

In a Reg BI World, Comprehensive Planners are Pushing Back

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Looking back, 2023 has seen comprehensive planners pushing back on broker-dealers and other firms that prohibit life settlements even though they are regulated and legal. This has resulted in an uptick of broker-dealers and advisory firms integrating a compliance-centric life settlement platform to recruit and retain top firms. Admittedly, life settlements had growing pains over the past 20 years; however, today life settlements are legal and available in all fifty states. Advisors are asking their compliance departments, *“How can I tell my clients that I provide comprehensive and holistic financial planning, yet not disclose the life settlement option when it is appropriate?”* With an aging population, many clients prefer to receive a buyout of their existing life insurance for an amount that is higher than their cash surrender value, providing liquidity for investments and other retirement needs.

90% percent of seniors said they would have explored a life settlement if their advisor had told them about it (Source: Institute of Insurance Studies). Is there a risk to advisors who do not disclose the life settlement option as part of the planning process? Is there an additional risk from working with a life settlement company that is not aligned with the client’s best interests?

The spotlight on best interests gives rise to compliance-centric life settlements. *“How can I trust the information coming from a life settlement company?”* Advisors have asked this question for over 20 years. The answer is found when you examine licensing requirements. There are only two licensed entities that each sit on opposite sides of the life settlement negotiation table. In November of 2007, the National Council of Insurance Legislators (NCOIL) adopted a revision of the Life Settlement Model Act that required provider and broker licensing. A *licensed life settlement broker* was assigned a fiduciary duty to protect the best interests of the policy owner/seller during the life settlement process. By contrast, a *licensed life settlement provider* was designated to represent buyers/investors and secure the best rate of return for the investor. [The opposing objectives of these two licensed entities highlight the need to protect client best interests by following a compliance-centric life settlement process that advocates for the policy owner.](#)

87% of settled policies are on insureds age 70-100+ (Source: Ashar Group). Clearly, this is a market that gives the advantage to retirement age clients. Many of these insureds have shortened life expectancies due to health issues or



increased longevity. Health arbitrage is a key factor influencing the value of a policy in the settlement market.

88% of universal life policies never pay a death claim (Source: Wharton School Study on Lapsed-based life insurance). When universal life insurance first came on the scene in 1979, interest rates were in the high double-digits. A subsequent two-decade period of low interest rates gutted the cash value in these policies. These policies and Guaranteed UL policies are low in cash value and along with convertible term policies are the most sought out by institutional investors.

What constitutes a compliance-centric life settlement? Like any financial transaction, it is one that protects the best interest of the policy owner/seller. Advisors first need to know which life settlement companies represent each side of the transaction. Many compliance officers have been allowing their advisors to pursue life settlements for more than two decades because of the [Rising Compliance Risks of not Discussing Life Settlements.](#)

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