THE TRUE VALUE OF A LIFE SETTLEMENT BROKER
The modern secondary market for life insurance policies has benefited from many developments since the U.S. Supreme Court provided the legal basis in 1911. Sophisticated institutional capital, pro-consumer legislation, and the utilization of artificial intelligence learning techniques are some of these developments.

However, the existence of a two-tiered market intermediary system has been a development that, while providing many benefits to the market overall, has created confusion among consumers in a way that often reduces the value they extract from these transactions.

This market dynamic also creates more competition for opportunities which can benefit consumers. However, this competition evolved to a situation where incomplete or confusing messages have unfortunately become part of Life Settlement advertising. One major reason for this symptom is the market’s priority to drive awareness of the Life Settlement option itself. Awareness has traditionally been lacking among consumers and even industry professionals. But addressing this priority has washed over the differences between industry participants.

In this discussion, we will explore this confusion and reveal the true value of a life settlement broker.
To begin our exploration, we need to first define the terminology. Due to the compliance structure created by the department of insurance in each state, the Life Settlement marketplace is basically organized with the following types of entities:

- Life Insurance Carriers
- Institutional Investors
- Brokers
- Lead Generation Companies
- Life Tracking Companies
- Providers
- Escrow Facilities
- Capital Sources
- Agent or Financial Representatives
- Life Expectancy Companies
- Other Servicing Entities
- Medical Offices
- The True Value of a Life Settlement Broker
Two of these entities potentially interface with consumers during the secondary market transaction: the broker and the provider. However, both of these groups have different sets of incentives, compliance rules, and duties.

**BROKERS**

Brokers represent the policy owner and owe a fiduciary duty to act in that client’s best interest. It is a broker’s responsibility to comply with the rules set forth by each state regarding solicitation, negotiation, and the general business of Life Settlements.

The broker’s incentives are aligned with the policy owner: to identify the very highest offer for a policy.

**PROVIDERS**

Providers represent the purchaser of the policy in a Life Settlement transaction. It is a provider’s contractual responsibility to represent the capital source in the transaction of Life Settlement business, including limiting liability, complying with applicable laws, and pricing cases to maximize the profit of the purchaser.

The provider’s incentives are aligned with the purchaser of a policy in the secondary market to buy at the very lowest price, therefore maximizing the investment return for the capital sources.
To help distinguish these two entities, the National Conference of Insurance Legislators has stated that a provider may not perform the functions of a broker and vice versa. Each state issues different types of licenses for brokers and providers which contain different obligations and responsibilities. Importantly, only the broker has a fiduciary duty to act in the best interest of the policy owner.

To learn more about the differences between a Life Settlement Broker and a Life Settlement Provider, please watch our video explanation.
ANOTHER WAY TO ILLUSTRATE THIS DIVERGENCE:

**BROKERS**

The broker is performing a set of services for an existing policy owner:

- ordering life insurance illustrations and projections
- evaluating & underwriting a policy, gathering complete medical records and purchasing analysis of those records from the third-party experts
- negotiating terms of a sale on the consumer’s behalf
- ensuring all of the moving parts of a transaction are completed quickly and accurately

**PROVIDERS**

The providers are selling an investment product to their customers, the capital sources. This likely includes:

- evaluation of different types of risk of purchasing a policy
- analysis of the cost and performance structure of the policy
- maximization of the internal rate of return of a policy via optimized premium payment timing
- monitoring of the ongoing health of an insured

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The differences don’t stop there. Brokers are often required by law to disclose any compensation to the seller. At SETTLEMENT BENEFITS ASSOCIATION, we encourage this type of full disclosure and transparency. But a provider is not under this type of requirement, nor will they offer this information. So, while a provider’s compensation could be substantially more than a broker’s compensation, the seller would never know about this. And this opaque imbalance is made worse by the fact that the providers sometimes claim that broker compensation can reduce the net amount paid to the client, while conveniently failing to disclose their own compensation.
In fact, this brings us to a key discovery in our quest to understand the true value of a broker: bringing the full information to the discussion. As in any market, competitive forces help drive the pricing of an asset to the fair market value. A broker enables that competition by working with multiple providers to secure the highest possible offers. This puts pressure on the provider's compensation, the capital sources’ internal rate of return, and therefore raises the offers delivered to the seller.

Even after offsetting the broker's commission from an offer, the average offer secured through the services of a broker is generally higher than an offer procured directly from a buyer. This is similar to the effect seen in other markets. Since industry-wide statistics are not readily available in the Life Settlement industry, let's take a look at this effect in another market with a two-tiered market intermediary system: real estate.
In the real estate market, homes sold “for sale by owner” sell for an average of 32% less than those sold through a real estate agent. That may be a primary driver of why less people are working directly in that industry. In fact, since 1981 the percentage of transactions conducted without a real estate agent has dropped from 15% to 7%.

Again, reliable industry-wide statistics do not exist in the Life Settlement industry, but the amount of advertising from providers directly to consumers has certainly increased in recent years. With no requirement to point out the differences between a broker and a provider in these ads, consumers are often left with an incomplete or inaccurate portrayal.

Even more confusing are ads from companies that are neither brokers nor providers. They are merely marketing companies that “refer” qualified policy owners to actual licensed companies that can perform the transaction. These companies often don’t even attempt to claim to bring any value to the transaction. They owe no fiduciary duty to the seller and their compensation is not disclosed by providers.
By soliciting and negotiating multiple bids from multiple providers, the broker establishes a competitive market for a policy and increases the demand for that individual policy. This increases the bargaining power of the consumer and increases industry rivalry. Simple economics teaches us that additional demand for a policy will help drive up the equilibrium price along the supply and demand curve. Higher prices mean more money for the consumer selling the policy, but less profit for the end buyer and the provider. The difference between the true fair market value of a policy reached through competitive bidding and the initial bid by a single direct provider can be an entire order of magnitude.

Additionally, brokers can adjust auction dynamics to favor the consumer. In this industry, every file is extremely unique and there are a great variety of tools used to leverage higher bids. When properly applied, the bidding process can be stacked in the seller’s favor.
Utilizing a broker to help sell a life insurance policy will also ensure that your interests are best represented in the transaction. For instance, you wouldn’t want to sell your policy to an unlicensed entity. On the other hand, you certainly would want to understand the intricate details of your policy to understand benefits you may already have available, such as premium waivers, policy loans, or even accelerated death benefits. You want to make sure that you receive the best consumer protections available: transparent disclosure, full escrow facility, rescission periods, etc. Professional broker representation will ensure that your interests are protected and conflicts of interest are eliminated.

So, while brokers earn compensation, you will receive additional services and representation. Brokers earn commission by providing value. Not only do brokers include services you don’t receive when working direct; but you could receive a higher price for your policy. Quite simply, this is why the Life Insurance Settlement Association, the oldest and largest trade organization in the industry states that:

“most settlements are conducted through a broker.”
While the role of a broker is clearly defined, not all brokers are created equal. There are several characteristics that you should consider. They will help amplify the true value of a Life Settlement broker by enhancing any scenario:

- **EXPERTISE & EXPERIENCE**
- **HONESTY & INTEGRITY**
- **SELF REGULATION & ACCOUNTABILITY**
Experienced brokers can diagnose the nuances of a situation and handle what they observe. By carefully understanding the needs and desires of a client, professional brokers can understand how to best utilize the different aspects of the market to maximize the value of a policy. This framework isn’t possible for providers, as the problem they are solving belongs to their investors, not the consumers who offer them policies for purchase.

Professional brokers will also incur the cost of underwriting a file and advocate for their clients. Professional brokers will walk away from a scenario that doesn’t represent the best interests of a client. Furthermore, professionals will seek and present the best options even if they do not include selling a policy. In the Life Settlement industry that often means not knowing the end result before the work is done. In fact, any online “calculator” that claims to properly value a policy without the benefit of underwriting a file is inaccurate and misleading. It’s simply not possible when every potential transaction includes a unique medical profile and unique policy dynamics, including premium history, changing costs of insurance and other policy features.

Pricing isn’t the only hurdle to a successful Life Settlement transaction. Differences in timing, signing requirements, and escrow facilities can make one offer more valuable than another. The competition for business in this complicated market is not created equal.
What is the true value of a Life Settlement broker? Brokers offer powerful advantages for the policy owner:

- Brokers owe policy owners a fiduciary duty to act in their best interest. This eliminates conflicts of interests and allows a broker to advocate for your best solution.
- Brokers will generally increase the Life Settlement offer for your policy. This is accomplished by increasing the demand for a policy and arranging the bidding process in the seller’s favor.
- Brokers often offer full disclosure and transparency to the process of the Life Settlement transaction. This reduces confusion and helps you understand your policy and the benefits of your options.
- Brokers perform a wide variety of services that otherwise may not be completed or may not be implemented to your best advantage. This includes underwriting both your medical profile and analyzing the structure of your life insurance policy. Furthermore, professional brokers will incur all of the costs associated with these services.
- Professional brokers will seek and present alternatives for you even if that does not include selling a policy.
At SETTLEMENT BENEFITS ASSOCIATION, we have an additional advantage. An unfair advantage: we care more. Not only do we honor our fiduciary duty, but we care. We care about our clients. We care about getting the answer right for their families. We are not a large call center or faceless calculation on some spreadsheet. We don’t outsource our work nor do we cut corners. We are simply a collection of dedicated and experienced individuals who work every day to help policy owners understand and maximize the value of their life insurance.

Our 18+ years in business have filled us with the pride that comes from good honest work. Our goal is to get the very highest offers for your policy, and we appreciate the opportunity to work on every case presented.
Noam S. Weiss co-founded Settlement Benefits Association in 2002 to help seniors and terminally ill clients understand and maximize the value of their life insurance. Under Noam's leadership, Settlement Benefits Association has become a national Life Settlement broker that has reviewed over 5 billion dollars of life insurance.

Noam & his team can be reached at 888-255-0444.