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## Structuring of Financial Instruments Comprised of Insurance-Related Products

**STATUS:** Anticipated start, early 2010

**LEAD RESEARCHER:** Christopher Kampa, ISI Director of Research and Project Development

**ISI OVERSIGHT:** Paul Siegert, ISI President and CEO

**PROJECT DESCRIPTION:** As capital markets search for alternative investments and new strategies to manage risk, participants are likely to turn to the securitization of insurance-related products (longevity bonds, mortality swaps, insurance policies, etc). The complexities of structured finance and its role in the financial system have evolved greatly over the last decade. Financial instruments such as CDOs (Collateralized Debt Obligations), CDS (Credit Default Swaps), and other financial derivatives have received much attention in the wake of the 2008 financial meltdown. However, it remains to be seen if these products can aid in the development of the capital markets for insurance-related products.

What is known is that many investors did not (and perhaps still do not) understand the mechanics behind these financial derivatives. Even Fed Chairman Allan Greenspan admitted that he did not fully grasp how these instruments were structured. During the housing boom CDOs were created to fill a void in the market. Investment banks lacked the supply of asset-backed securities to meet the increasing investor demand. Thus, CDOs reemerged to satisfy investor appetite. To further increase supply, synthetic CDOs based on CDS were created as well as CDOs of CDOs and synthetic CDOs of synthetic CDOs. The complexities of these products were endless; and as it turns out, so were the losses sustained on these instruments. As these instruments were proliferated across the world many stories emerged of the catastrophic damage caused by these structures. History repeated itself in 2008 when the vast majority of outstanding CDOs became impaired, just as they had in the late 80s when the junk bond market collapsed.

**SCOPE OF RESEARCH/METHODOLOGY:** This project will provide a framework on how the various derivatives are structured in order to elevate investor understanding of these instruments. The project will explore how these financial products are designed and how they can aid in the securitization of insurance-related products. It will also provide analysis of how investors should evaluate the potential risks involved and how such products fit within the scope of portfolio management.

**RESEARCH DATA:** Academic Journals, Promotional Materials, Media Reports, PhD reviews, Professional Interviews

**TARGET RESULTS/BENEFITS:** This research will provide an understanding of the structure and purpose of derivatives, in order to improve investor decision-making.

**TIMELINE:** Research: 2-3 months; Outside opinion: 2-6 weeks; Editing and publication: 2-4 weeks

**BUDGET:** \$60,000

**OWNERSHIP OF DATA AND RESULTS:** The Insurance Studies Institute will have full ownership of the deliverable and the data collected. Collaborators will share in rights to the deliverables.