REBUTTALS TO THE "DIRECT BUYER" MODEL FOR LIFE SETTLEMENTS

Most professional advisors who explore the potential sale of an unwanted life insurance policy on behalf of their clients will rely on the assistance of a licensed life settlement broker. Life settlement brokers represent the policy owner in the transaction and have a duty to act in their best interests. Most notably, the broker's and client's goal is aligned: to sell the policy for the highest price possible.

However, some advisors are and have been persuaded, in part by prominent national advertising campaigns, to work directly with a single life settlement "provider" — a company licensed to purchase life insurance policies on the secondary market. In some cases, the provider is working on behalf of the buyer of that policy (i.e. an institutional fund), but in many instances, the provider is the actual buyer. Regardless of the arrangement, life settlement providers have no duty of advocacy, fiduciary or otherwise, to consumers like brokers do; their objective is to purchase policies for the lowest price possible and to maximize internal rates of return.

With this stark contrast in goals, it is fair to ask why the "direct buyer" model — where consumers sell their policies directly to providers, forfeiting the services of a licensed broker — would be attractive to anyone who wishes to explore a life settlement? There are four common misconceptions in the market, often perpetuated by life settlement providers, that if taken at face value, provide the answer to the above question. However, upon closer examination, the assertions are misleading and self-serving for the providers, and not in the best interests of the policy owner. Additional information is needed to properly evaluate the statements below.

Assertion #1: "A broker's commission decreases a policy owner's cash payment."

Providers often claim that a key advantage of facilitating a transaction through them directly, without using a broker, is the elimination of intermediary fees. "Why pay a broker fee when you can sell your policy directly to us for a "fair market" price, thereby putting more money in your pocket?" On the surface, this seems like a credible proposition. However, additional, critical information needs to be considered before accepting the above argument as true. More often than not, an experienced life settlement broker will create enough competition on a policy sale that the owner will realize more money at the end of the day, even accounting for all broker and advisor fees, compared to transacting directly with only one provider. And how is it even possible to know the fair market value of any policy without soliciting or at least attempting to solicit multiple offers from multiple buyers? The simple answer is, "It's not."

The direct buyer prefers the consumer to be unrepresented and not engage the services of a life settlement broker like Welcome Funds, who has a good idea of what the competitive market should pay for a policy. The use of a broker-managed life settlement auction model is the only proven strategy for maximizing the purchase price of life insurance policy.

For example, Welcome Funds recently represented a client who was offered $800,000 for two policies by a direct buyer. $800,000 is a lot of money so the first impression of the offer is favorable, especially if the alternative is zero or negligible dollars. It is likely that the buyer was planning to purchase the policies and then resell for the true market value to other investors. Fortunately, the consumer engaged Welcome Funds and allowed us to shop the policies to multiple buyers — we ultimately secured $1,856,000 for the policies. So, at the end of the day, which option was in the best interest of the consumer? $800,000 direct or $1.7 million through the "intermediary" broker platform, the net proceeds after all commissions were deducted? The answer is clear – Welcome Funds earned its fee by creating tremendous value.

Assertion #2: "We'll get you money faster than a broker can."

The direct buyer wants to appeal to a policy owner's need or desire for a quick payment and sometimes, "speed to close" has advantages in dire, time-sensitive situations. But at what cost? $50,000? $500,000? More? Obtaining the fair market value for a policy – and using a life settlement broker is the only way to accomplish that - it will take a little more time. In our experience, it is well worth it.

For example, one client contacted Welcome Funds when he was being pressured by a direct buyer to sell his policy for $20,000, with the condition of "only if you accept today." It's a shameful pitch, equivalent to a distressed real estate transaction in which a buyer offers the seller a low-ball cash payment with the hope he will be enticed to accept a quick transaction during a time where liquidity is necessary. Welcome Funds represented the above policy owner, shopped the policy to multiple interested buyers, who never had the opportunity to bid on the policy previously, and ultimately negotiated a bid of $1.2 million! Is this an extreme example? Yes. However, it is a documented, real case and similar examples occur often.

Assertion #3: "A broker doesn't add any value to the transaction."

As demonstrated above, and stated previously, the broker adds tremendous value. This is a puzzling assertion that some direct buyers advocate, again in an attempt to have policy owners unrepresented in the marketplace. Any advice to "cut out the middleman" is tired, misguided and potentially costly….very costly.

In addition, life settlement brokers invest a substantial amount of resources – both time and money - to acquire and gather policy information, optimized illustrations, medical records, and life expectancy reports. All of the above data is necessary to effectively market the policy to prospective buyers.

Most importantly, a life settlement broker, if it truly embraces its role as a zealous advocate of the policy owner's best interests, can recommend that a life settlement not be finalized and suggest alternative options, especially if the market, for whatever reason, is not yielding equitable or reasonable offers. Will a provider ever tell a consumer that its own offer is not good enough? The answer is a resounding "no."

Assertion #4: "Just talk to us, we're interested in helping you."

Some providers may be interested in helping policy owners. However, by accessing the broker platform, the policy owner is represented by a professional firm who fulfills a fiduciary duty to act in his best interests, as required by the majority of states. The provider has no such duty to the policy owner. In the simplest terms, the provider represents institutional funds and is financially incentivized to offer lower purchase prices for policies, in order to maximize internal rates of return of its investment. The broker represents consumers or policy owners and is financially incentivized, as discussed before, to generate higher purchase prices for policies, in order to maximize both proceeds for its clients and commissions for itself. The more money realized by the policy owner, the more money potentially earned by the broker. The financial interests of the policy owner and broker are fundamentally aligned. The financial interests of the policy owner.

Welcome Funds negotiates and closes transactions with an average of 17 different buyers per year. Such diversity is a direct result of the competition created. There is no such competition when the pitch is "just talk to us." In addition, Welcome Funds is aware of which buyers are more interested in certain types of policies, ages and health conditions and their desired purchasing parameters. If a policy owner works with a direct buyer and the policy is not a good fit for that specific buyer, it may attempt to purchase the policy regardless at a low price, and then sell it to another buyer, who is more interested in adding such policy to its portfolio, at a steep markup. The purchasing opportunity is too great to pass up. Therefore, by transacting directly with one buyer, there's an element of luck involved – the policy owner hopes that his or her specific policy is desirable enough to receive even a respectable offer. That's a risk not worth taking. An experienced life settlement broker like Welcome Funds will submit the policy to those buyers who are most likely to be truly interested in the asset, resulting in competitive offers and creating the necessary market to maximize the ultimate purchase price.

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ABOUT WELCOME FUNDS

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

Past two decades, we have served in the best interest of policy owners by maximizing life settlement offers through auction based negotiations. When buyers compete, policy owners win!

26,000+	$825+	12+
Offers Negotiated	Million Paid to Consumers	Average # of Bids Per Policy

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