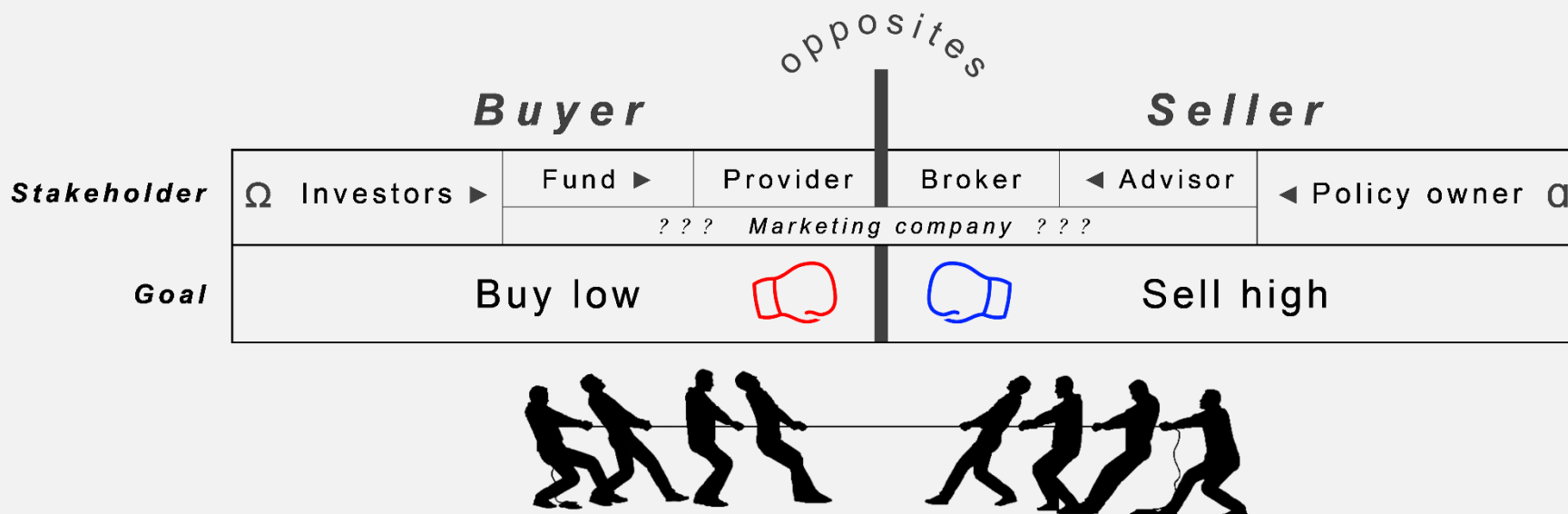


# Sellers Beware: Know Who's Working For (*and Against*) You

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It's crucial for policy owners / sellers in the life settlement market to identify and understand what roles the various stakeholders to the transaction play, as well as how they're incentivized and where their allegiances lie. Only then are sellers positioned to know who's working for (and against) them as they attempt to maximize their proceeds from the sale.

As depicted below (and further defined at the end of this document), each intermediary is committed to *either* the buyer *or* the seller – it's impossible for them to adequately serve the two masters at the same time because their respective goals are diametrically opposed. That is, absent self-dealing or other ulterior motives, buyers and their representatives strive to buy low, and sellers and their representatives aim to sell high in what's usually reduced to a commodity-based marketplace without material differentiation aside from sale price.



An emerging trend in the life settlement industry is for buyers to solicit business directly from policy owners, thereby circumventing sellers' representatives and eliminating their fees, which in theory are passed on to policy owners. On its face, cutting out the proverbial middleperson(s) makes perfect sense for policy owners, but it's

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predicated on a fallacy – namely, that life settlement buyers extend equitable offers on their own volition in the absence of competition, which in practice they don't. In fact, lowball bidding is a hallmark of life settlements that's as off-putting to the uninitiated as it is applicable to the most seasoned of negotiators. No one's immune, and the only way to consistently obtain fair market value offers is to conduct extensive auctions designed to stimulate competition and isolate the highest bidder.

Why does lowball bidding prevail in the life settlement space? There are two fundamental reasons. First (and not surprisingly), buyers generally prefer to pay less for purchases, not more. This is a near-universal truth. Second, the value of life insurance in the secondary market isn't readily apparent or as easily determined as many other saleable assets (e.g., houses or vehicles), instead requiring specialized software and esoteric inputs to properly calculate. As such, experienced buyers with pricing expertise wield a decided advantage over sellers if they lack this know-how, and buyers (perhaps naturally) try to exploit this imbalance if unchecked.

Direct sales, then, are preferred scenarios for buyers because they normally involve first- and one-time sellers who don't know the value of their assets and only approach a subset of potential buyers, which stifles or eliminates competition. In other words, the conditions are rife for buyers to achieve their goal of buying low.

In part, all of this explains why **offer amounts commonly increase by a multiple of two or more from the first to the last / winning bid during the course of auctions that include the *entire* buying landscape** (as opposed to only one or a few potential buyers). Depending on the circumstances, this translates to tens or even hundreds of thousands of dollars more of proceeds for the seller. Accordingly, skilled brokers who are reasonable about compensation routinely pay for themselves in spades while also increasing the seller's take notably.

===== *Sellers Beware* =====

Regardless of who it is, *somebody* must competently serve the role of broker during a life settlement transaction in order to maximize the sale price and otherwise represent the seller's best interests.

# Parties to a Life Settlement Transaction

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	Stakeholder	Role	Allegiance	Goal	Fiduciary duty	Licensure required?
<b>Seller</b>	<b>Policy owner / seller</b>	Source of in-force life insurance to be sold in the secondary market.	Self	Maximize sale proceeds	n/a	n/a
	<b>Advisor</b>	Seller's representative charged with acting in the policy owner's best interests. May be a financial planner, insurance professional, estate planning attorney, trust officer, CPA or the like.	Policy owner	Sell high	Owed to policy owner	Yes (with exceptions)
	<b>Life settlement broker</b>	Seller's representative charged with acting in the policy owner's best interests. Oversees all facets of the sale on behalf of the seller.	Policy owner	Sell high	Owed to policy owner	Yes
<b>Buyer</b>	<b>Marketing company *</b>	Its role and allegiances are not clearly defined. Not a life settlement broker or provider, however, nor is it subject to any regulatory oversight. Given this ambiguity, sellers are wise to assume marketing companies are either buyers themselves or represent third-party buyers.	Unknown	Unknown	None	No
	<b>Life settlement provider *</b>	Buy-side broker that manages the acquisition of in-force life insurance on behalf of underlying buyers, whether they're affiliated or third-party funds.	Fund	Buy low	None	Yes
	<b>Life settlement fund *</b>	Pooled investment fund with a life settlement focus. May be a hedge or mutual fund, private equity group or similar institutional financier.	Investors	Buy low	None	No
	<b>Investor *</b>	Source of capital used to purchase in-force life insurance for investment purposes.	Self	Maximize investment return	None	No

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