Why Two Brokers May Be One Too Many

Buckeye Life Resources

An old adage in football is if a team has two starting quarterbacks, it doesn't have one. This may hold true for life settlement brokerage, as well.

Using multiple brokers to market one's life insurance policy in the secondary market seems like a logical way to maximize offers, but in reality this approach may stifle competition and disincentivize those working on behalf of the policy owner.

Life settlement providers typically collaborate with the first broker to submit a complete case to them and then work with this broker exclusively thereafter (unless the policy owner later directs them to switch). They do so in order to establish a level playing field with brokers and avoid conflicts of interest that arise from double bidding. As such, each provider makes offers to only one broker on a given case, so using multiple brokers doesn't translate to more or better offers from the same providers.

Since one of the primary objectives of a broker should be to pit as many providers as possible against one another in an effort to maximize offers, the likelihood of achieving this end is reduced without access to *all* prospective buyers. Stated differently, if a broker works with only a subset of providers (and not the entire buying landscape), he or she will be worse positioned to negotiate for the policy owner's benefit.

Separately, when providers learn a case is being marketed by multiple brokers, they question who actually controls it, if anyone, which in turn makes it more difficult for them to justify spending time or money on it (especially with regard to purchasing their own life expectancy reports on the case). Because life settlements are time-intensive transactions, and since providers' resources are limited in the face of ample supply, they're inclined to target cases without conflicts and on which they believe they have the best chance of prevailing.

In the same vein, it's hard for brokers to justify expending their finite resources on a case when they lack control of it because they naturally gravitate to opportunities they consider the most winnable (and cases with competing brokers are less winnable to them than ones they control). The prudent selection and prequalification of cases are key determinants of a broker's success, so many brokers have learned from experience that it makes little economic sense for them to pursue cases unless exclusivity applies in their favor. Even if they're amenable to cases with competing brokers, they may be less vigilant about marketing them in terms of the time, effort and money they spend, prioritizing cases they control instead.

For the preceding reasons, using more than one broker in the life settlement space may be counterproductive to maximizing offers. Rather, emphasis should be placed on choosing a single broker who will most effectively represent the policy owner's interests.

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