

# Why Use a Broker ?

*Buckeye Life Resources*

Accessing providers directly without the use of a broker may be a viable approach to selling life insurance in the secondary market, but it depends on various factors. The upside of foregoing a broker and cutting out a so-called middleperson is eliminating the related commission, thereby passing these savings to the seller or any others representing him or her (e.g., an insurance agent or financial advisor). The downside, however, is whoever assumes the role of broker – **and somebody must** – may underachieve relative to a proficient broker in terms of maximizing the offer for the policy, spending a significant amount of time, effort and possibly money in the process.

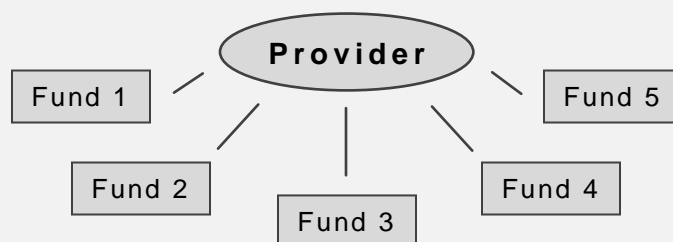
The questions then become, is the surrogate broker capable of and willing to fill the role properly, and if so, can he or she obtain an offer that would at least equal what the broker would have received (less the broker's commission)? Assuming the seller would otherwise use a competent and fiduciary-minded broker who's reasonable about compensation, the decision to go it alone or not should be carefully weighed.

Here are some issues to consider:

**Pricing expertise:** Qualified brokers possess the technical skills and tools to determine a policy's worth before it's marketed, and they don't passively rely on others to tell them what fair market value is – least of all potential buyers, whose goal is to buy low. If the seller of an asset is unsure of its value, he or she is at an immediate disadvantage when pitted against sophisticated and experienced buyers.

**Knowledge of the buying landscape:** In addition to knowing providers' buying preferences and tendencies, successful brokers have a thumb on the pulse of the life settlement market and can identify the most aggressive bidders at any given time. This hard-won insight is crucial because it's required to maximize offers in an ever-changing market.

**Auction:** Diligent brokers thoroughly market cases to *all* prospective buyers – not just a subset of them – with the goal of stimulating competition in a systematic way that isolates the highest bidder. It's inadequate for a seller or broker to solicit offers from only one or even a few providers. To omit a single provider from the bidding process may actually exclude several potential buyers because providers typically buy on behalf of multiple funds as depicted here:



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Separately, many providers are unwilling to work on a direct basis with sellers or other unlicensed intermediaries since it's a more costly and less efficient approach for them in comparison to a wholesale model.

For these reasons, overlooking or lacking access to a single provider may be a costly omission for the seller.

**Expense:** An insured's medical records may cost more than \$200, and the average cost of third-party life expectancy (LE) reports exceeds \$500 per report for expedited service (there are several LE underwriters common to the industry, but buyers differ on which ones they use to price). Since LEs are critical determinants of pricing and offers, it's not enough for a broker to simply buy one LE, allowing it alone to dictate the outcome of the case (or worse, rely on buyers to purchase LEs if they're willing to do so). Without knowledge of the LEs, a broker may fail to maximize the offer for a policy. Moreover, when providers buy their own LEs, it results in asymmetric information that favors only them.

**Time:** The life settlement process is arduous and lengthy, usually lasting several months. Simply obtaining the baseline information and documentation required by buyers for bidding purposes may take 2-3 months depending on the circumstances. It's possible to shorten the duration of the transaction by cutting corners, but this almost always comes at the expense of maximizing the offer for the policy.

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The do-it-yourself approach to life settlements may bear fruit for the seller or others representing him or her, but consideration of the foregoing issues should be part and parcel with the decision to bypass an adept broker. A common sentiment among direct sellers and other non-brokers is they wouldn't go it alone a second time.