

Better Late Than Never: California Finally Enacts State's First STOLI Legislation

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More than a year after vetoing Senate Bill 1543 and vowing to work to pass similar legislation “quickly,” California Governor Arnold Schwarzenegger signed [Senate Bill 98](#) into law on October 11, 2009. As the rejected Senate Bill 1543 sought to do, the new law defines Stranger-Originated Life Insurance (“STOLI”) transactions as “an act, practice, or arrangement to initiate the issuance of a life insurance policy in this state for the benefit of a third-party investor who, at the time of policy origination, has no insurable interest, under the laws of this state, in the life of the insured.” The new law proscribes STOLI transactions as fraudulent, and allows the Department of Insurance to collect information from life settlement providers that will help it to monitor the market and to identify STOLI transactions. It also restricts most transactions within the first two years of a policy.

Finally, the new law adds a component the absence of which reportedly led to the rejection of Senate Bill 1543: It mandates specific disclosures to consumers, including alternatives to life settlements, and requires the licensing of professionals who transact life settlement contracts.

The law – California’s first STOLI legislation – makes California one of 26 states to enact laws regulating STOLI. Similar legislation is pending in 13 other states.

See also [STOLI news post](#)