative" shall not include any person who has or may have any financial interest in the
6 settlement contract other than a provider, licensed broker, financing entity, related provider trust
7 or special purpose entity; further, a provider or broker shall require its authorized representative
8 to agree in writing to adhere to the privacy provisions of this chapter; or

9 (6) Is required to purchase stop loss coverage.

10 (c) Non-public personal information solicited or obtained in connection with a proposed
11 or actual life settlement contract shall be subject to the provisions applicable to financial
12 institutions under the federal Gramm Leach Bliley Act, P.L. 106-102 (1999), and all other state
13 and federal laws relating to confidentiality of non-public personal information.

14 **27-72-7. Examination.** – (a) The commissioner may, when the commissioner deems it
15 reasonably necessary to protect the interests of the public, examine the business and affairs of any
16 licensee or applicant for a license. The commissioner may order any licensee or applicant to
17 produce any records, books, files or other information reasonably necessary to ascertain whether
18 such licensee or applicant is acting or has acted in violation of the law or otherwise contrary to
19 the interests of the public. The expenses incurred in conducting any examination shall be paid by
20 the licensee or applicant.

21 (b) In lieu of an examination under this chapter of any foreign or alien licensee licensed
22 in this state, the commissioner may, at the commissioner's discretion, accept an examination
23 report on the licensee as prepared by the commissioner for the licensee's state of domicile or port-
24 of-entry state.

25 (c) Names of and individual identification data, or for all owners and insureds shall be
26 considered private and confidential information and shall not be disclosed by the commissioner
27 unless required by law.

28 (d) Records of all consummated transactions and life settlement contracts shall be
29 maintained by the provider for three (3) years after the death of the insured and shall be available
30 to the commissioner for inspection during reasonable business hours.

31 (e) Conduct of examinations.

32 (1) Upon determining that an examination should be conducted, the commissioner shall
33 issue an examination warrant appointing one or more examiners to perform the examination and
34 instructing them as to the scope of the examination. In conducting the examination, the examiner

1 shall use methods common to the examination of any life settlement licensee and should use
2 those guidelines and procedures set forth in an examiners' handbook adopted by a national
3 organization.

4 (2) Every licensee or person from whom information is sought, its officers, directors and
5 agents shall provide to the examiners timely, convenient and free access at all reasonable hours at
6 its offices to all books, records, accounts, papers, documents, assets and computer or other
7 recordings relating to the property, assets, business and affairs of the licensee being examined.
8 The officers, directors, employees and agents of the licensee or person shall facilitate the
9 examination and aid in the examination so far as it is in their power to do so. The refusal of a
10 licensee, by its officers, directors, employees or agents, to submit to examination or to comply
11 with any reasonable written request of the commissioner shall be grounds for suspension or
12 refusal of, or nonrenewal of any license or authority held by the licensee to engage in the life
13 settlement business or other business subject to the commissioner's jurisdiction. Any proceedings
14 for suspension, revocation or refusal of any license or authority shall be conducted pursuant to
15 section 42-35-1 et seq.

16 (3) The commissioner shall have the power to issue subpoenas, to administer oaths and to
17 examine under oath any person as to any matter pertinent to the examination. Upon the failure or
18 refusal of a person to obey a subpoena, the commissioner may petition a court of competent
19 jurisdiction, and upon proper showing, the court may enter an order compelling the witness to
20 appear and testify or produce documentary evidence.

21 (4) When making an examination under this chapter, the commissioner may retain
22 attorneys, appraisers, independent actuaries, independent certified public accountants or other
23 professionals and specialists as examiners, the reasonable cost of which shall be borne by the
24 licensee that is the subject of the examination.

25 (5) Nothing contained in this chapter shall be construed to limit the commissioner's
26 authority to terminate or suspend an examination in order to pursue other legal or regulatory
27 action pursuant to the insurance laws of this state. Findings of fact and conclusions made pursuant
28 to any examination shall be prima facie evidence in any legal or regulatory action.

29 (6) Nothing contained in this chapter shall be construed to limit the commissioner's
30 authority to use and, if appropriate, to make public any final or preliminary examination report,
31 any examiner or licensee work papers or other documents, or any other information discovered or
32 developed during the course of any examination in the furtherance of any legal or regulatory
33 action which the commissioner may, in his or her sole discretion, deem appropriate.

34 (f) Examination reports.

1 (1) Examination reports shall be comprised of only facts appearing upon the books, from
2 the testimony of its officers or agents or other persons examined concerning its affairs, and such
3 conclusions and recommendations as the examiners find reasonably warranted from the facts.

4 (2) No later than sixty (60) days following completion of the examination, the examiner
5 in charge shall file with the commissioner a verified written report of examination under oath.
6 Upon receipt of the verified report, the commissioner shall transmit the report to the licensee
7 examined, together with a notice that shall afford the licensee examined a reasonable opportunity
8 of not more than thirty (30) days to make a written submission or rebuttal with respect to any
9 matters contained in the examination report and which shall become part of the report or to
10 request a hearing on any matter in dispute.

11 (3) In the event the commissioner determines that regulatory action is appropriate as a
12 result of an examination, the commissioner may initiate any proceedings or actions provided by
13 law.

14 (g) Confidentiality of examination information.

15 (1) Names and individual identification data for all owners, purchasers, and insureds shall
16 be considered private and confidential information and shall not be disclosed by the
17 commissioner, unless the disclosure is to another regulator or is required by law.

18 (2) Except as otherwise provided in this chapter, all examination reports, working papers,
19 recorded information, documents and copies thereof produced by, obtained by or disclosed to the
20 commissioner or any other person in the course of an examination made under this chapter, or in
21 the course of analysis or investigation by the commissioner of the financial condition or market
22 conduct of a licensee shall be confidential by law and privileged, shall not be subject to open
23 records, shall not be subject to subpoena, and shall not be subject to discovery or admissible in
24 evidence in any private civil action. The commissioner is authorized to use the documents,
25 materials or other information in the furtherance of any regulatory or legal action brought as part
26 of the commissioner's official duties. The licensee being examined may have access to all
27 documents used to make the report.

28 (h) Conflict of interest.

29 (1) An examiner may not be appointed by the commissioner if the examiner, either
30 directly or indirectly, has a conflict of interest or is affiliated with the management of or owns a
31 pecuniary interest in any person subject to examination under this chapter. This section shall not
32 be construed to automatically preclude an examiner from being:

33 (i) An owner;

34 (ii) An insured in a life settlement contract or insurance policy; or

1 (iii) A beneficiary in an insurance policy that is proposed for a life settlement contract.

2 (2) Notwithstanding the requirements of this clause, the commissioner may retain from
3 time to time, on an individual basis, qualified actuaries, certified public accountants, or other
4 similar individuals who are independently practicing their professions, even though these persons
5 may from time to time be similarly employed or retained by persons subject to examination under
6 this chapter.

7 (i) Immunity from liability.

8 (1) No cause of action shall arise nor shall any liability be imposed against the
9 commissioner, the commissioner's authorized representatives or any examiner appointed by the
10 commissioner for any statements made or conduct performed in good faith while carrying out the
11 provisions of this chapter.

12 (2) No cause of action shall arise, nor shall any liability be imposed against any person
13 for the act of communicating or delivering information or data to the commissioner or the
14 commissioner's authorized representative or examiner pursuant to an examination made under
15 this chapter, if the act of communication or delivery was performed in good faith and without
16 fraudulent intent or the intent to deceive. This paragraph does not abrogate or modify in any way
17 any common law or statutory privilege or immunity heretofore enjoyed by any person identified
18 in subdivision (1).

19 (3) A person identified in subdivision (1) or (2) shall be entitled to an award of attorney's
20 fees and costs if he or she is the prevailing party in a civil cause of action for libel, slander or any
21 other relevant tort arising out of activities in carrying out the provisions of this chapter and the
22 party bringing the action was not substantially justified in doing so. For purposes of this section a
23 proceeding is "substantially justified" if it had a reasonable basis in law or fact at the time that it
24 was initiated.

25 (j) Investigative authority of the commissioner.

26 (1) The commissioner may investigate suspected fraudulent life settlement acts and
27 persons engaged in the business of life settlements.

28 (k) Cost of examinations.

29 (1) The total cost of examinations performed pursuant to this chapter shall be borne by
30 the provider(s) or broker(s) examined companies in accordance with the provision of paragraph
31 27-13.1-7. The commissioner is authorized to retain contract examiners and consultants to
32 perform the examinations. The commissioner shall review and affirmatively endorse detailed
33 billings from the qualified contract examiner before summary billings are sent to the insurer.

34 **27-72-8. Advertising.** – (a) A broker, or provider licensed pursuant to this chapter may

1 conduct or participate in advertisements within this state. Such advertisements shall comply with
2 all Rhode Island advertising and marketing laws or rules and regulations promulgated by the
3 commissioner that are applicable to life insurers or to brokers, and providers licensed pursuant to
4 this chapter.

5 (b) Advertisements shall be accurate, truthful and not misleading in fact or by
6 implication.

7 (c) No person or trust shall:

8 (1) Directly or indirectly, market, advertise, solicit or otherwise promote the purchase of
9 a policy for the sole purpose of or with an emphasis on settling the policy; or

10 (2) Use the words “free”, “no cost” or words of similar import in the marketing,
11 advertising, soliciting or otherwise promoting of the purchase of a policy.

12 (d) The commissioner is authorized to contract with outside consultants to review
13 advertisements and the total cost of that review shall be borne by, billed directly to, and paid by
14 the provider utilizing or proposing to utilize the advertisement.

15 **27-72-9. Disclosures to owners.** – (a) The provider or broker shall provide in writing, in
16 a separate document that is signed by the owner, the following information to the owner no later
17 than the date of application for a life settlement contract:

18 (1) The fact that possible alternatives to life settlement contracts exist, including, but not
19 limited to, accelerated benefits offered by the issuer of the life insurance policy;

20 (2) The fact that some or all of the proceeds of a life settlement contract may be taxable
21 and that assistance should be sought from a professional tax advisor;

22 (3) The fact that the proceeds from a life settlement contract could be subject to the
23 claims of creditors;

24 (4) The fact that receipt of proceeds from a life settlement contract may adversely affect
25 the recipients' eligibility for public assistance or other government benefits or entitlements and
26 that advice should be obtained from the appropriate agencies;

27 (5) The fact that the owner has a right to terminate a life settlement contract within fifteen
28 (15) days of the date it is executed by all parties and the owner has received the disclosures
29 contained herein. Rescission, if exercised by the owner, is effective only if both notice of the
30 rescission is given, and the owner repays all proceeds and any premiums, loans, and loan interest
31 paid on account of the provider within the rescission period. If the insured dies during the
32 rescission period, the contract shall be deemed to have been rescinded subject to repayment by
33 the owner or the owner's estate of all proceeds and any premiums, loans, and loan interest to the
34 provider;

1 (6) The fact that proceeds will be sent to the owner within three (3) business days after
2 the provider has received the insurer or group administrator’s acknowledgement that ownership
3 of the policy or interest in the certificate has been transferred and the beneficiary has been
4 designated in accordance with the terms of the life settlement contract;

5 (7) The fact that entering into a life settlement contract may cause other rights or benefits,
6 including conversion rights and waiver of premium benefits that may exist under the policy or
7 certificate of a group policy to be forfeited by the owner and that assistance should be sought
8 from a professional financial advisor;

9 (8) The date by which the funds will be available to the owner and the transmitter of the
10 funds;

11 (9) The fact that the commissioner shall require delivery of a buyer’s guide or a similar
12 consumer advisory package in the form prescribed by the commissioner to owners during the
13 solicitation process;

14 (10) The disclosure document shall contain the following language: “all medical,
15 financial or personal information solicited or obtained by a provider or broker about an insured,
16 including the insured’s identity or the identity of family members, a spouse or a significant other,
17 may be disclosed as necessary to effect the life settlement contract between the owner and
18 provider. If you are asked to provide this information, you will be asked to consent to the
19 disclosure. The information may be provided to someone who buys the policy or provides funds
20 for the purchase. You may be asked to renew your permission to share information every two (2)
21 years”;

22 (11) The fact that the commissioner shall require providers and brokers to print separate
23 signed fraud warnings on their applications and on their life settlement contracts is as follows:

24 “Any person who knowingly presents false information in an application for insurance or
25 life settlement contract is guilty of a crime and may be subject to fines and confinement in
26 prison.”

27 (12) The fact that the insured may be contacted by either the provider or its authorized
28 representative for the purpose of determining the insured’s health status or to verify the insured’s
29 address. This contact is limited to once every three (3) months if the insured has a life expectancy
30 of more than one year, and no more than once per month if the insured has a life expectancy of
31 one year or less;

32 (13) The affiliation, if any, between the provider and the issuer of the insurance policy to
33 be settled;

34 (14) That a broker represents exclusively the owner, and not the insurer or the provider or

1 any other person, and owes a fiduciary duty to the owner, including a duty to act according to the
2 owner's instructions and in the best interest of the owner;

3 (15) The document shall include the name, address and telephone number of the provider;

4 (16) The name, business address, and telephone number of the independent third-party
5 escrow agent, and the fact that the owner may inspect or receive copies of the relevant escrow or
6 trust agreements or documents;

7 (17) The fact that a change of ownership could in the future limit the insured's ability to
8 purchase future insurance on the insured's life because there is a limit to how much coverage
9 insurers will issue on one life;

10 (b) The written disclosures shall be conspicuously displayed in any life settlement
11 contract furnished to the owner by a provider including any affiliations or contractual
12 arrangements between the provider and the broker.

13 (c) A broker shall provide the owner and the provider with at least the following
14 disclosures no later than the date the life settlement contract is signed by all parties. The
15 disclosures shall be conspicuously displayed in the life settlement contract or in a separate
16 document signed by the owner and provide the following information:

17 (1) The name, business address and telephone number of the broker;

18 (2) A full, complete and accurate description of all the offers, counter-offers, acceptances
19 and rejections relating to the proposed life settlement contract;

20 (3) A written disclosure of any affiliations or contractual arrangements between the
21 broker and any person making an offer in connection with the proposed life settlement contracts;

22 (4) The name of each broker who receives compensation and the amount of
23 compensation received by that broker, which compensation includes anything of value paid or
24 given to the broker in connection with the life settlement contract;

25 (5) A complete reconciliation of the gross offer or bid by the provider to the net amount
26 of proceeds or value to be received by the owner. For the purpose of this section, gross offer or
27 bid shall mean the total amount or value offered by the provider for the purchase of one or more
28 life insurance policies, inclusive of commissions and fees; and

29 (6) The failure to provide the disclosures or rights described in this section shall be
30 deemed an unfair trade practice pursuant to section 27-72-17.

31 **27-72-10. Disclosure to insurer.** – (a) Without limiting the ability of an insurer from
32 assessing the insurability of a policy applicant and determining whether or not to issue the policy,
33 and in addition to other questions an insurance carrier may lawfully pose to a life insurance
34 applicant, insurance carriers may inquire in the application for insurance whether the proposed

1 owner intends to pay premiums with the assistance of financing from a lender that will use the
2 policy as collateral to support the financing.

3 (1) If, as described in this chapter, the loan provides funds which can be used for a
4 purpose other than paying for the premiums, costs, and expenses associated with obtaining and
5 maintaining the life insurance policy and loan, the application shall be rejected as a violation of
6 the prohibited practices in section 27-72-13.

7 (2) If the financing does not violate section 27-72-13, the insurance carrier:

8 (i) May make disclosures, including but not limited to such as the following, to the
9 applicant and the insured, either on the application or an amendment to the application to be
10 completed no later than the delivery of the policy:

11 “If you have entered into a loan arrangement where the policy is used as collateral, and
12 the policy does change ownership at some point in the future in satisfaction of the loan, the
13 following may be true:

14 (A) A change of ownership could lead to a stranger owning an interest in the insured’s
15 life;

16 (B) A change of ownership could in the future limit your ability to purchase future
17 insurance on the insured’s life because there is a limit to how much coverage insurers will issue
18 on one life;

19 (C) Should there be a change of ownership and you wish to obtain more insurance
20 coverage on the insured’s life in the future, the insured’s higher issue age, a change in health
21 status, and/or other factors may reduce the ability to obtain coverage and/or may result in
22 significantly higher premiums;

23 (D) You should consult a professional advisor, since a change in ownership in
24 satisfaction of the loan may result in tax consequences to the owner, depending on the structure of
25 the loan;” and

26 (b) May require certifications, such as the following, from the applicant and/or the
27 insured:

28 (1) "I have not entered into any agreement or arrangement providing for the future sale of
29 this life insurance policy";

30 (2) "My loan arrangement for this policy provides funds sufficient to pay for some or all
31 of the premiums, costs, and expenses associated with obtaining and maintaining my life insurance
32 policy, but I have not entered into any agreement by which I am to receive consideration in
33 exchange for procuring this policy"; and

34 (3) "The borrower has an insurable interest in the insured.”

1 **27-72-11. General rules.** – (a) A provider entering into a life settlement contract with
2 any owner of a policy, wherein the insured is terminally or chronically ill, shall first obtain:

3 (1) If the owner is the insured, a written statement from a licensed attending physician
4 that the owner is of sound mind and under no constraint or undue influence to enter into a
5 settlement contract; and

6 (2) A document in which the insured consents to the release of his/her medical records to
7 a provider, settlement broker, or insurance producer and, if the policy was issued less than two (2)
8 years from the date of application for a settlement contract, to the insurance company that issued
9 the policy.

10 (b) The insurer shall respond to a request for verification of coverage submitted by a
11 provider, settlement broker, or life insurance producer not later than thirty (30) calendar days
12 from the date the request is received. The request for verification of coverage must be made on a
13 form approved by the commissioner. The insurer shall complete and issue the verification of
14 coverage or indicate in which respects it is unable to respond. In its response, the insurer shall
15 indicate whether, based on the medical evidence and documents provided, the insurer intends to
16 pursue an investigation at this time regarding the validity of the insurance contract.

17 (c) Before or at the time of execution of the settlement contract, the provider shall obtain
18 a witnessed document in which the owner consents to the settlement contract, represents that the
19 owner has a full and complete understanding of the settlement contract, that the owner has a full
20 and complete understanding of the benefits of the policy, acknowledges that the owner is entering
21 into the settlement contract freely and voluntarily, and, for persons with a terminal or chronic
22 illness or condition, acknowledges that the insured has a terminal or chronic illness and that the
23 terminal or chronic illness or condition was diagnosed after the policy was issued.

24 (d) The insurer shall not unreasonably delay effecting change of ownership or beneficiary
25 with any life settlement contract lawfully entered into in this state or with a resident of this state.

26 (e) If a settlement broker or life insurance producer performs any of these activities
27 required of the provider, the provider is deemed to have fulfilled the requirements of this chapter.

28 (f) If a broker performs those verification of coverage activities required of the provider,
29 the provider is deemed to have fulfilled the requirements of section 27-72-9.

30 (g) Within twenty (20) days after an owner executes the life settlement contract, the
31 provider shall give written notice to the insurer that issued that insurance policy that the policy
32 has become subject to a life settlement contract. The notice shall be accompanied by the
33 documents required by subdivision 27-72-10(a)(2).

34 (h) All medical information solicited or obtained by any licensee shall be subject to the

1 applicable provision of state law relating to confidentiality of medical information, if not
2 otherwise provided in this chapter.

3 (i) All life settlement contracts entered into in this state shall provide that the owner may
4 rescind the contract on or before fifteen (15) days after the date it is executed by all parties
5 thereto. Rescission, if exercised by the owner, is effective only if both notice of the rescission is
6 given, and the owner repays all proceeds and any premiums, loans, and loan interest paid on
7 account of the provider within the rescission period. If the insured dies during the rescission
8 period, the contract shall be deemed to have been rescinded subject to repayment by the owner or
9 the owner's estate of all proceeds and any premiums, loans, and loan interest to the provider.

10 (j) Within three (3) business days after receipt from the owner of documents to effect the
11 transfer of the insurance policy, the provider shall pay the proceeds of the settlement to an escrow
12 or trust account managed by a trustee or escrow agent in a state or federally chartered financial
13 institution pending acknowledgement of the transfer by the issuer of the policy. The trustee or
14 escrow agent shall be required to transfer the proceeds due to the owner within three (3) business
15 days of acknowledgement of the transfer from the insurer.

16 (k) Failure to tender the life settlement contract proceeds to the owner by the date
17 disclosed to the owner renders the contract voidable by the owner for lack of consideration until
18 the time the proceeds are tendered to and accepted by the owner. A failure to give written notice
19 of the right of rescission hereunder shall toll the right of rescission until thirty (30) days after the
20 written notice of the right of rescission has been given.

21 (l) Any fee paid by a provider, party, individual, or an owner to a broker in exchange for
22 services provided to the owner pertaining to a life settlement contract shall be computed as a
23 percentage of the offer obtained, not the face value of the policy. Nothing in this section shall be
24 construed as prohibiting a broker from reducing such broker's fee below this percentage if the
25 broker so chooses.

26 (m) The broker shall disclose to the owner anything of value paid or given to a broker,
27 which relates to a life settlement contract.

28 (n) No person at any time prior to, or at the time of, the application for, or issuance of, a
29 policy, or during a two (2) year period commencing with the date of issuance of the policy, shall
30 enter into a life settlement regardless of the date the compensation is to be provided and
31 regardless of the date the assignment, transfer, sale, devise, bequest or surrender of the policy is
32 to occur. This prohibition shall not apply if the owner certifies to the provider that:

33 (1) The policy was issued upon the owner's exercise of conversion rights arising out of a
34 group or individual policy, provided the total of the time covered under the conversion policy

1 plus the time covered under the prior policy is at least twenty-four (24) months. The time covered
2 under a group policy must be calculated without regard to a change in insurance carriers,
3 provided the coverage has been continuous and under the same group sponsorship; or

4 (2) The owner submits independent evidence to the provider that one or more of the
5 following conditions have been met within the two (2) year period:

6 (i) The owner or insured is terminally or chronically ill;

7 (ii) The owner or insured disposes of his/her ownership interests in a closely held
8 corporation, pursuant to the terms of a buyout or other similar agreement in effect at the time the
9 insurance policy was initially issued;

10 (iii) The owner's spouse dies;

11 (iv) The owner divorces his or her spouse;

12 (v) The owner retires from full-time employment;

13 (vi) The owner becomes physically or mentally disabled and a physician determines that
14 the disability prevents the owner from maintaining full-time employment; or

15 (vii) A final order, judgment or decree is entered by a court of competent jurisdiction, on
16 the application of a creditor of the owner, adjudicating the owner bankrupt or insolvent, or
17 approving a petition seeking reorganization of the owner or appointing a receiver, trustee or
18 liquidator to all or a substantial part of the owner's assets;

19 (3) Copies of the independent evidence required by subdivision 27-72-11(n)(2) shall be
20 submitted to the insurer when the provider submits a request to the insurer for verification of
21 coverage. The copies shall be accompanied by a letter of attestation from the provider that the
22 copies are true and correct copies of the documents received by the provider. Nothing in this
23 section shall prohibit an insurer from exercising its right to contest the validity of any policy;

24 (4) If the provider submits to the insurer a copy of independent evidence provided for in
25 subdivision 27-72-11(n)(2) when the provider submits a request to the insurer to effect the
26 transfer of the policy to the provider, the copy is deemed to establish that the settlement contract
27 satisfies the requirements of this section.

28 **27-72-12. Authority to promulgate regulations -- Conflict of laws.** – (a) The
29 Commissioner may:

30 (1) Promulgate regulations implementing this chapter and regulating the activities and
31 relationships of providers, brokers, insurers and their agents, subject to statutory limitations on
32 administrative rule making.

33 (2) Provide by regulation that the commissioner is authorized and may in his or her
34 discretion recover the reasonable cost of legal services incurred by the department in enforcement

1 actions under this chapter either from the licensee against whom the action is taken or by way of
2 an assessment of all providers licensed pursuant to subsection 27-72-3(a). The assessment
3 formula shall be set by regulation based upon information provided in the prior years annual
4 statement filed pursuant to subsection 27-72-3(l).

5 (b) Conflict of laws.

6 (1) If there is more than one owner on a single policy, and the owners are residents of
7 different states, the life settlement contract shall be governed by the law of the state in which the
8 owner having the largest percentage ownership resides or, if the owners hold equal ownership, the
9 state of residence of one owner agreed upon in writing by all of the owners. The law of the state
10 of the insured shall govern in the event that equal owners fail to agree in writing upon a state of
11 residence for jurisdictional purposes.

12 (2) A provider from this state who enters into a life settlement contract with an owner
13 who is a resident of another state that has enacted statutes or adopted regulations governing life
14 settlement contracts, shall be governed in the effectuation of that life settlement contract by the
15 statutes and regulations of the owner's state of residence. If the state in which the owner is a
16 resident has not enacted statutes or regulations governing life settlement contracts, the provider
17 shall give the owner notice that neither state regulates the transaction upon which he or she is
18 entering. For transactions in those states, however, the provider is to maintain all records required
19 as if the transactions were executed in the state of residence. The forms used in those states need
20 not be approved by the department.

21 (3) If there is a conflict in the laws that apply to an owner and a purchaser in any
22 individual transaction, the laws of the state that apply to the owner shall take precedence and the
23 provider shall comply with those laws.

24 **27-72-13. Prohibited practices.** – (a) it is unlawful for any person to:

25 (1) Enter into a life settlement contract if such person knows or reasonably should have
26 known that the life insurance policy was obtained by means of a false, deceptive or misleading
27 application for such policy;

28 (2) Engage in any transaction, practice or course of business if such person knows or
29 reasonably should have known that the intent was to avoid the notice requirements of this
30 chapter;

31 (3) Engage in any fraudulent act or practice in connection with any transaction relating to
32 any settlement involving an owner who is a resident of this state;

33 (4) Issue, solicit, market or otherwise promote the purchase of an insurance policy for the
34 purpose of or with an emphasis on settling the policy;

1 (5) Enter into a premium finance agreement with any person or agency, or any person
2 affiliated with such person or agency, pursuant to which such person shall receive any proceeds,
3 fees or other consideration, directly or indirectly, from the policy or owner of the policy or any
4 other person with respect to the premium finance agreement or any settlement contract or other
5 transaction related to such policy that are in addition to the amounts required to pay the principal,
6 interest and service charges related to policy premiums pursuant to the premium finance
7 agreement or subsequent sale of such agreement; provided, further, that any payments, charges,
8 fees or other amounts in addition to the amounts required to pay the principal, interest and service
9 charges related to policy premiums paid under the premium finance agreement shall be remitted
10 to the original owner of the policy or to his or her estate if he or she is not living at the time of the
11 determination of the overpayment;

12 (6) With respect to any settlement contract or insurance policy and a broker, knowingly
13 solicit an offer from, effectuate a life settlement contract with or make a sale to any provider,
14 financing entity or related provider trust that is controlling, controlled by, or under common
15 control with such broker unless such relationship has been disclosed to the owner;

16 (7) With respect to any life settlement contract or insurance policy and a provider,
17 knowingly enter into a life settlement contract with an owner, if, in connection with such life
18 settlement contract, anything of value will be paid to a broker that is controlling, controlled by, or
19 under common control with such provider or the financing entity or related provider trust that is
20 involved in such settlement contract unless such relationship has been disclosed to the owner;

21 (8) With respect to a provider, enter into a life settlement contract unless the life
22 settlement promotional, advertising and marketing materials, as may be prescribed by regulation,
23 have been filed with the commissioner. In no event shall any marketing materials expressly
24 reference that the insurance is “free” for any period of time. The inclusion of any reference in the
25 marketing materials that would cause an owner to reasonably believe that the insurance is free for
26 any period of time shall be considered a violation of this chapter; or

27 (9) With respect to any life insurance producer, insurance company, broker, or provider
28 make any statement or representation to the applicant or policyholder in connection with the sale
29 or financing of a life insurance policy to the effect that the insurance is free or without cost to the
30 policyholder for any period of time unless provided in the policy.

31 (b) A violation of this section shall be deemed a fraudulent life settlement act.

32 **27-72-14. Fraud prevention and control. – (a) Fraudulent life settlement acts,**
33 **interference and participation of convicted felons prohibited.**

34 (1) A person shall not commit a fraudulent life settlement act.

1 (2) A person shall not knowingly and intentionally interfere with the enforcement of the
2 provisions of this chapter or investigations of suspected or actual violations of this chapter.

3 (3) A person in the business of life settlements shall not knowingly or intentionally
4 permit any person convicted of a felony involving dishonesty or breach of trust to partic ipate in
5 the business of life settlements.

6 (b) Fraud warning required.

7 (1) Life settlement contracts and applications for life settlement contracts, regardless of
8 the form of transmission, shall contain the following statement or a substantially similar
9 statement:

10 “Any person who knowingly presents false information in an application for insurance or
11 life settlement contract is guilty of a crime and may be subject to fines and confinement in
12 prison.”

13 (2) The lack of a statement as required in subdivision (1) of this subsection does not
14 constitute a defense in any prosecution for a fraudulent life settlement act.

15 (c) Mandatory reporting of fraudulent life settlement acts.

16 (1) Any person engaged in the business of life settlements having knowledge or a
17 reasonable belief that a fraudulent life settlement acts is being, will be or has been committed
18 shall provide to the commissioner the information required by, and in a manner prescribed by, the
19 commissioner.

20 (2) Any other person having knowledge or a reasonable belief that a fraudulent life
21 settlement act is being, will be or has been committed may provide to the commissioner the
22 information required by, and in a manner prescribed by, the commissioner.

23 (d) Immunity from liability.

24 (1) No civil liability shall be imposed on and no cause of action shall arise from a
25 person’s furnishing information concerning suspected, anticipated or completed fraudulent life
26 settlement acts or suspected or completed fraudulent insurance acts, if the information is provided
27 to or received from:

28 (i) The commissioner or the commissioner’s employees, agents or representatives;

29 (ii) Federal, state or local law enforcement or regulatory officials or their employees,
30 agents or representatives;

31 (iii) A person involved in the prevention and detection of fraudulent life settlement acts
32 or that person’s agents, employees or representatives;

33 (iv) Any regulatory body or their employees, agents or representatives, overseeing life
34 insurance, life settlements, securities or investment fraud;

1 (v) The life insurer that issued the life insurance policy covering the life of the insured; or
2 (vi) The licensee and any agents, employees or representatives.
3 (2) Subdivision (1) of this subsection shall not apply to statements made with actual
4 malice. In an action brought against a person for filing a report or furnishing other information
5 concerning a fraudulent life settlement act or a fraudulent insurance act, the party bringing the
6 action shall plead specifically any allegation that subdivision (1) does not apply because the
7 person filing the report or furnishing the information did so with actual malice.
8 (3) A person identified in subdivision (1) shall be entitled to an award of attorney’s fees
9 and costs if he or she is the prevailing party in a civil cause of action for libel, slander or any
10 other relevant tort arising out of activities in carrying out the provisions of this chapter and the
11 party bringing the action was not substantially justified in doing so. For purposes of this section a
12 proceeding is “substantially justified” if it had a reasonable basis in law or fact at the time that it
13 was initiated.
14 (4) This section does not abrogate or modify common law or statutory privileges or
15 immunities enjoyed by a person described in subdivision (1).
16 (e) Confidentiality.
17 (1) The documents and evidence provided pursuant to subsection (d) of this section or
18 obtained by the commissioner in an investigation of suspected or actual fraudulent life settlement
19 acts shall be privileged and confidential and shall not be a public record and shall not be subject
20 to discovery or subpoena in a civil or criminal action.
21 (2) Subdivision (1) of this subsection does not prohibit release by the commissioner of
22 documents and evidence obtained in an investigation of suspected or actual fraudulent life
23 settlement acts:
24 (i) In administrative or judicial proceedings to enforce laws administered by the
25 commissioner;
26 (ii) To federal, state or local law enforcement or regulatory agencies, to an organization
27 established for the purpose of detecting and preventing fraudulent life settlement acts or to the
28 NAIC; or
29 (iii) At the discretion of the commissioner, to a person in the business of life settlements
30 that is aggrieved by a fraudulent life settlement act.
31 (3) Release of documents and evidence under subdivision (2) of this subsection does not
32 abrogate or modify the privilege granted in subdivision (1).
33 (f) Other law enforcement or regulatory authority. This chapter shall not:
34 (1) Preempt the authority or relieve the duty of other law enforcement or regulatory

1 agencies to investigate, examine and prosecute suspected violations of law;

2 (2) Preempt, supersede, or limit any provision of any state securities law or any rule,
3 order, or notice issued thereunder;

4 (3) Prevent or prohibit a person from voluntarily disclosing information concerning life
5 settlement fraud to a law enforcement or regulatory agency other than the insurance department;

6 or

7 (4) Limit the powers granted elsewhere by the laws of this state to the commissioner or
8 an insurance fraud unit to investigate and examine possible violations of law and to take
9 appropriate action against wrongdoers.

10 (g) Life settlement antifraud initiatives.

11 (1) Providers and brokers shall have in place antifraud initiatives reasonably calculated to
12 detect, prosecute and prevent fraudulent life settlement acts. At the discretion of the
13 commissioner, the commissioner may order, or a licensee may request and the commissioner may
14 grant, such modifications of the following required initiatives as necessary to ensure an effective
15 antifraud program. The modifications may be more or less restrictive than the required initiatives
16 so long as the modifications may reasonably be expected to accomplish the purpose of this
17 section. Antifraud initiatives shall include:

18 (i) Fraud investigators, who may be provider or broker employees or independent
19 contractors; and

20 (ii) An antifraud plan, which shall be submitted to the commissioner. The antifraud plan
21 shall include, but not be limited to:

22 (A) A description of the procedures for detecting and investigating possible fraudulent
23 life settlement acts and procedures for resolving material inconsistencies between medical records
24 and insurance applications;

25 (B) A description of the procedures for reporting possible fraudulent life settlement acts
26 to the commissioner;

27 (C) A description of the plan for antifraud education and training of underwriters and
28 other personnel; and

29 (D) A description or chart outlining the organizational arrangement of the antifraud
30 personnel who are responsible for the investigation and reporting of possible fraudulent life
31 settlement acts and investigating unresolved material inconsistencies between medical records
32 and insurance applications.

33 (2) Antifraud plans submitted to the commissioner shall be privileged and confidential
34 and shall not be a public record and shall not be subject to discovery or subpoena in a civil or

1 criminal action.

2 **27-72-15. Injunctions -- Civil remedies -- Cease and desist** – (a) In addition to the
3 penalties and other enforcement provisions of this chapter, if any person violates this chapter or
4 any rule implementing this chapter, the commissioner may seek an injunction in a court of
5 competent jurisdiction in this state and may apply for temporary and permanent orders that the
6 commissioner determines necessary to restrain the person from further committing the violation.

7 (b) Any person damaged by the acts of another person in violation of this chapter or any
8 rule or regulation implementing this chapter, may bring a civil action for damages against the
9 person committing the violation in a court of competent jurisdiction.

10 (c) The commissioner may issue a cease and desist order upon a person who violates any
11 provision of this part, any rule or order adopted by the commissioner, or any written agreement
12 entered into with the commissioner, in accordance with the chapter governing administrative
13 procedures, section 42-35-1 et seq.

14 (d) When the commissioner finds that such an action presents an immediate danger to the
15 public and requires an immediate final order, he may issue an emergency cease and desist order
16 reciting with particularity the facts underlying such findings. The emergency cease and desist
17 order is effective immediately upon service of a copy of the order on the respondent and remains
18 effective for ninety (90) days. If the department begins non-emergency cease and desist
19 proceedings under subsection (a), the emergency cease and desist order remains effective, absent
20 an order by a court of competent jurisdiction pursuant to section 42-35-1 et seq. In the event of a
21 willful violation of this chapter, the superior court may award statutory damages in addition to
22 actual damages in an additional amount up to three (3) times the actual damage award. The
23 provisions of this chapter may not be waived by agreement. No choice of law provision may be
24 utilized to prevent the application of this chapter to any settlement in which a party to the
25 settlement is a resident of this state.

26 **27-72-16. Penalties.** – (a) It is a violation of this chapter for any person, provider, broker,
27 or any other party related to the business of life settlements, to commit a fraudulent life settlement
28 act.

29 (b) For criminal liability purposes, a person that commits a fraudulent life settlement act
30 is guilty of committing insurance fraud and shall be subject to additional penalties under section
31 27-54-1 et seq.

32 (c) The commissioner shall be empowered to levy a civil penalty not exceeding one
33 thousand dollars (\$1,000) and the amount of the claim for each violation upon any person,
34 including those persons and their employees licensed pursuant to this chapter, who is found to

1 have committed a fraudulent life settlement act or violated any other provision of this chapter.

2 (d) The license of a person licensed under this chapter that commits a fraudulent life
3 settlement act shall be revoked.

4 **27-72-17. Unfair trade practices.** -- A violation of this chapter shall be considered an
5 unfair trade practice pursuant to state law and subject to the penalties provided by state law.

6 **27-72-18. Effective Date.** – (a) A provider lawfully transacting business in this state
7 prior to the effective date of this act may continue to do so pending approval or disapproval of
8 that person’s application for a license as long as the application is filed with the commissioner not
9 later than thirty (30) days after publication by the commissioner of an application form and
10 instructions for licensure of providers. If the publication of the application form and instructions
11 is prior to the effective date of this act, then the filing of the application shall not be later than
12 thirty (30) days after the effective date of this act. During the time that such an application is
13 pending with the commissioner, the applicant may use any form of life settlement contract that
14 has been filed with the commissioner pending approval thereof, provided that such form is
15 otherwise in compliance with the provisions of this chapter. Any person transacting business in
16 this state under this provision shall be obligated to comply with all other requirements of this
17 chapter.

18 (b) A person who has lawfully negotiated life settlement contracts between any owner
19 residing in this state and one or more providers for at least one year immediately prior to the
20 effective date of this act may continue to do so pending approval or disapproval of that person’s
21 application for a license as long as the application is filed with the commissioner not later than
22 thirty (30) days after publication by the commissioner of an application form and instructions for
23 licensure of brokers. If the publication of the application form and instructions is prior to the
24 effective date of this chapter, then the filing of the application shall not be later than thirty (30)
25 days after the effective date of this act. Any person transacting business in this state under this
26 provision shall be obligated to comply with all other requirements of this chapter.

27 SECTION 2. This act shall take effect on July 1, 2010.

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LC00252/SUB A
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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
A N A C T
RELATING TO INSURANCE -- LIFE SETTLEMENTS ACT

1 This act would create comprehensive standards in the establishment and administration of
2 life settlements contracts.

3 This act would take effect on July 1, 2010.

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LC00252/SUB A
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