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Viatical Fraud: What the Accountant Should Know

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As a relatively recent phenomenon, viatical fraud is less well known than other, older types of fraud. Although most types of fraud are committed regardless of the country in which the victim resides, viatical fraud has become particularly prevalent in the United States. Involving the sale of life insurance policies, viatical fraud affects those in the life insurance business, those who are insured, and those who buy the contracts. Many who use viatical contracts as an investment are retired persons who lose significant parts of their estates. This article describes the many variations of viatical fraud and its implications. Tips for recognizing and avoiding the fraud are included.

INTRODUCTION

Fraud is defined as a generic term, embracing "all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get advantage over another by false suggestions or by suppression of truth, and includes all surprise, trick, cunning, dissembling, and any unfair way by which another is cheated " (Black's Law Dictionary). Fraud comes in many styles. One of the newest investment scams is viatical fraud.

In ancient Rome, military leaders received a viaticum (money) or supplies for a long journey before heading off to do battle (Oldwick 1999). Today, a viatical is money paid by a third party to purchase the beneficiary portion of a life insurance policy. The third party investor buys the face value of the policy from the viator (insured) who in most cases is terminally ill. The buyer then cashes in the full amount at the original owner's death. In theory, both parties benefit. The seller can use the proceeds to meet medical expenses, pay off mortgages, provide for children, or cover other end-of-life expenses. The purchaser earns a return on the investment. A viatical settlement, thus, has the potential to relieve the financial stress for the terminally ill while providing the investor with profit while doing good for