

## Case Study

### The Battle of InterGen

InterGen Insurance Company is a multi-line property/casualty insurer with \$120 million in assets, \$60 million in surplus and an investment portfolio of \$100 million. That portfolio consists of \$20 million in various Risk Assets (equity index funds divided 20% EAFE, 80% S&P 1500) and an \$80 million investment grade bond portfolio with duration of 4.5 years and average credit rating of A-. The Company was founded twenty years ago, and is family owned (Please see exhibit #1).

InterGen does not have a formal investment committee separate from the Board of Directors. However, InterGen's key executives do meet periodically to discuss important investment ideas and trends.

InterGen is facing some of the lowest interest rates in US history. The difference between the book yield on their core fixed income portfolio and today's market yield has widened to 200 basis points (2%). That means new investment yields are slowly dragging down the portfolio's ability to provide adequate investment income.

Meanwhile, risk assets (investments that are not investment grade bonds) appear to be historically over-valued based on any number of widely followed metrics. However, risk assets have provided some terrific upside returns, but at increased volatility and, correspondingly, increased downside risk (Please see exhibit #2).

To add to this situation, InterGen is regulated by the California Department of Insurance, whose Commissioner

"has appointed the nation's first Deputy Insurance Commissioner of Climate and Sustainability in the United States, as California once again leads the nation by working with environmental and industry leaders to find innovative solutions to the risks posed by climate change. Our new Climate and Sustainability Office will address the threat of climate change by working with the insurance industry, climate experts, California and international leaders."

Thus, the issues surrounding investing with ESG (environmental, social, governance) in mind are becoming a larger concern for the regulator. And that will likely become a larger concern for all insurers in the state.

Albert InterGen, Chairman, has convened a Board meeting to specifically discuss the following and get answers to these questions:

#### **I. Should we make any material changes to our bond portfolio?**

- **Yes, let's increase duration, go up the yield curve a bit and get more yield**
- **Yes, let's increase credit risk a bit by get more yield**
- **No, it's a sucker's move to take on more risk now when everything seems overvalued**

- Other: \_\_\_\_\_
- (Please see exhibit #3)

## II. Should we make any material changes to our Risk Assets portfolio?

- Increase the amount in Risk Assets because yields on bonds are so low
- Decrease the amount in Risk Assets because they are so overvalued
- Change to a different mix of Risk Assets but at the same total amount
- Other: \_\_\_\_\_
- (Please see exhibit #4)

## III. Should we consider ESG in our investment process?

- Yes, because it might improve our risk/reward in the long term
- Yes, because we better have some good answers when the CA DOI asks
- No, this is just another way for the regulators to impose their political preferences on us, without sufficient evidence of any long-term benefits
- Other: \_\_\_\_\_
- (Please see exhibit #5)

This case is a role play, where you will be assigned to act as one of the following ‘players.’

- **Albert “Boomer” Intergen, Chairperson of the Board**
- **Benjamin “X” Intergen, President/CEO**
- **Charlie “Millennial” Intergen, Jr, Chief Financial Officer & Treasurer**
- **Don “Zoomer” Intergen, Chief Information Officer**
- **Outside Board Member**

Details for each of the participants are included below. Also, please feel free to read about your fellow participants to learn more about them.

Once everyone has completed reading this case study and asked questions, you will be sent to pre-assigned Zoom rooms. Dan, Nathan or Alton will be occasionally visiting each room to answer any additional questions. After 30 minutes, we will all reconvene in the original ‘large’ Zoom room and each group will share their thoughts.

### #1 – Albert “Boomer” Intergen, Chairperson of the Board

You are the co-founder of InterGen Insurance Company and have served as the Chairperson since its inception. You have seen the economy fluctuate and confound the experts in the past, but you have 100% trust in both the US Administration and Federal Reserve. But, you are approaching retirement in a few years. So, you want to see results NOW. If you don’t see results NOW, you will lose faith in your family’s ability to maintain and grow InterGen in the future. And, that means you will consider selling the family jewel of an insurance company.

## #2 – Benjamin “X” Intergen, President/CEO

You are the eldest son of Andrew Intergen, deceased, the co-founder of InterGen with Albert. If there was one thing your father told you when he named you president: Never act scared, no matter how bad the headlines. “Focus on InterGen and all will be well.” But times have changed. You are worried about what the next ten years might bring, due to what you see as today’s “unhinged” US monetary and fiscal policy. You’ve seen your Uncle Boomer’s leadership, at times imperial and self-centered, as a hindrance to meeting the challenges of a fast-changing world. Change is exciting, but where does Intergen fit in this new world?

## #3 – Charlie “Millennial” Intergen, Chief Financial Officer & Treasurer

You are the son of Benjamin “X” Intergen. Charlie is seen as the Intergen family member who went to a top college and graduated wanting to ‘change the world.’ He has seen how difficult that truly is, especially within the confines of a family-owned insurer. However, he is excited about the new technological future. He thinks Intergen has to change NOW to survive and have a place in that future. But, he worries if “OK Boomer” Albert Intergen understands that. Charlie is also very worried about the impact of climate change on Intergen and the world at large. What kind of company is Grandpa Albert and his Boomer buddies leaving us? How will social ills hurt the economy and affect Intergen? Is Intergen even structured for success?

## #4 – Don “Zoomer” Intergen, Chief Information Officer

Don graduated last year from Harvard with a major in computer science. “Zoomer” is heavily wired into the internet and social media. He reluctantly returned ‘home’ to InterGen after dreaming of following in the footsteps of a certain Mr. Zuckerberg. Don doesn’t have the best of social skills. In fact, he seldom looks you in the eyes when he speaks, seemingly preoccupied with something else. But nobody can deny his intelligence and ability to use his IT skills to solve problems...if they are interesting for him. He has only a modest interest in investments, but does have an active Robinhood account.

## #5 - #7– Outside Board Member

You are an external Board member, added to the Board about ten years ago. As a long-time friend of the Intergen family, you’ve been amazed at how the family has grown and how well InterGen has done in the past. Besides enjoying the benefits of being a Board member, you’ve enjoyed the interactions you’ve had socially with everyone in the Intergen clan. However, you are also well aware of the intergenerational conflicts amongst the four Intergens. And, you realize that a diplomatic approach may be the only way to assist in solving both Intergen and InterGen Insurance problems. You realize you are not always correct, but who is?