Do Multiple Life Settlement Brokers Produce Multiple Offers?

Steve Shorrock

By Steve Shorrock, ChFC, CLTC, FLMI

Most would agree that "it pays to shop around." Even in life or death situations, obtaining a second opinion is standard procedure. But with life settlements, it may not be such a good idea.

Life settlements are a relatively new part of the financial services universe and the process of getting the best value for an in-force life insurance policy is complex. It's not well understood even by experienced financial professionals.

The secondary market for life insurance is essentially a directed auction process. As in any auction, the more bidders the higher the ultimate price to the seller is likely to be. So, to do the best job and meet your fiduciary responsibility, it would seem prudent for an advisor to present the potential life settlement to the largest possible market by employing several life settlement brokers?

But this often works <u>against</u> the policy owner – not for him -- and results in a **lower** value, not a higher one. When a provider receives a file from more than one broker, it immediately raises questions as to who (if anyone) controls the case. Some providers follow a "first in" policy: others will make the same offer (if any) to all comers. Either way, the ability to negotiate a higher "final" price for the policy is reduced for everyone.

Even worse, most providers have multiple funding sources and when the funders see a file coming in from different sources, they sometimes decline all offers on the basis that the case is unlikely to close. Once an offer is made, a funder must "earmark" that money, which in effect ties it up and reduces the ability to make offers on cases that may be more promising.

There is also the temptation to "eliminate the middleman": go directly to a provider (or even a funder) and bypass the life settlement broker altogether.

There are several downsides to this, not the least of which is fiduciary duty. If the file is presented to only one provider, it can unilaterally determine the policy's value. Since providers represent the ultimate buyers rather than the policy owners, they are under no obligation to make a "fair market" offer—or indeed to take the policy to market at all. Although many otherwise reputable provider organizations will accept direct submissions, they tend to assume they are dealing with a "naive seller" and tailor their offering accordingly.

When hiring a life settlement broker, choose one based on the following:

Culture of Compliance. A broker who operates within a culture of compliance follows procedures that meet the highest standards. This is especially important now that 90% of the American population lives in states with life settlement regulation.

Written Agreements between producers and providers should be retained and made available upon request to potential clients. There should also be a written agreement between the life settlement broker and the seller, detailing terms and conditions under which the broker will represent the client, including services provided and amount of compensation.

Comprehensive Documentation. The life settlement broker should have forms and materials approved by the Department of Insurance in the policy owner's state.

Extensive Disclosure. The broker's documentation should deal objectively with the pros and cons of life settlements. The proceeds may be taxable, eligible for certain benefits, may be impacted and future insurability may be curtailed. All this should be mentioned. The broker should keep the client or agent apprised of progress and deliver all offers as they are received.

Written Policies for Privacy Protections. Much of the info collected in the life settlement process is highly confidential and the life settlement broker must maintain complete files and records on every transaction for several years. Every broker should have a written policy for the protection of confidential information. Maintaining a secure environment for physical files and policies, procedures for access and a secure systems environment are key requirements. FA

Steve Shorrock is President of LifeVentures Corp, which designs new life insurance products and develops marketing concepts for agents, and Director of Veris Settlement Partners, a life settlement firm that brokers seniors' unwanted or unneeded life insurance policies plus Director of Planning 4 Longevity, a firm that helps people financially plan for their entire lifetime. You can reach him at his Northport, Long Island office at 631-239-6655 or steve@lifeventurescorp.com

