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**Companies Encouraged to Have Safeguards in Place to Limit Potential Exposure to  
Stranger Originated Annuity Transactions  
April 6, 2009**

Carriers are encouraged to put safeguards in place to prevent or limit their exposure to stranger originated annuity transactions.

Like Stranger Originated Life Insurance Transactions (STOLI), agents and/or investors, offer a stranger a nominal fee for the use of their identity as the measuring life on 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, agents and/or investors have been known to take out advertisements in papers as well as solicit individuals residing in nursing homes or hospice.

Once a stranger has agreed to the terms of the conditions posed, the agent will complete the annuity application, ensuring particular riders, such as a bonus rider or a guaranteed minimum death benefit, are in place to facilitate a specific rate of return for those financing the investment. Depending on the number of companies an agent represents, and the commission policies in effect, agents may purchase multiple policies from multiple companies.

To avoid added scrutiny of the policy or detection of the scheme, agents will often take precautions to ensure the dollar amount of the annuity falls below specific underwriting guidelines. A trust or an organization will 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 stranger originated annuity transactions could be detrimental to both carriers and consumers, it is suggested that companies:

- Review chargeback policies to ensure agent commissions are adjusted if a policy is annuitized within the first year of the contract.
- Create detection methods to identify agents who may be involved in the facilitation of stranger originated annuity transactions.
- Review all annuity applications to ensure specific questions are posed with regard to an annuitant's health status and the manner in which the contract is being funded.
- Ensure the underwriting department has red flags established so questionable applications are referred for additional review.
- Report potential stranger originated annuity transactions to the appropriate Department of Insurance.

For questions regarding this matter, please contact Michelle Brugh, Assistant Director, Ohio Department of Insurance Office of Fraud, Enforcement & Licensing, 614-728-1009, [Michelle.Brugh@ins.state.oh.us](mailto:Michelle.Brugh@ins.state.oh.us) .

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