



Insurance Studies Institute

2009 Annual Report (January 1, 2009 thru December 31, 2009)

March 11, 2010

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. Its current focus is on insurance secondary markets. ISI does not engage in lobbying.

ISI accomplishes its mission by: a) researching and analyzing challenges and opportunities within the realms of the insurance industry; b) publishing research findings on industry relevant topics; c) educating industry stakeholders, public policy makers and consumers, and advancing related scholarship; and, d) promoting dialogue to foster industry advancements, fair public policy and greater consumer awareness and protection.

Funding:

ISI received a total of \$450,000 from The Sabes Family Foundation (SFF) in 2008, and an additional \$550,000 in 2009. The combined total donations satisfied the SFF's commitment to provide \$1 million in initial support funding to ISI. ISI accepts contributions from corporations, foundations and individuals to support ISI research and knowledge sharing. For 2010, the SFF has committed to match every dollar contributed to ISI up to \$500,000.

Staffing and Offices:

ISI maintains three full time staff:

Paul Siegert, President and CEO
Chris Kampa, Director of Research & Project Development
Miki Jorgenson, Operations Coordinator

ISI's research projects expanded and increased in 2009, requiring it to hire several short-term contract individuals who assisted with research, writing, and general consulting. ISI's principal offices 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.

2009 Operations:

ISI Website:

Our website, <http://www.insurancestudies.org.html>, was revamped in 2009 and continues to improve and evolve as a go-to source for industry information. The website provides ISI's organizational background, along with published research, published articles, chapters written for education texts, industry events, and abstracts for research projects underway and in the development stages.

ISI's 501(c)3 non-profit certification, annual reports, and 990PF tax forms are available on the site: <http://www.insurancestudies.org/team.html#operations>

In 2010, ISI will add a blog feature to the website that will increase ISI's "search-value," and will help to chronicle ISI's presence in the media.

ISI Advisory Board:

An Advisory Board was established in 2009 with the following members:

- Dr. Kent Smetters, Boettner Chair Professor at the University of Pennsylvania's Wharton School and Faculty Research Fellow at the National Bureau of Economics;
- Mr. Rob Haynie, Managing Partner, Life Insurance Settlements Inc., and Director, Life Insurance Settlement Association Board; and
- Brain Casey, Esquire, and Partner/Co-Leader of the Corporate and Regulatory Insurance Practice Group of Locke Lord Bissell & Liddell, LLP.

The following additional members joined the Advisory Board in early 2010:

- Mr. David Hopkins, Managing Director of Carlson Brand Enterprises and Marketing Faculty at the Carlson School of Management, University of Minnesota; and
- Dr. Sharon Emek, Partner at CBS Coverage Group Inc., and CEO & President of Work at Home Vintage Employees (WAHVE LLC).

Biographies for these esteemed individuals are available at: <http://www.insurancestudies.org/team.html#advisory>.

The Advisory Board will help conceptualize and develop future research for ISI, and assist with networking to resources useful to ISI, both intellectual and financial. Advisory Board members will be invited to participate in at least one ISI Concepts Forum per year.

ISI Network:

ISI's projects often require expert opinions, constructive advice, and collaborative assistance. And so it is with great appreciation that ISI has amassed an ever-growing and impressive network of resources: research assistants; professional, educational, and business leaders; government contacts; industry specialists; media publishers; editors and writers; insurance commissioners; and, association members. Further, ISI is now utilizing and uploading published works to the Social Science Research Network, and SCRIB-D (an industry/writer's network) to increase our reach and exposure.

Our Work...Making an Impact

Work Completed in 2009:

In its brief existence, ISI has become recognized as an independent, valuable resource for industry knowledge and technical analysis. ISI pushed forward with numerous research projects in 2009, utilizing in-house research talent where possible, and also collaborating on projects with esteemed academic institutions such as the Center for Retirement Research at Boston College, Wharton School, and the University of Minnesota. These partnerships brought a richness of resources and academic excellence to important issues. White papers published and distributed in 2009 for use by industry stakeholders, public policy makers and consumers include:

- *Secondary Market of Life Insurance and Related Insurer Challenges Entering 2009*, January, 2009
- ISI Inaugural Insurance Concepts Forum Report, *Institutionalization of the Life Insurance Secondary Market*, May, 2009

- *2009 Revenue Rulings Give Seniors and the Life Settlement Industry a Few Answers, But More Questions*, September, 2009.
- *Examination of Workers' Compensation Gaps and inequities in the United States*, September, 2009
- *Portrayal of Life Settlements in Consumer-Focused Publications*, September, 2009
- *Should I Sell My Life Insurance Policy? A Consumers' Guide to Life Settlements*, October, 2009. This project culminated in two publications: an objective, comprehensive consumer guide, and a condensed brochure suitable for advisors to use with consumers when investigating the option of life settlements.

To download any report, please see the following link for a chronological listing of published research: <http://www.insurancestudies.org/papers.html>

2009/2010 Work in Progress:

Current and future projects will build on ISI's goals to research, publish, educate and stimulate action. At this point in time, many issues ripe for research stem from the economic upheaval of 2008/2009/2010. Areas of concern include our changing socio-economic dynamics, increased government controls and oversight, tighter capital investment criteria, retirement funding issues facing seniors, a possible national health program (while structural aspects of a national health care plan are outside the scope of ISI targeted work, indirect impacts of such a plan may affect other risk management issues that need research), and now a possible Federal insurance charter or oversight office. Other topics raising alarm for industry stakeholders, public policymakers and consumers include solvency of insurers, annuities and pensions, adequacy of reserves, accounting practices and product delivery practices.

Utilizing a limited budget, ISI has hand-picked several intriguing projects that continue in 2010. These studies demonstrate ISI's ongoing commitment to research excellence and measurable results:

- *Data Collection and Maintenance System for the Life Insurance Secondary Market (LISM)*: ISI has been facilitating the creation of a national databank for the LISM, the goal of which is to enable stakeholders, media, public policymakers and consumers to make more informed decisions by having access to reports, indices and analytics that can measure LISM progress and impact.
- *Benefits of a Life Settlements Market*: ISI provided a \$100,000 grant to launch this research project, conducted by the Center for Retirement Research at Boston College. This study undertakes an empirical and theoretical analysis of the benefits that a market for life settlements offers to current and prospective policyholders. It further examines the potential effects of life settlements on the economics of underwriting life insurance; and, it utilizes its theoretical model to estimate the consequences of regulations that limit life settlements on policyholders' welfare.
- *Optimal Way to Build Awareness of Life Settlement Options*: With support and funding from ISI, The Carlson School at the University of Minnesota conducted research that examined the demographics of the life settlement market and perceptions of the role of settlements in retirement funding. Results of this study will be presented at the April 2010 LISA conference, and should help to jump-start an industry-wide communication strategy that will ultimately educate insurers, regulators and consumers.
- *Designing a Systemic Risk Regulator*: ISI provided lead funding for this breakthrough project, based at the Wharton School of Business. With assistance from the Congressional Budget Office, the study examines how the 2008/2009 financial crisis exposed gaps in the current regulatory system, and explores options for constructing an improved regulatory system through a Systemic Risk Regulator framework. The goal is to promote financial stability among financially interdependent institutions by lessening the likelihood of a crisis while creating ex-ante mechanisms to deal with a major financial crisis that does materialize. If the project produces demonstrable results, ISI may help to avoid future catastrophic capital market turmoil by employing this systemic risk regulator for major financial institutions.
- *History, Trends and New Developments in Life Expectancy Underwriting*: Life expectancy underwriting (or estimating) has been around for many years, but has only become a major factor in numerous financial transactions in the past 20-30 years. The impact of life expectancy estimates has become material in the financing and settling of insurance, annuities, reverse mortgages, long-term care services, personal estate planning, retirement funding, selling of life insurance policies, and in many other situations. The goal of this

project is to reduce this complex science (or art) into terms and words that can be understood by the general public. With greater knowledge of life expectancy underwriting, consumers, investors, public policy makers and industry stakeholders can make better decisions having lower risks.

- *A Closer Look at Securitizations:* The convergence of the insurance/reinsurance and capital markets is increasingly creating new opportunities for the insurance industry and settlement markets to manage risks and provide investors with attractive returns that are mostly uncorrelated to conditions affecting traditional financial markets. The potential for these instruments is great, but more understanding and transparency is needed before investors and insurers can become comfortable transacting in this space. The ultimate benefit of securitizations in the secondary insurance markets is lower cost of capital, which in turn provides economic value to consumers.
- *Consumer Surveys:* ISI plans to undertake 2-3 surveys this year to learn more about consumer needs and understandings regarding the sale of life insurance policies in the secondary market. Ideally, we will obtain “real life” stories from consumers, to better understand the industry’s strengths and weaknesses from their vantage point.

Project Ideas Under Consideration for 2010 and Beyond:

Future projects and events are dependent upon ISI’s fundraising success. All of the following proposals hold great potential for generating meaningful industry data, and we welcome the opportunity to partner academically and/or financially to boost each project’s viability:

- *ISI Insurance Concepts Forums:* The purpose is to expand education among industry leaders and policymakers, and to explore new business concepts.
- *Changing Longevity after Age 65:* Utilizing the University of Michigan/National Institute on Aging’s landmark aging study as a basis, ISI will further analyze the factors that influence longevity and healthy aging. Research findings are expected to benefit seniors, life settlement investors, and others influenced by changing patterns of longevity among seniors.
- *Liability Driven Investing:* This study will analyze how pension, annuity and other insurance based risk management practices could/should utilize investments to match risks and returns with liabilities of annuities, death benefits, casualties, etc., to reduce reserve requirements while assuring fulfillment of future payment obligations.
- *Insurer Solvency:* Investors and consumers ask, “What happens to insurance policies when an insurer becomes insolvent?” The answer to this seemingly simple question is complex. Many industries with exposure to financial markets have established government-run guarantee programs to protect consumers if an individual institution should become insolvent. However, recent developments in the financial markets raise questions over the ability of government guarantee funds to handle multiple institutional failings. The reserving methodologies, specifically, have come into question, and the character of assets in reserves has changed. The FDIC has had to devise innovative new strategies to combat their current challenging situation. It remains to be seen if state and pension guarantee funds will be afforded sufficient flexibility to provide full consumer protections. Without further analysis of the situation, consumers will be ill-equipped to make the best possible decisions regarding their retirement and estate planning, and investors in secondary market assets will be on-guard.
- *Risk Modeling and Portfolio Management:* As demonstrated in the recent financial fallout, adherence to proven risk modeling and portfolio management techniques is paramount in ensuring financial viability. As insurance-related products emerge as an asset class, it is important that work is published to better educate investors regarding both the unique risks involved and the opportunities available as new investment markets materialize.
- *Secondary Market Insurance Linked Securities:* Secondary market insurance-based investment products are poised to emerge as a dynamic new investment class as investors search for alternate sources of investment

returns and methods to manage risk. It is critical, therefore, to identify and analyze these opportunities to enhance investors' decision making processes.

- *Financial Ratings vs. Stress Tests:* The current model of "financial ratings" - institutions paying the rating agencies for a rating – is broken. They were as much a cause of the 2008 financial meltdown as anything else, but ratings entities refuse to accept culpability for their role in the crisis. With investor confidence shaken and new proposals for regulatory frameworks circulating, the question is: what role, if any, should the ratings agencies play in the new financial system? If they remain a part of the financial system, how should they be changed, what should they include, and should stress tests be a part of the equation?
- *Economic Value of Insurable Capacity:* Each person has a vaguely determined life insurance capacity, i.e., the maximum insurance allowed. How is this determined? Does this capacity have a value? How much is it? Further, an analysis of insurable capacity is not complete without an examination of insurable interest. The insurance industry is wrought with inconsistencies involving this concept. Issues such as COLI, BOLI, STOLI represent gray areas of what constitute insurable interest.

Research briefs for "in-progress" and "proposed" projects are also available online:

http://www.insurancestudies.org/projects_in_progress.html

http://www.insurancestudies.org/proposed_projects.html

ISI's Voice:

In 2009, ISI staff was honored to receive numerous invitations to attend and present at national and international conferences (see Events: <http://www.insurancestudies.org/events.html>), and our opinions and commentary were sought after for media articles and bylines. Please see: <http://www.insurancestudies.org/media.html>.

ISI in the Press:

A particular highlight for ISI, in late 2009/early 2010, was the realization that we were gaining momentum with the media as our white papers, articles, and editorial pieces were picked up and distributed to a larger audience than we had ever anticipated. Prominent publications that quoted or cited ISI include:

- The Miami Herald
- Reuters
- Insurance Networking News
- National Underwriter's Life & Health
- The Life Settlement Report (DealFlow Media)
- NetQuote
- Structured Finance News.com
- Insurance News Net
- Life Settlement Review...and others!

ISI – Stimulating Action:

Beyond its published works, ISI has enjoyed growing success as a think-tank entity, sponsoring symposiums and generating spirited and proactive dialogue at its inaugural *Insurance Concepts Forum*, hosted in April of 2009. At this event, ISI effectively brought together twenty-seven leaders from industry, investment sectors, government and academia, the results of which sparked several initiatives, including a proposal for a LISM industry data bank and standards board. ISI doggedly pursued this proposal, and is now at the helm of a project targeting responsible standards, practices and analytics for the LISM industry.

ISI is committed to gathering bright minds whenever possible, in an effort to address the challenges and opportunities that exist within the many paradigms of insurance-based risk management.

"My two days in Scottsdale attending and participating in the Insurance Studies Forum was one of the most interesting and informative investments of my time in recent years. I would recommend attendance by anyone involved in the Financial Services Industry who wishes to expand their knowledge and contacts in new and important products and regulations affecting our clients."

Ed Garrison, CLU
President, Garrison Organization

ISI Feedback:

ISI has received generous accolades since its inception, and this type of support – coming from a wide spectrum of individuals - keeps us energized and focused!

“Dear Mr. Kampa: Thank you for your well written and very timely article on the life settlement market and the need for balanced, well researched and informative reporting in the media on this important topic.”

Raymond P. Vay
Director of Marketing
The Legacy Funding Group, LLC
Rancho Santa Fe, CA

“The Insurance Studies Institute promotes innovations in the design and use of life insurance products. Notably, its efforts in the area of life settlements – through research, promotion of industry standards and encouragement of new practices – are particularly promising. More efficient use of life insurance products will help individuals better achieve their financial goals.”

Alicia Munnell
Director, Center for Retirement Research at Boston College
Peter F. Drucker Professor of Management Sciences, Carroll School of Management

“ISI will continue to play a growing role in sponsoring and producing top insurance research. ISI was a co-sponsor of a conference at The Wharton School covering the important topic of modeling extreme risk in insurance and financial markets. Going forward, ISI will be a driving force in the research of the interaction of insurance and financial services as well as its link to public policy.”

Kent Smetters
Ph.D. Coordinator & Boettner Chair Associate Professor
University of Pennsylvania / Wharton Doctoral Economics Program

Action Plan for 2010

Demand for ISI’s work is escalating at a time when the financial sectors are in need of guidance, and consumers and investors are in need of greater knowledge, understanding, and protection. We will continue to produce research in-house when time and resources permit, but we will also continue to bring together industry leaders, scholars and innovators in collaborative endeavors. Now and in the future, ISI’s goal is to arm decision makers with the knowledge and understanding necessary to shape insurance-based risk management tools, and pave the way toward efficient, fair, balanced and intelligent structures for financial systemic risk management.

As 2010 gets underway, ISI is spearheading three large cooperative projects that are in progress (with completion slated for 2010), moving forward with several in-house studies, and developing content for educational forums and presentations planned for April-November of 2010. Concurrently, we are balancing our research endeavors with the need to reach out and garner collaborative and financial support from our constituency. At present, ISI is developing various means to secure financial backing. Ideas include:

- Provide proprietary research in exchange for a donation.
- Provide advisory assistance in exchange for a donation.
- Conduct and share industry survey results for a donation.
- Host fund raising forums/industry dinners/events to generate monetary support.

Additionally, by continuing to pursue foundation support, corporate partnerships and advisory board expansion, ISI hopes to position itself as a self-sustaining and vibrant source for insurance-based risk management communication and innovation.

Paul A. Siegert
ISI President and CEO