

Guarantee Security Life: The Application of SEP Field Theory to Insurance Regulation

An Introduction to SEP Field Theory

(originally developed by Douglas Adams, in “Life The Universe and Everything”)

“The technology involved in making anything invisible is so infinitely complex that nine hundred and ninety-nine thousand million, nine hundred and ninety-nine million, nine hundred and ninety-nine thousand, nine hundred and ninety-nine times out of one billion, it is much simpler and more effective just to take the thing away and do without it. The ultra-famous sciento-magician Effifax of Wug once bet his life that, given a year, he could render the great megamaountain Magramal entirely invisible.

Having spent most of the year jiggling around with immense Lux-o-Valves and Refracto-Nullifers and Spectrum-Bypass-0-Matics, he realised, with less than nine hours to go, that he wasn’t going to make it.

So he, his friends, and his friends’ friends, and his friends’ friends’ friends, and his friends’ friends’ friends’ friends, and some rather less good friends of theirs who happened to own a major stellar trucking company, put in what is now widely recognised as being the hardest night’s work in history, and sure enough, on the following day, Magramal was no longer visible. Effifax lost his bet – and therefore his life – simply because some pedantic adjudicating official noticed (a) that when walking around the area that Magramal ought to be he didn’t trip over or break his nose on anything and (b) a suspicious-looking extra moon.

The Somebody’s Else’s Problem field is much simpler and more effective, and what is more can be run for over 100 years on a single torch battery. This is because it relies on people’s natural predisposition not to see anything they don’t want to, weren’t expecting, or can’t explain. If Effifax had painted the mountain pink and erected a cheap and simple SEP field on it, then people would have walked past the mountain, round it, even over it, and simply never noticed that the thing was there.”

Application to Insurance Regulation

In 1984, Mark Sanford and William Blackburn bought a small life Florida life insurance company, Guarantee Security Life. Over the next six years, they managed to obtain control of almost \$1 billion in assets (at least, that is what it said in the accounts). But in 1991, the company was declared insolvent – the liabilities exceeded assets by almost \$400 million.

How did Sanford and Blackburn get their hands on so much money? How did they lose so much money? With hindsight, it became apparent that the company probably became

technically insolvent by the end of 1984 – so how did they stay in business for so many years?

Although Sanford and Blackburn were resourceful men, they could not have done it without the eager assistance of many many people, including

- company executives (including relatives of the proprietors)
- their salesmen,
- the rating agencies,
- other life insurers,
- reinsurers,
- merchant bankers (Michael Milken, Drexel Burnham Lambert, and Merrill Lynch),
- auditors (Coopers & Lybrand)
- lawyers,
- legislators, and
- the Florida Department of Insurance.

Of course, many of these people profited from their association with GSL.

In this case study, we will explain how all these people helped Sanford and Blackburn to realise their dreams [NB for Sanford, these dreams included a Rolls Royce, a Jaguar, two Lamborghinis, and a small castle on his own private island in the Bahamas].

The Florida Insurance Commissioner later claimed that

“Guarantee Security was almost from the beginning a massive fraud, aided and abetted by blue-ribbon brokers and licensed professionals motivated by their own self interest. The fraud of Guarantee was a carefully-orchestrated bank robbery, but the thieves disguised themselves with the help of accountants, brokers and lawyers rather than wearing silk-stocking masks. They operated like early 20th century robber barons, cloaking their thievery in the guise of a sound business organisation.

However, the Florida Commission was quite wrong. In the subsequent Congressional hearings, all these people disclaimed any responsibility for the losses which had been incurred. According to their own testimony, all their actions were perfectly reasonable and entirely legal. And they were probably right – at least technically – because the insurance regulations consisted almost entirely of loopholes held together with chewing gum.

“The most distressing aspect of this sordid saga is the recognition that over the half dozen years of perversity, tens and perhaps hundreds of people in responsible positions were wallowing in the Stygian Swap. Thus they were in that stinking quagmire, concocting transactions, producing fake documents, rationalising evil by some exotic rules of GAAP or its regulatory equivalent – and not a single one of them found it necessary to blow the whistle to put an end to that nest of vipers.”

The story of GSL is not just an isolated incident. Sadly, a number of insurance insolvencies reveal similar patterns of wilful blindness. Apparently, for many people involved in the insurance industry, “protecting the policyholders” is Somebody Else’s Problem.