



CARRIER RESISTANCE TO LIFE SETTLEMENTS: CLIENTS NEED TO KNOW THEY CAN SELL THEIR POLICIES

Consumers who sell their life insurance policies in the life settlement market receive as much as seven times more money than they would have received by surrendering their policies back to the insurance companies. Seven times! However, an estimated 9 out of 10 policies are allowed to lapse before paying a claim, according to the Life Insurance Settlement Association.

One key factor that contributes to such a startling lapse rate is the disturbing practice by powerful life insurance carriers of concealing the life settlement option from their own policy owners.

Carrier Resistance to Life Settlements

Life insurance agents have faced significant pressure from life insurance carriers to not disclose the possibility of selling a policy. Why? The insurers would strongly prefer for an unwanted or unneeded policy to simply lapse or surrender - they reap the financial benefits of such a decision by merely paying out the cash surrender value (if any), rather than ultimately paying the full death benefit at maturity.

Consider this actual example from November 2019. A financial advisor has a client who owned a life insurance policy with a \$10 million death benefit, but the client decided that his beneficiaries no longer needed the coverage and he no longer wished to pay the substantial

annual premiums. He was on the verge of surrendering the policy back to the carrier for the cash surrender value of \$277,000, a seemingly good payout considering the circumstances. Thankfully, the well-informed advisor instead recommended exploring the potential value of the policy in the secondary market with life settlement broker Welcome Funds. The firm performed an internal appraisal of the policy and immediately told the advisor that it could obtain far greater value for the client by selling the policy. Welcome Funds conducted an auction with its network of life settlement providers and ultimately sold the policy for \$5 million, nearly 20 times greater than the cash surrender value the client was on the verge of collecting from the carrier. 20 times!

By any objective standard or measure, the best interests of the client were clearly served by exploring the sale of the policy rather than remaining silent and allowing him to accept the cash surrender value from the carrier. The truth is, any time an insurance company prohibits exploring a life settlement transaction, it potentially stands in the way of acting in a client's best interest.

Do The Right Thing

Silence regarding the life settlement option could be problematic from a legal standpoint in light of the new life insurance fiduciary standard in New York.

As discussed in a recent Welcome Funds article, this rule imposes a new standard for agents and brokers when issuing recommendations regarding an annuity or life insurance product. Under the New York rule, which took effect on February 1, 2020, agents must now act in the “best interest” of consumers when advising them on how to proceed with either a proposed or an existing annuity or life insurance policy. This fiduciary standard may establish a precedent for a new regulatory regime from coast to coast.

In addition to the emerging best interest standard for advising on life insurance products, there has been civil litigation and state legislation in recent years that has centered around a “Senior’s Right to Know” about all of their financial options when buying or selling insurance policies. For example, in one of the more recent developments in 2017, the important State of Florida, which has the highest senior population by percentage in the country, passed a law imposing a requirement on insurers; they are to provide “an individual policyholder with a statement informing him or her that if he or she is considering making changes in the status of his or her policy, he or she should consult with a licensed insurance or financial advisor.”

In a growing era of fiduciary obligations, accelerated by the New York rule, there is a possible liability from a client or estate that is damaged financially by not being informed of a life settlement. Independent of laws or regulatory standards, an advisor’s conduct should always be fueled and guided by doing the right thing. What is doing the right thing? It is presenting a client with his options and allowing him to ultimately reach an educated and well-informed decision.

Existing Fiduciary Standard

If a client decides to explore the sale of his policy, then it is advisable to work with a partner who already has a fiduciary standard to act in his best interests: a licensed life settlement broker.

The broker represents only the policy owner – and no other party - throughout the sales process to determine the policy’s potential value on the secondary market for life insurance. The broker’s interests and the policy owner’s interests are aligned – each party wants to maximize the sales value of the policy.

After initial eligibility is confirmed and the applicable paperwork and authorizations are completed, the broker



will negotiate with multiple licensed life settlement providers who compete to extend the best offer to purchase the policy.

Please contact an experienced life settlement broker such as Welcome Funds to make sure that you are acting in your clients’ best interests before they lapse or surrender their life insurance policy. For more information, please visit welcomefunds.com or call 877.227.4484.



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ABOUT WELCOME FUNDS

Partner with Welcome Funds and access our Life Settlement Platform for BGA's.

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Offers
Negotiated

\$825+
Million Paid
to Consumers

12+
Average # of
Bids Per Policy

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