

New Roads to Market: Secondary Market Distribution Comes of Age

By Michael Coben

Your client's insurance needs have changed, so you recommend a full insurance review. As part of the process, you get their insurance appraised to determine its fair market value. What's your next move if a life settlement is in order? The answer is critical since the distribution channels for secondary market transactions are rapidly diversifying, giving advisors better opportunities to enter the market.

Advisors had a straightforward choice in the market's early years – solicit offers directly from providers or hire a life settlement broker to do it. Working directly was more efficient and cost-effective since there was no middleman. Many advisors found that the expertise, service, and support that providers offered resulted in a better solution, especially for more sophisticated cases.

Advisors who are new to the market have used life settlement brokers to help them collect offers from more than one provider. Brokers streamline the bidding process and provide an instant network of potential buyers for a policy. But, life settlement brokers are intermediaries that come at a cost. Advisors are evaluating that cost more closely as they discover other channels to bring a client's policy to market.

The secondary market for life insurance has matured significantly in recent years. Leading life settlement providers are creating new distribution channels, which are making life settlements more efficient, more accessible, and more valuable to advisors and their clients. The result is a far more diversified system that mirrors traditional insurance distribution. Advisors have a much broader range of choices for accessing the market.

Brokerage General Agencies

As demand grows for secondary market offerings, many brokerage general agencies are offering life settlements and related transactions to add value to advisor relationships. Secondary market providers recognize these brokerage general agencies as valuable partners that can help integrate life settlements into the planning universe. Using a brokerage general agency can be a smart choice for advisors with high net worth clients. Life settlements rarely occur in a vacuum. In most cases, they are part of

more comprehensive planning solutions, such as those involving a replacement policy or as an alternative to a 1035 exchange. Working with a brokerage general agency lets advisors keep all transactions under one umbrella. The benefits of one-stop shopping must be weighed against the potential costs. Some brokerage general agencies still use life settlement brokers to solicit offers from providers, which inserts more costs and another intermediary into the transaction. Others work with providers directly to control transaction costs.

Broker/Dealers

Registered representatives are gaining access to the secondary market through broker/dealers. The National Assn. of Securities Dealers' recent stance on variable life settlements has raised the broker/dealer's awareness of secondary market transactions. As a result, many have developed relationships with life settlement providers, brokerage general agencies, and life settlement brokers, in some cases, to ensure that secondary market transactions remain within their oversight. It is important for the advisor to understand the value in working with a broker/dealer. Does the transaction involve additional intermediaries or will you have direct access to the provider? Advisors are asking these questions before registering with broker/dealers.

Producers and Producer Groups

Another channel involves high-volume producers that have extensive secondary market experience. These producers typically have a deep understanding of the market and many life settlement candidates in their client base. Because they are adept at navigating the secondary market, they have established their own provider relationships with some insurance carriers individually or through affiliated producer groups. This allows advisors to create their own market for policies, which means handling more of the legwork in exchange for eliminating additional steps and capturing more value for their clients.

The Value of the Right Provider

Secondary market transactions can be complex and can require sophisticated

skills, particularly transactions involving high face amount policies. The right provider can add value to every phase of the process. For example, an experienced provider with a comprehensive life insurance background can provide service on a case-by-case basis. The provider works with the advisor to understand the client's goals and can present a range of solutions that the advisor may not have envisioned. A provider with an extensive sales and support team can ensure a smooth and efficient transaction with no surprises.

Best Offer versus Best Value

The premise of the secondary market is that every policy has a market value, which is determined by an open competition among buyers. But, what is the best way to conduct the bidding process? The advisor's goal is to get the best value from the market. This value comes in many forms: experience, efficiency, convenience, sales support, turn-around time, peace of mind, and offer price, of course. The definition of a best offer varies from advisor to advisor and from case to case.

Advisors must weigh their priorities. The one-stop-shopping that a brokerage general agency offers may be the best choice if a seamless transaction is a priority for your complex case. Registered representatives clearly have an advantage in working with a broker/dealer that looks favorably upon the secondary market. If you work with many life settlement candidates, you may want to pursue your own provider relationships or align yourself with a producer group that has these provider relationships.

The bottom line is that there are more roads than ever leading to the secondary market and advisors can choose the route that is best for them and their clients. □

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