



# Life Insurance Settlements: Who's Who?

By Lisa Rehburg

**M**any people (including your clients) do not know that selling a life insurance policy is an option, and they let their policies lapse or they surrender them. In fact, 2.5 million seniors a year will walk away from their life insurance policies, with little or nothing. There is more and more advertising for life insurance settlements on TV, in print, on social media, and on the radio. The visibility for the life settlements solution is improving, but who exactly is advertising? A recent conversation with an insurance agent sparked questions about who the different entities are in life insurance settlements' transactions, creating the suggestion for this article. So, who's who?

The main players in the sale process are providers and brokers. Both entities are similar in that they will obtain medical records and illustrations from the insurance company, in order to obtain offers on a client's policy. Both assist agents and clients with sale contracts, and pay commissions to licensed insurance agents. And, both are regulated by the Department of Insurance. But, that is where the similarities end. Providers and brokers have much different loyalties, and it is important to understand the difference.

**\*Providers** – providers are organizations that are approved by the Department of Insurance to purchase policies in a particular state. If a provider is not approved by the Department of Insurance in the state in which the client lives, the provider cannot make an offer and purchase a policy. Some providers have multiple funds behind them, and sometimes position themselves as giving clients and agents the highest offer, because they have multiple sources of capital. But, this is not the case – a provider is still one entity, even if they have multiple funds. They do not have a fiduciary duty to clients to make the highest offer.

When you and I are going to purchase an asset, say a car, we don't walk into the dealership and announce that we want to pay the most amount of money for the car, right? We are trying to get a deal. So are the buyers. Unless they have competition from other providers, there is not much incentive to put their best foot forward and make the best offer. And, there are no "comps" with life insurance policies, like there are in the

real estate market, so agents and clients do not know if the offer made is a good offer or not.

This is not to paint the providers in a bad light at all. Providers are important purchasers of policies, and some of them are advertising on main-stream media, which is good. This helps raise visibility for life insurance settlements. Another positive of working with a provider directly, is that the client saves the life settlement broker commission.

**\*Life Settlements Brokers** – life settlements brokers are very similar to insurance brokers. As insurance brokers have access to many different insurance companies to offer their client the best policy for them, it is similar for life settlements brokers. They have access to many different providers, and importantly, have a fiduciary duty to clients to market their policy and obtain the highest offer possible in the life settlements marketplace.

Brokers do this by introducing competition into the market, leveraging providers versus each other, which produces incentive for providers to continue to increase their offers. Only when the top offer is achieved, and all other providers have declined to increase their offer, is the broker's policy marketing complete. In the sale contract, brokers disclose to clients the offers that were received, and from which providers, so the client can be assured the top offer has been achieved.

To emphasize this point, FINRA released a life settlement guide for consumers, "What You Should Know About Life Settlements" in July. In this guide, they emphasize: "If you're approached by someone soliciting you to sell your life insurance policy, understand that person's role in the transaction: Are they a life settlement broker who represents you, or are they affiliated with a particular life settlement company? If the answer is the latter, the person might only obtain an offer from that company, making it hard for you to know whether you're being offered a competitive price."

Brokers typically work with the providers that are advertising in the media, as well as others that do not advertise. Some providers prefer to rely on brokers to send them policies to review, and save the advertising dollars. Sound familiar? Some insurance companies rely solely on brokers like you, instead of advertising directly to consumers.

The downside to working with a

life settlements broker is commission. Commission is shared with insurance agents, and is disclosed to the client in the sale contract on a separate broker disclosure form. Commissions are negotiable, but the guideline maximum commission a broker and agent can receive is 1/3 of what is obtained for the client, or 8% of the face value of the policy, so commission can be substantial. Commissions can be much less, depending upon what is appropriate and works for the client, but these are the maximums.

**\*Marketing Companies** – marketing companies are increasingly appearing. They email agents or advertise on the internet. They are simply lead generators that sell the leads they obtain from their marketing. Some have multiple websites and different names. It can be confusing to know if the website you are on, or the number you call, is a marketing company or not. A clue that a website is a marketing company is usually in the small print on the bottom of the website. It will usually say that the entity is neither a provider nor a broker, and any interest generated will be passed on to licensed organizations.

There is not one entity that is "good", nor one that is "bad". It is personal preference in how you and your client prefer to sell their policy. And, nothing says that you cannot contact a provider and a broker to see who does the best job for you and your client.

The bottom line is to know who you are working with, where their loyalties lie, and what the positive and negative aspects are of working with that entity. Be sure they are properly licensed. Contact them, talk with them, and see what makes you and your client the most comfortable.

With providers advertising on TV, radio, in print and on the internet, make sure your clients call you if they no longer need, no longer want or can no longer afford their life insurance policies. Letting your clients know their options not only serves them, but also serves you and your business.



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