

The Cynical Client or Advisor

Recently I was brought into a case by an attorney for the benefit of a business owner of significant wealth. The lay of the land was as follows.

There were tens of millions of dollars of life insurance in force, mostly second-to-die and a mix of whole life and variable life, all with the same insurance carrier but in a handful of contracts owned in a series of trusts.

The existing agent was recommending the placement of one massive contract with another carrier to replace everything. The attorney, who sat in on a talk I did in Orlando at the Heckerling Conference, simply didn't trust the agent and wanted a third party opinion.

The bottom line is that the existing policies were, in fact, doing very poorly and most of them would never pay a death benefit without a significant increase in premiums. Based on facts and objectives, the recommendation to replace wasn't necessarily wrong but the details left a lot to be desired. This is a not the place to detail everything wrong with the recommendations but the simple fact that there was to be no diversification in terms of insurance carriers or product classes was enough to immediately realize this was not the product of a well thought out process. It was also a very interesting circle that the existing portfolio was performing so poorly, in part, due to lack of management by the very salesman trying to replace the entire slate of policies. There was other history there which also generated cynicism on the part of the advisor team.

Forgetting all of the nuances of the engagement and even ignoring the ultimate solutions we brought to the table which resulted in dramatic value, here is why the cynicism was so well deserved. Right out of the gate I realized that one of the whole life policies had a \$25,000,000 convertible term rider at preferred rates. To understand the significance of this you need to realize that one of the insured individuals was now heavily rated and the policy was convertible with a company which at that time had the most competitive product in the market for which the clients were interested.

The kicker? The agent never brought that option to the table because he didn't think he would be paid on it! The spread between going with the conversion and going with the agent's original recommendation was astounding. Even if my fee for this engagement was hypothetically the cumulative fees I charged for every engagement I was involved in for the past year, it would have been the best money spent by the client in a very long time.