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THE TROUBLING TREND OF "GRAY SHEETING" LIFE INSURANCE POLICIES

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Navigating an Underground, and Inefficient, Marketplace

Agents and advisors are unwittingly handing over life insurance policies for sale in a marketplace that chronically undervalues them. "Gray sheeting" is a troubling trend in the world of life insurance settlements.

When the time comes for most people to sell a major asset, they usually begin the process by gaining an understanding of what that asset is worth before they put it on the market. If you plan to sell a house, for example, you can look at the prices of comparable homes that have sold recently.

If you want to sell your car, you can go to a used car website and see what similar cars have sold for or check the price on a database like the Kelley Blue Book. And if you want to sell a piece of art, a watch, or jewelry, you can have that item appraised by an expert. The lesson that we have all learned is that when you have an asset of value, be sure that you are getting a fair price when you sell it.

An Underground Market

An underground market of buyers and sellers within the life insurance industry is taking advantage of an inefficient marketplace to systematically underpay for life insurance policies. This phenomenon is what we call gray sheeting. The good news is that it's easy to avoid having your policy gray sheeted, by having it appraised before you put it on the market. For years, some in the insurance industry have been trying to convince agents and advisors who are counseling clients about selling a life insurance policy that they need to have that policy appraised before they put it on the open market. And it's becoming incredibly clear that this is more important than ever.

For seniors who are considering selling a policy, understanding the policy's overall value is a critical aspect of the settlement transaction. In some instances, life settlement providers and brokers will attempt to shop a policy in advance of an appraisal. We consider this gray sheeting, and this widely accepted industry practice costs policyholders millions of dollars each year.

First, some background. A life insurance policy has a value on the open market; that's indisputable. However, determining that value was frequently a challenge. When the market first emereged 30 years ago, there weren't many buyers available, so if an agent or advisor recommended that a client sell a policy, the lack of buyers made the marketplace inefficient. Because there weren't enough potential buyers, the seller had to take what they could get.

As more financial institutions and sophisticated buyers started to understand the world of selling life insurance policies, the marketplace should have become more efficient, but it hasn't. There are some logical and illogical reasons. One logical reason is that large funds are often looking for certain types of policies, and they are willing to pay an appropriate value for those policies if they fit inside their specific criteria. If a policy fits in their bucket, they may make a good offer. If it doesn't, they may offer nothing.

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What's happened over the years is that life settlement brokers and providers have taken advantage of some of the challenges within the marketplace and, essentially, forced policyholders through an elaborate and inefficient process.

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Lack Of Transparency

For example, it takes several weeks to fully complete a life insurance settlement application and secure all the documents to have a "complete" application package. Brokers or providers may reach out to several different funding sources to get offers, but a policy seller is completely in the dark. They have no idea if they're going to get an offer that's 50% of the policy's face value or 25% of the face value. They have no idea until those offers start coming in weeks later from provider companies.

And during this period, the broker or provider controls the policy. They have all the information and essentially have command of this transaction – including who the potential buyers are and who makes offers. They also can steer policies to providers who may pay higher commissions at the expense of the policyholder.

Due to this complete lack of transparency, the seller has no idea what the policy is truly worth. They are at the mercy of the inefficient and sometimes unethical system.

In this very typical scenario, the brokers and providers will control the offers and tell agents and advisors that "this what the market will pay, take it or leave it." While we have the technology and sophisticated algorithms that help us understand how policies are valued, brokers and providers are still leading customers through this inefficient process that only benefits the insiders.

Instead of having an offer that's in black and white. The situation is gray, on purpose. Hence, "gray" sheeting. When a life insurance settlement is not transparent and policy pricing leaves the client in the dark, that policy has been gray sheeted.

We believe that gray sheeting costs seniors millions of dollars in value each year – money that ends up in the pockets of greedy brokers and providers who use this inefficient market to their benefit.

As I said before, the solution is that agents and advisors need to have a better understanding of a policy's value before they hand over control to brokers and providers. Just as you would not sell your house without comparable prices or a piece of art without an expert appraisal, an insurance policy should not be sold without a policy appraisal. It gives the agent and their client an understanding of the general value of a policy and what it ought to be trading for in a competitive marketplace. This prevents the gray sheeting of policies and brings providers and brokers into the light, which will enable agents and their clients to get the true value of their policies.

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