

Insurance Studies Institute
2008 Annual Report (October, 2007 thru December, 2008)
April 8, 2009

Organization: ISI was organized in Delaware on October 22, 2007.

Mission Statement: Insurance Studies Institute ("ISI") is a non-profit foundation dedicated to advancing knowledge and understanding of insurance paradigms affecting socio-economics in a free market economy. ISI does not engage in lobbying.

Funding: Initial funding of \$100,000 was received on January 18, 2008 from The Sabes Family Foundation. A second funding of \$350,000 was received on April 26, 2008 from The Sabes Family Foundation.

Staffing and Offices: Three full time employees were added in 2008:

Paul Siegert, President & CEO

Miki Jorgenson, Executive Assistant (from December, 2007 thru May, 2008, Miki worked part-time as an independent contractor, and converted to full time as of June, 2008)

Chris Kampa, Research Analyst (from October, 2007 thru May, 2008, Chris worked as a student intern, converting to full time as of June, 2008)

Principle offices of ISI are in Keystone, CO with staff located in Silverthorne, CO and Minneapolis, MN. ISI utilizes an open office system where employees work at remote locations, communicating via email and conference calls. This has worked effectively resulting in minimal office overhead cost.

2008 Operations:

Approval of the ISI 501(c)3 non-profit classification was received from IRS on September 26, 2008.

ISI created a website, www.InsuranceStudies.org on which it posts its purpose, reports and major activities.

A promotional effort was developed among universities, associations, media publications, businesses and individuals (totaling over 500 new contacts in the ISI database) to establish ISI as a new and leading insurance research institute. Response was good and resulted in significant ongoing relations at Boston College, Wharton, Florida State University, several business firms, and media publishers. ISI is pleased that numerous calls have been received in response to its published reports, many where practitioners sought answers to specific questions.

Paul Siegert became active within the insurance industry and life insurance secondary market by attending conferences, making speeches, providing information for media publications, and generally making ISI known as well as soliciting research ideas.

Operations, procedures, accounting, benefit plans and a contact database were established.

2008 Completed Projects: During 2008 five projects were completed and summarized as follows:

Understanding Life Settlements and Industry Issues Entering 2008, January 22, 2008. The purpose of this paper is to provide a practical framework for understanding the secondary market for life insurance and to highlight major issues facing the industry at the beginning of 2008.

Introduction to Methodologies Used to Price Life Insurance Policies in Life Settlement Transactions, March 3, 2008. The primary focus of this paper is to provide a general overview of the deterministic and probabilistic pricing methodologies, and the application of the common contributing factors in determining the price of life insurance policies for life settlements in the secondary market.

Taxation of Life Insurance Policies in an Evolving Secondary Marketplace, March 3, 2008. This paper provides a brief overview of the taxation associated with both traditional and evolving third party life insurance transactions. It also takes a look at differing methods for tax basis computation endorsed by the IRS, and highlights the potential impact on life insurance premium finance.

The Effect of Life Settlement Portfolio Size on Longevity Risk, August, 2008. This paper reports statistical research of the effect a portfolio size has on investment returns resulting from the risk that the insured live longer than their estimated life expectancies.

Argyle Executive Investment Forum for Endowments, Foundations & Pension funds, September 25, 2008. Insurance Studies Institute co-funded this conference and presented a panel discussion entitled, "Has Investing in Life Settlements Come of Age?" The ISI objective was to introduce ISI to the business community and to help promote education and awareness of life settlement dynamics.

2008 Projects in Progress:

CRR Project "Benefits of a Life Settlements Market": During 2008 ISI entered into a major project agreement with the Center for Retirement Research ("CRR") at Boston College. The budget of this project was set at \$100,000, of which \$50,000 has been expended as of December 31, 2008. The original project scope was to: undertake an empirical and theoretical analysis of the benefits that a market for life settlements offers to current and prospective policyholders; to examine the potential effects of life settlements on the economics of underwriting life insurance; and, to utilize its theoretical model to estimate the consequences of regulations that limit life settlements on policyholders' welfare. The project has been expanded to attempt to establish CRR as the official repository for data to be reported from life insurance secondary market ("LISM") operators on an ongoing basis. It is hoped this will succeed and CRR is exploring the possibility of this repository becoming the official source of data sought by state regulators. A review of the project in March, 2009 suggested that the initial target completion date of June, 2009 may slide to a later date pending the data gathering effort. Pursuant to the difficulty in getting data and the extra effort, CRR has been requested to review the project budget.

ISI Insurance Forum: In late 2008, ISI committed to funding a forum in April, 2009 to focus on the “Institutionalization of The Life Insurance Secondary Market.” The objective is to arrange for researchers, lobbyists, lawyers, investors and operators to gather in Paradise Valley, AZ for two days to explore issues, brainstorm ideas, identify opportunities and challenges. ISI expects to produce a report of the salient ideas and research prospects floated in the forum. If this forum is successful, ISI will explore repeating it annually or perhaps more often with various sponsors.

Secondary Market of Life Insurance and Related Insurer Challenges Entering 2009: This is the second of an annual series focused on the status of the life insurance secondary market. The initial report in January 2008 was well received giving value to publication of annual industry status reports.

Research Prospects: A major result of the ISI first year is identification of numerous research topics. ISI endeavors to find third-party research resources rather than attempt to complete all research in-house. The effect of this is that other research projects may take priority over the ISI research wish list, and that the scope of the research may be somewhat different. ISI pending research prospects include:

- Life Settlement Consumer Awareness
- Changing Longevity After 65
- Development of Best Practices and Standards in LISM
- Worker’s Compensation Inequities
- Investing in LISM
- Catastrophic Risk Management
- Economic Value of Insurable Capacity
- Portfolio Management Practices

Annual 990-PF Report: Required by IRS and required to be made public (on ISI Web Site), the 2008 990-PF Return of Private Foundation is attached.

2009 Objectives: Upon entering 2009, ISI expects to become more active in consumer awareness and education pertaining to life insurance and life settlements. In addition to completing research projects in progress, ISI plans to develop a promotion and program to solicit funds from other foundations, which funds can be used to match funds that have been received and committed from The Sabes Foundation. ISI plans to focus more on establishing projects with third-party research teams for research that addresses current issues affecting the life insurance industry, life insurance secondary market and consumer needs related to these markets.

Paul A. Siegert
President & CEO