

Robin & Peter on LIFE SETTLEMENTS



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Is it Wise to Go Direct to a Life Settlement Provider?

Recently, a number of life settlement providers have been trying to persuade brokers to come directly to them and avoid using a life settlement brokerage. Similarly, life settlement providers are also trying to attract business directly from the consumer, cutting out both the producer and the life settlement brokerage. Let's examine how this business model affects policy owners and producers.

Life settlement providers represent the buyers of policies or can be buyers themselves. It is their mission and fiduciary duty to buy policies as cheaply as possible. One way to do that is to eliminate the competition for acquiring policies. Going direct to producers and policy owners is a great way for them to do that.

Unfortunately, it also means that the consumer may not be getting the best price for their policy. In fact, our experience has been that when we send out a case for competitive bids, the companies that go direct are rarely the winning bidders. And that makes sense, too. Why should they pay top dollar for a policy on the open market when they can buy them on the cheap by going direct?

When a policy owner goes direct, they do so at their own peril. They are unlikely to receive the most for their policy, but, additionally, a life settlement, like the sale of any large asset, can be a rather complex transaction which requires knowledge and experience.

For all the peril that consumers who go direct face, producers are subject to even greater risk. Most states make the producer a fiduciary to the policy owner in a life settlement transaction. This means that if things go south, the producer is one that will be left "holding the bag."

Compliance with the fiduciary standard requires, among other things, that the producer should be knowledgeable in the transaction and must adequately shop the policy on the seller's behalf to maximize the sales price. Going direct to only a small number of providers is not likely to meet that requirement. In addition, since most producers handle only a small

number of life settlement transactions in their entire career, it is difficult for them to become knowledgeable in these transactions and probably not time efficient for them to do so.

Instead of going direct, producers can off-load the fiduciary responsibilities to a life settlement broker, who also becomes a fiduciary to the client. A life settlement brokerage gives access to a much wider market of potential buyers, some of whom will only transact business through a brokerage. A life settlement broker, through sheer volume, if nothing else, has the bargaining clout and the knowledge and experience to adequately protect the seller in a life settlement transaction. And finally, settlement brokers generally maintain errors and omissions insurance that covers the producer as well.

Unlike certain transactions, where going direct might make some sense, it is just the opposite for a life settlement. It's important to let policy owners know of the life settlement option so you can then help them with it. That way you won't hear, after the fact, that they missed the opportunity entirely or they went direct and, more than likely, you could have gotten them a better offer.

Producers can do the best for themselves and their clients by using the services of a life settlement broker instead of going direct to a small number of providers. Not only are they protecting their clients' interests, but their own as well. As situations come up, be sure to give us a call.

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