

New Jersey Springs Into Action: New Bill to Ban STOLI Policies

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We previously reported in detail on New Jersey's recent case law addressing the validity of stranger-originated life insurance (STOLI) policies in the June 2019 and December 2019 issues of *Expect Focus – Life, Annuity, and Retirement Solutions*. Briefly, in *Sun Life Assurance Company of Canada v. Wells Fargo Bank, N.A.*, the courts concluded that a life insurance policy taken out with an investor trust as the policyholder violated New Jersey's statutory requirement of an insurable interest on the part of the policyholder.

In reaction to the *Sun Life* case, the New Jersey Assembly recently passed A.B. 1236 in a 78–0 vote, which prohibits STOLI policies that benefit a third-party investor who does not have an insurable interest in the life of the insured when the policy is issued.

The bill bars anyone from engaging in any act, practice, or arrangement that constitutes a STOLI arrangement and renders any such agreement void and unenforceable. The proposed legislation authorizes civil actions by any person damaged by a violation and provides an express exemption to New Jersey's two-year contestability statute so that insurers could contest the validity of these policies beyond the two-year contestability period. The legislation also imposes a civil penalty of up to \$10,000 per violation. The commissioner of banking and insurance is authorized under the proposed legislation to seek injunctive relief for any violation, issue cease-and-desist orders, and order restitution to persons damaged by STOLI violations. The bill has been sent to the New Jersey Senate, which introduced the legislation as S.B. 1914.