



Highlights of [GAO-10-775](#), a report to the Special Committee on Aging, U.S. Senate

## Why GAO Did This Study

Since the late 1990s, life settlements have offered consumers benefits but also exposed them to risks, giving rise to regulatory concerns. A policy owner with unneeded life insurance can surrender the policy to the insurer for its cash surrender value. Or, the owner may receive more by selling the policy to a third-party investor through a life settlement. These transactions have involved high-dollar-amount policies covering older persons. Despite their potential benefits, life settlements can have unintended consequences for policy owners, such as unexpected tax liabilities. Also, policy owners commonly rely on intermediaries to help them, and some intermediaries may engage in abusive practices.

As requested, this report addresses how the life settlement market is organized and regulated, and what challenges policy owners, investors, and others face in connection with life settlements. GAO reviewed and analyzed studies on life settlements and applicable state and federal laws; surveyed insurance regulators and life settlement providers; and interviewed relevant market participants, state and federal regulators, trade associations, and market observers.

## What GAO Recommends

Congress may wish to consider taking steps to help ensure that policy owners involved in life settlements are provided a consistent and minimum level of protection. SEC agreed with our matter for congressional consideration, and the National Association of Insurance Commissioners did not agree or disagree with it but raised related concerns.

View [GAO-10-775](#) or [key components](#). For more information, contact Orice Williams Brown, (202) 512-8678 or [williamso@gao.gov](mailto:williamso@gao.gov).

# LIFE INSURANCE SETTLEMENTS

## Regulatory Inconsistencies May Pose a Number of Challenges

### What GAO Found

The life settlement market is organized largely as an informal network of intermediaries facilitating the sale of life insurance policies by owners to third-party investors. Policy owners may sell policies directly to investors in some cases, but owners and investors commonly use intermediaries. Life settlement brokers represent policy owners for a fee or commission and may solicit bids for policies from multiple life settlement providers with the goal of obtaining the best price. Life settlement providers buy life insurance policies for investors or for their own accounts. No comprehensive data exist on market size, but estimates indicate it grew rapidly from its inception around 1998 until the recent financial crisis. Estimates of the total face value of policies settled in 2008 ranged from around \$9 billion to \$12 billion.

State and federal regulators oversee various aspects of the life settlement market. Life settlements typically comprise two transactions: the sale of a policy by its owner to a provider, and the sale of a policy by the provider to an investor. As of February 2010, 38 states had insurance laws specifically to regulate life settlements. State insurance regulators focus on regulating life settlements to protect policy owners by imposing licensing, disclosure, and other requirements on brokers and providers. The Securities and Exchange Commission (SEC), where its jurisdiction permits, and state securities regulators regulate investments in life settlements to protect investors. One type of policy (variable life) is considered a security; thus, settlements involving these policies are under SEC jurisdiction. SEC also asserted jurisdiction over certain investments in life settlements involving nonvariable, or traditional, life insurance policies, but their status as securities is unclear because of conflicting circuit court decisions. All but two states regulate investments in life settlements as securities under their securities laws.

Inconsistencies in the regulation of life settlements may pose challenges. Policy owners in some states may be afforded less protection than owners in other states and face greater challenges obtaining information to protect their interests. Twelve states and the District of Columbia do not have laws specifically governing life settlements, and disclosure requirements can differ among the other states. Policy owners also could complete a life settlement without knowing how much they paid brokers or whether they received a fair price, unless such information was provided voluntarily. Some investors may face challenges obtaining adequate information about life settlement investments. Because of conflicting court decisions and differences in state laws, individuals in different states with the same investments may be afforded different regulatory protections. Some life settlement brokers and providers may face challenges because of inconsistencies in laws across states. GAO developed a framework for assessing proposals for modernizing the financial regulatory system, two elements of which are consistent consumer and investor protection and consistent financial oversight for similar institutions and products. These two elements have not been fully achieved under the current regulatory structure of the life settlement market.