ARIA NEWS

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In This Issue

President's Message: The ARIA Loop

by James M. Carson, Florida State University

Jim Carson, ARIA President

I am honored and humbled to serve as ARIA's 60th president. As I mentioned in my address at this year's annual meeting, I believe that ARIA serves as a type of learning loop, whereby we all teach and learn from each other. In addition, it is clear that ARIA's reach has grown much wider than in earlier years. Although ARIA began primarily as a U.S organization, we now have a significant international component—roughly one-quarter of ARIA's membership is from outside the U.S., comprising 135 members from 29 countries. In their respective presidential speeches, Jerry Todd noted that ARIA is a diverse group, and Sandra Gustavson discussed ARIA's strength in diversity. Our international growth is something we should value and encourage.

As you know, I recently e-mailed each of you a brief survey, and again I would like to thank all of you who took time to respond. In reading through your responses, I was reminded of how we teach not only in the classroom, but also in the seemingly little things that we do, in ways that we might not even notice but that mean a great deal to others. Henry Adams had the following relevant words: "A teacher affects eternity; he can never tell where his influence stops." And since ARIA includes not only academics but also non-academics, I think the word "teach" applies equally well in the academic setting and in the business world, where mentors play such important roles in the development of future leaders. Next, I will highlight a few of the findings from the survey and touch on a few of my goals for the year.

For undergraduate work, ARIA members studied at more than sixty-five different universities or colleges. The most frequently attended institutions (and the number of ARIA members attending) have been, in descending order, Florida State University (5), Georgia State University (5), University of Nebraska (5), Creighton University (4), Drake University (3), Harvard University (3), University of Illinois (3), and University of Pennsylvania (3).

For graduate work, ARIA members studied at more than forty-two different universities or colleges. The most frequently attended institutions (and the number of ARIA members attending), in descending order, have been the University of Pennsylvania (33), University of Georgia (12), University of Illinois (7), University of Wisconsin (6), Florida State University (5), Georgia State University (5), University of Nebraska (4), University of South Carolina (4), University of Texas—Austin (4), Harvard University (3), Temple University (3), and University of Florida (3).

The survey responses indicate that more than sixty-seven different ARIA members have served as dissertation chairs. Those serving most frequently as dissertation chairs for other ARIA members are, in descending order: David Cummins, Dan McGill, Robert Mehr, Neil Doherty, Rob Hoyt, Patricia Danzon, and Bernard Webb. Based on dissertation chairs, I've been working on building an ARIA Family Tree, and I will post the completed tree on the ARIA Web site later this year.

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President's Message: The ARIA Loop, continued

We have the power to positively influence others in many ways. A survey respondent noted that it was not just one ARIA member who influenced him. Rather, he described, "I suppose it was the collective welcome from the ARIA group that made me decide to develop my career in insurance, as opposed to general economics." It's been said that you can't give love away, because it always comes back to you many times over. I think the ARIA Loop works the same way and, as you know, we have a great group of many members who have given so much. Another respondent to this survey said, "ARIA has, by far, exceeded my expectations. Participants are friendly, eager to discuss, and eager to learn."

Next year, we have the unique opportunity to partner with the Asia-Pacific Risk and Insurance Association (APRIA), the European Group of Risk and Insurance Economists (EGRIE), and the Geneva Association to host the first World Risk and Insurance Economics Congress in Salt Lake City. This is an ambitious undertaking, and I know that the new people we meet at next year's conference will be as impressed as I have been by the giving and welcoming nature of ARIA's members. Next year's meeting also provides a wonderful opportunity for all of us to reach out and attract many new quality people to our organization. I hope to use the coming year to build upon the work of past committees in enhancing the value that ARIA provides to us as members of this great organization. I invite all members who would like to become more involved in ARIA to contact me during this next year.

2005: A Very Special Year for ARIA and WRIEC!

by James Garven, Baylor University, and Diana Lee, Property Casualty Insurers Association of America

In 1847, when Brigham Young first saw the spot that would become Salt Lake City, he said, "This is the place." The capital city of Utah, with the majestic Wasatch Mountains in the background, is indeed the place for ARIA's 2005 annual meeting on August 7-11. Next year is certain to be a special year for our organization, since we are jointly participating with the Asia-Pacific Risk and Insurance Association, the European Group of Risk and Insurance Economists and the Geneva Association under the umbrella of the (first-ever) World Risk and Insurance Economics Congress (WRIEC). WRIEC is intended to stimulate corporate awareness and interest in risk-related research and provide a forum for networking among academics and industry and government professionals worldwide.

One of the fastest growing metropolitan areas, Salt Lake City is a major regional business center and the world headquarters of the Church of Jesus Christ of Latter-day Saints (LDS) and the famous Mormon Tabernacle Choir. As sponsor of the 2002 Olympic Winter Games, Salt Lake City is the gateway to the state's renowned ski resorts, as well as scenic national parks and recreational areas. Visitors can tour LDS Temple Square, trace their family history at the extensive genealogical center, explore the state Capitol, learn about Mormon pioneer life at The Place Heritage Park, swim in the Great Salt Lake or see wildlife in nearby wetlands. Also in Utah are some of the world's most spectacular natural sights, scenic drives and hiking trails, found in Arches, Bryce, Canyonlands, Capitol Reef, and Zion National Parks.

The host hotel for our meeting is the Sheraton City Centre, located in the heart of downtown Salt Lake City. We invite your participation to present research on any topic related to risk management, insurance, and actuarial science. Your research proposal should include a cover page containing the paper title, the names and affiliations of each author, contact information for at least one author, and a three-page text explaining the purpose and importance of the research, planned research methodology, and expected results. E-mail your proposal to the ARIA Scientific Committee (ARIA@wriec.org) by no later than January 5, 2005.

For more information on WRIEC, contact ARIA's vice president, Jim Garven, by e-mail (wriec@rmi.baylor.edu). Additional details concerning WRIEC will be provided in coming months at http://www.aria.org and http://www.wriec.org, and in the next issue of *ARIA News*. Stay tuned for more exciting news about this event, and we'll see you at "The Place"!

Congratulations to the ARIA Award Winners of 2004

Compiled by Anthony J. Biacchi, American Institute for CPCU

- **Advanta Center Award for the Best Feature Article**
  Best feature article in the *Risk Management and Insurance Review* ($500 prize)
  Anat Hovav and John D'Arcy (both with Temple University) for "The Impact of Denial-of-Service Attack Announcements on the Market Value of Firms," *RMIR*, Fall 2003, 6(2)

- **Advanta Center Award for the Best Perspectives Article**
  Best "Perspectives" article in the *Risk Management and Insurance Review* ($500 prize)
  Brian J. Glenn (Harvard University) for "Postmodernism: The Basis of Insurance," *RMIR*, Fall 2003, 6(2)

- **Casualty Actuarial Society Research Award for 2003**
  A paper published by ARIA (in either *The Journal of Risk and Insurance* or *RMIR*) in the prior year that is most valuable to casualty actuarial science ($1,000 prize)
  Natacha Brouhns (Université Catholique de Louvain), Montserrat Guillen (University of Barcelona), Michel Denuit (Université Catholique de Louvain), and Jean Pinquet (Université de Paris) for "Bonus-Malus Scales in Segmented Tariffs with Stochastic Migration Between Segments," *JRI*, Dec. 2003, 70(4)

- **Bob Hedges Undergraduate Scholarship Award**
  A stipend of a maximum of $1,000 enabling an undergraduate student in risk management and insurance to attend the ARIA annual meeting
  Jane Girtman (Florida State University)

- **Kulp-Wright Book Award***
  An outstanding original contribution to the literature of risk and insurance
  David A. Moss (Harvard University) for *When All Else Fails: Government as the Ultimate Risk Manager*

- **Robert I. Mehr Award***
  A literature contribution having a ten-year influence in the field of risk and insurance. This year, the award was presented to three different papers:

  Richard J. Butler (Brigham Young University) for "Economic Determinants of Workers' Compensation Trends," *JRI*, Sept. 1994, 61(3)

  Patrick L. Brockett, William W. Cooper, Linda L. Golden, and Utai Pitaktong (all with University of Texas) for "A Neural Network Method for Obtaining an Early Warning of Insurer Insolvency," *JRI*, Sept. 1994, 61(3)

  David Mayers (Ohio State University) and Clifford W. Smith, Jr. (University of Rochester) for "Managerial Discretion, Regulation, and Stock Insurer Ownership Structure," *JRI*, Dec. 1994, 61(4)

- **Les B. Strickler Innovation in Instruction Award**
  ($1,000 prize)
  Norma Nielson, Ryan Lee, and Anne Kleffner (all with University of Calgary) for "Introducing Students to International Insurance Markets"

- **Robert C. Witt Award***
  Outstanding Feature Article in *The Journal of Risk and Insurance*
  Louis Eeckhoudt (Catholic Faculties of Mons & Lille, Olivier Mahul (Institut National de la Recherché Agronomique), and John Moran (Syracuse University) for "Fixed-Reimbursement Insurance: Basic Properties and Comparative Statics," *JRI*, June 2003, 70(2)

- **President's Award**
  Norm Baglini (Temple University)

* No honorarium accompanies this award until such time as it is funded.

Congratulations to the New ARIA Officers and Directors for 2004-2005

President: James M. Carson
Florida State University

President-Elect: Larry Cox
The University of Mississippi

Vice President and Program Chair: James Garven
Baylor University

Director (Seat One): Vickie Batjelsmit
Colorado State University

Director (Seat Two): Simon Ashby
Co-operative Financial Services

ARIA Sponsors Institutes Award

Each year, the American Institute for CPCU and the Insurance Institute of America recognize the outstanding academic achievements of insurance professionals completing various educational programs. ARIA is pleased to sponsor an Award for Academic Excellence in the Institutes' Associate in Risk Management (ARM) program. Congratulations to the 2004 recipient of this award, Michelle A. Smith, ARM, vice president at Marsh, Inc.

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RMI, Academic and Research Positions

Below is a list of organizations offering academic, government, and industry jobs that ARIA has received since April 2004, presented in chronological order of final posting on ARIA's Web site. Visit the ARIA job page at http://www.aria.org/jobs/jobs.htm or contact these organizations for additional information.

April

National Council for Compensation Insurers (Boca Raton, Fla.), Senior Economist

June

Allstate Insurance Company Research Center (Menlo Park, Calif.), Research Associate

Baylor University (Waco, Tex.), Department Chair at the rank of associate/full professor, beginning in June 2005, Department of Finance, Insurance, and Real Estate (FIRE)

International Foundation of Employee Benefit Plans (Brookfield, Wisc.), Senior Director, Research

St. John's University (Queens, N.Y.C.), Professor of Risk Management and Business; tenured, endowed chair, School of Risk Management, Insurance and Actuarial Science

University of Ulm (Germany), Assistant Professor in Insurance; tenure track, The College of Mathematics, Economics and Business Administration

July

American Institute for CPCU, Insurance Institute of America (Malvern, Pa.), Insurance Research Council–Senior Research Director

August

Insurance Information Institute (Manhattan, N.Y.C.), Senior Analyst

University of South Carolina (Columbia), Assistant or Associate Professor in Finance and Lecturer, non-tenure track

September

Georgia State University, Two positions in Actuarial Science/Mathematical Finance

University of New South Wales, Post-doctoral research fellowships to assist in research project on Multivariate Modeling and Actuarial Risk Management using Copula Models

University of Wisconsin–Madison, Visiting Professor of Actuarial Science or Risk Management and Insurance

Virginia Commonwealth University, Assistant or Associate Professor in Risk Management and Insurance and Finance

Profiles of Insurance Scholars: Dr. Georges Dionne

by Diana Lee, *ARIA News* Editor

Dr. Georges Dionne

Invited professor and researcher….member of editorial boards; blue ribbon panels; and scientific, research, and grants committees….examining board and jury member….director….guest lecturer….book reviewer. Having presented more than 200 times at national and international conferences since 1979 and authored about 120 refereed published articles, either singly or collaboratively, Georges Dionne is clearly a well-known name in risk management and insurance economics circles.

Georges wears many hats in his academic profession, two of which are full professor in the Department of Finance and the Canada Research Chair in Risk Management, which he won in competition last fall, both at Ecole des Hautes Etudes Commerciales (HEC) de Montréal. He is director of the *Insurance and Risk Management* journal and associate researcher for the Centre de recherche en e-finance, Centre for Research in Transportation, and Centre Interuniversitaire sur le Risque, les Politiques Économiques et l'Emploi at HEC Montréal, as well as the editor of the Société canadienne de science économique group's *Books Collection*. Georges' international activities include being an associate researcher of Chaire d'Economie de l'Assurance, Université Paris X-Nanterre (France) and a member of the scientific committee for six journals (e.g., ARIA's *Journal of Risk and Insurance, the Journal of Risk and Uncertainty,* and the *Geneva Papers on Risk and Insurance Theory*).

Georges' main areas of research are risk management for private and social risks; microeconomic theory under uncertainty; asymmetrical information related to moral hazard and adverse selection; economics of health services; and regulation of transportation and the environment. The goal of his research program is to develop better ways to measure the determinants of risk management and practical ideas and tools for reducing the private and social costs associated with different risks, and to train tomorrow's risk management leaders. When asked about the motivation behind his research program, Georges replied, "Over recent years, we have observed a significant increase in collective and social risks: the risk of natural disasters has greatly increased; the economic and social costs of ecological risks are reaching record levels; and risks linked to food consumption are a concern for several populations. Nor must we forget the September 11 events, which take us into new territory, as they were premeditated. Private risks have also largely increased. The stock market has been very volatile, particularly for stocks related to the new economy. These trends may be associated with new non-human, exogenous natural phenomena, or they may be considered endogenous—the results of poor private and social management of risks. These trends may, moreover, be linked to private and social choices that put the concern for prevention far too low on the policy agenda."

Some of Georges' primary accomplishments include creating the Centre de recherche en e-finance (2002), developing the model for computing the CREDIT VaR model of CIBC (2001), and obtaining the funding grant for the creation of the Laboratory for Computation in Finance and Insurance at HEC Montréal (2000). In the last decade, he was responsible for air security at the Canadian Committee on Transport Safety and co-authored a report with Marcel Boyer that influenced the Quebec public auto insurance rating system to use demerit points in identifying risks. Over the last four years, Georges obtained CA$9 million mainly from the government of Canada for research activities at HEC Montréal.

Georges is the primary author or editor of five books: *Incertain et information* (1988); *Foundations of Insurance Economics–Readings of Economics in Finance* (co-edited with Scott Harrington, 1992); *Contributions to Insurance Economics* (1992); *Automobile Insurance: Road Safety, New Drivers, Risks, Insurance Fraud and Regulation* (1999); and *Handbook of Insurance* (2000).

Continued on page 5

Profiles of Insurance Scholars: Dr. Georges Dionne, continued

Recent awards include the Pierre-Laurin *ex aqueo* research prize for scientific contribution at HEC Montréal (1998 and 2003); the Gérard-Parizeau award for exceptional contribution in the field of insurance and risk management (2002); and the Marcel-Vincent prize (Acfas –social sciences) for contribution in the field of insurance economics (1999). Georges was also elected as a member of The Royal Society of Canada in 2000, and his edition of *Handbook of Insurance* earned him ARIA's Kulp-Wright award, the François-Albert Angers award, and the Risques-Les Échos Special award, in France, all in 2001.

Georges received a B.A.A. in business from HEC Montréal, an M.A. in economics from the Université d'Ottawa, and a Ph.D. in economics from the University of Montreal. After completing post-doctoral work at the University of Pennsylvania, for which he received the Prêt d'Honneur merit of honor, Georges became a fellow of the Huebner Foundation at the Wharton School of the University of Pennsylvania in 1986–1987.

New Professorship in UGA's Terry College of Business

The University of Georgia's Terry College of Business is establishing a new professorship named for Daniel P. Amos, chairman and CEO of AFLAC Inc. (Columbus, Ga.), the leading provider of individual insurance policies offered at worksites in the U.S. and Japan. Established in the college's department of insurance, legal studies and real estate, the Amos Distinguished Professor of Insurance will be held by a national authority in the field of insurance education. The endowment for this position is made possible by a gift from the Daniel P. Amos Family Foundation.

Earning a bachelor's degree in risk management and insurance from UGA in 1973, "Dan Amos has been a strong supporter of the University of Georgia and the Terry College of Business for many years. Support such as this is making UGA one of America's best public universities, and we are deeply grateful," said UGA president Michael F. Adams. According to P. George Benson, dean of the college, "Dan Amos is one of the most respected leaders in the insurance industry in America, and the Terry College is honored to have a professorship in his name. The person who holds this professorship will not only enhance the academic stature of our risk management and insurance program, but will also help our students appreciate the importance of knowledge, commitment, personal integrity, and social responsibility, traits that are hallmarks of Dan's successful career."

Mr. Amos became president of AFLAC in 1983, then chief operating officer (1987), CEO of AFLAC Inc. (1990), and chairman (2001). Known for a management philosophy that emphasizes employee support and corporate citizenship, Mr. Amos was recently named the best CEO in the insurance/life category for the second straight year by *Institutional Investor* magazine. His popular duck advertising campaign is ranked by *Forbes* as one of the top 25 Power Brands in the nation. Under his leadership, AFLAC has been on *Fortune's* lists of "100 Best Companies to Work For" and "America's 50 Best Companies for Minorities," and *Working Mother* magazine's list of 100 best companies for mothers.

A recipient of the 2004 Martin Luther King Jr. Unity Award, Mr. Amos serves on the boards of directors of Synovus and Southern Company. He is a trustee of Children's Healthcare of Atlanta and the House of Mercy of Columbus, is past board chairman of the Japan America Society of Georgia, and was recently elected secretary of the University of Georgia Foundation.

Serve on an ARIA Committee

If you are interested in becoming active on one of ARIA's committees, check the ARIA Web site at http://www.aria.org/ for contact information or e-mail ARIA president James Carson at jcarson@cob.fsu.edu.

In Memoriam: Mabel Folger Black

Dr. Kenneth Black, Jr. and Mrs. Mabel Folger Black

We regret to inform you that Mabel Folger Black, wife of Dr. Kenneth Black, Jr., passed away on July 22, 2004. Dr. Black is former RMI Department chair and dean emeritus of the J. Mack Robinson College of Business at Georgia State University, a retired ARIA member, and a past ARIA president. The family requests that any donations be made to the American Red Cross. ARIA extends its deepest condolences to Dr. Black and to the friends and family of Mabel Black for their loss.

Griffith Foundation Program Provides Funding for Adjunct Professors

With generous contributions from the Robert P. Ashlock Memorial Fund established by Assurex Global, The Griffith Foundation for Insurance Education is able to offer financial support for several adjunct professors during the calendar year 2005. The purpose of this program is to further the development of risk management and insurance education at U.S.-based colleges and universities by providing funds for adjunct professors. Criteria used for approving proposals for funding include program vision, your particular needs, university resources, search process, and financial assistance. Proposals, up to a maximum of two single-spaced pages, should be sent to The Griffith Foundation for Insurance Education. The original deadline for submission has been extended to November 15, 2004; a second deadline is March 15, 2005. Visit the ARIA Web site or contact Phil Stichter or Don Rebele at The Griffith Foundation by phone at (614) 341-2393 or by e-mail at griffithfoundation@attglobal.net for further information on criteria and submissions.

Chicago Is…ARIA's Kind of Town!

Had a Great Time; Wish You Were There!

Activities of Sister Associations and Affiliates

Society of Insurance Research
2004 Annual Conference (34th Annual)
November 14-17
Grand Hyatt Hotel, Atlanta, Ga.
Contact: Diana Lee, PCI; diana.lee@pciaa.net
http://www.sirnet.org

Southern Risk and Insurance Association
2004 Annual Meeting (36th Annual)
November 21-23
Charleston, S.C.
Program chair and contact information: Lee Colquitt, Auburn University; colquitt@business.auburn.edu
http://www.terry.uga.edu/sria

Western Risk and Insurance Association
2005 Annual Meeting (39th Annual)
January 5-8
Monterey Plaza Hotel, Monterey, Calif.
Program chair: Randy Dumm, Florida State University; rdumm@cob.fsu.edu
http://www.wria.org

Midwest Finance Association
2005 Conference (54th Annual)
March 10-12
Hilton Milwaukee City Center, Milwaukee, Wisc.
Program Chair: Mike Alderson, Saint Louis University; alderson@slu.edu
http://www.mfa-2005.com

Risk Theory Seminar
2005 Annual Meeting (43rd Annual)
May 6-8
The University of Mississippi, Oxford
http://www.aria/org/rts
Send five-page abstracts/rough drafts to Richard Phillips, Georgia State University, at rphillips@gsu.edu by December 15, 2004. Successful papers must be completed and sent to all participants by March 15, 2005. Financial support for North American travel only, one author per paper, is available. Contact Larry Cox, The University of Mississippi, at lcox@bus.olemiss.edu, for local arrangements.

Asia-Pacific Risk and Insurance Association
2005 Conference (9th Annual)
August 7-11
Salt Lake City, Utah (Co-hosting WRIEC)
Contact: W. Jean Kwon, St. John's University; KwonW@stjohns.edu
http://www.apria.org

ARIA Members in the News

Congratulations to Karen Epermanis, who received the Outstanding Teacher Award for the 2003–2004 academic year from the School of Business Administration at The University of Mississippi (Ole Miss).

Starting this fall, Scott Harrington returned to the University of Pennsylvania's Wharton School as professor of health care systems in the Health Care Systems Department.

During the 2004 Risk Theory Society meeting in New York City, RTS members elected Gene Lai as their new treasurer. Gene replaces Michael L. Smith, who had served as treasurer since 1985.

Richard MacMinn is pleased to announce the completion of his monograph on corporate finance and risk management. Additional recognition goes to him and to Li-Ming Han, who won the 2004 award for best paper submission to the Asia-Pacific Risk and Insurance Association meeting, held in Seoul, Korea, in July.

In July, Chuck Nyce became a director of curriculum with the American Institute for CPCU/Insurance Institute of America in Malvern, Pa.

Mark Power began a five-year term as the Principal Financial Group Faculty Fellow, effective July 1. This appointment recognizes his service and research record and commitment to teaching excellence in finance. Also, in September 2003, the Iowa State University Alumni Association presented Mark with the Citation for Faculty Service for inspiring service to students, alumni, the university, and the profession.

Hato Schmeiser, currently chair of the Insurance Management Department at the University of Muenster in Germany, will join the University of St. Gallen (Switzerland) in April 2005. In this new position, he will chair the Risk Management and Insurance Science Department.

At the end of June, Harold D. Skipper stepped down as chair of the Department of Risk Management and Insurance in the Robinson College of Business at Georgia State University. Taking over at the department helm is Dr. Sanjay Srivastava, who is featured on p. 10.

Michael L. Smith retired from his current position at the Fisher College of Business at Ohio State University, beginning the autumn quarter of this year. He also completed his near twenty-year term as treasurer of the Risk Theory Society. RTS president Pierre Picard states, "Mike has performed a great job for many years by being in touch with Society sponsors and obtaining the renewal of support year after year. All RTS members are very grateful to him."

Best wishes to Terri Vaughan and her family, who were blessed with the August 19 (4:01 p.m.) arrival of second son Thomas Stephen Vaughan-Carber. He weighed 8 lbs., 10 ounces and was 21 inches long.

Thomas Stephen Vaughan-Carber

Heartfelt congratulations to Krupa and Rajesh Viswanathan on the birth of future insurance professor Lalitha, who attended her first ARIA meeting at 128 days old! Lalitha was born on April 2, 2004, weighing in at 7 lbs., 12 ounces.

Lalitha Viswanathan

Shaun Wang joined Georgia State University's Robinson College of Business faculty in late July as professor and director of the actuarial science program, as well as holder of the Robert W. Batten Chair of Actuarial Science.

From a Sea of Calm to Turbulent Waters: Probing Issues in Homeowners Insurance

by Robert W. Klein, Georgia State University

Bob Klein

Over the last decade, the market for homeowners insurance shifted from a relative sea of tranquility to a roiling ocean of concern and controversy. Mother Nature, economics, and politics created the insurance equivalent of a "perfect storm." Research agendas have been pushed accordingly by the winds of change and debate. It appears that the storm is abating into a moderate squall, but a return to quiescence is unlikely.

Two events in 1992 signaled an era of turbulence. The first was the civil disturbance in Los Angeles following a jury's acquittal of police officers accused of beating Rodney King. Damage to businesses and homes revealed gaps in insurance coverage that rekindled allegations of "redlining" against poor and minority urban communities. The issues in California soon spread to other regions of the country, resulting in a number of public inquiries and lawsuits against insurance companies. Coincidentally, it was about this time when insurers began using insureds' credit history in assessing the risk of loss in auto and home insurance—this became an added issue in the debate about the availability and cost of insurance.

The second important event was Hurricane Andrew, which caused more than $20 billion in insured losses in Florida and Louisiana and awakened the industry to a much higher risk of natural disasters and catastrophic losses. Hurricane Iniki, occurring later in 1992, and the Northridge, California, earthquake in 1994 further hammered risk assessments. Subsequent hurricanes and earthquakes in other vulnerable areas have kept natural disaster risk prominently displayed on industry radar screens. The recent experience with Hurricanes Charley, Frances, Ivan, and Jeanne reminds us that severe natural disasters continue to be a real threat. Moreover, losses from the events of September 11, 2001, hit insurers' capital hard and expanded the sphere of catastrophe concerns to unnatural disasters.

The middle of the country was largely spared from risks affecting the coasts, but a new round of supply cuts and price hikes hit a number of states in 2001-2002. This more widespread market tightening was prompted by several factors, including lagging rate levels, declines in investment income, and a bout of weather-related losses and toxic mold claims in certain states. The use of credit scoring and claim histories in insurance underwriting further inflamed public sentiments. Suddenly, regional concerns about homeowners insurance became national concerns-the rising cost and diminishing availability of homeowners insurance had become a hot topic in many parts of the country.

These developments prompted my involvement, in collaboration with others, in several strains of research. The first was the cost and availability of home insurance in urban and minority communities. Academic research on this subject has been constrained by the lack of public data on the terms of insurance transactions at a detailed geographic level (e.g., ZIP code). However, publication of ZIP code insurance data by Missouri [Klein, Robert W., "Availability and Affordability Problems in Urban Homeowners Insurance Markets," in *Insurance Redlining: Disinvestment, Reinvestment and the Evolving Role of Financial Institutions*, Gregory W. Squires, Ed., (Washington, D.C.: Urban Institute Press), 1997] and Texas [Grace, Martin F. and Robert W. Klein, "Urban Insurance Markets in Texas: A Search for Redlining," (2001) *Journal of Risk and Insurance*, 68: 581-614] enabled our studies in these two states. Using econometric methods with insurance and U.S. Census data, we examined the factors affecting the geographic cost of insurance and availability-related variables. Contrary to redlining allegations, we found that risk, not bias, drives the supply and price of insurance in minority and other communities. This points to the need for economic remedies rather than legal/regulatory measures to address cost and availability concerns. An interesting topic for future study is how urban insurance markets have evolved since the early 1990s and how industry urban insurance programs have affected the cost of risk and the supply of insurance.

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Amendment to Bylaws Approved

The amendment to the bylaws permitting members to change the bylaws if two-thirds of those attending an ARIA meeting passed with a vote of 77– yes and 6 – no. This amendment states: "The Bylaws may also be amended at any annual or other meeting of the membership of the Association by a two-thirds vote of those present, in person or by proxy, at the meeting provided (i) proper notice of the meeting has been given and a quorum is present; (ii) not less than sixty days' advance written notice of the proposed amendment has been forwarded to the members; and (iii) the proposed amendment has been submitted and signed by at least two-thirds of the members of the Board of Directors or twenty members of the Association."

The Book Corner

Elsevier, part of the publishing group of Reed Elsevier, introduces *The Encyclopedia of Social Measurement* (November 2004). This reference book captures the data, techniques, theories, designs, applications, histories, and implications of assigning numerical values to social phenomena. Responding to growing demands for transdisciplinary descriptions of quantitative and qualitative techniques, measurement, sampling, and statistical methods, it will increase the proficiency of everyone who gathers and analyzes data. Covering all core social science disciplines, its 340+ articles present a comprehensive summary of observational frameworks and mathematical models; describe important data sets and case studies; and offer tools, background information, qualitative methods, and guidelines for structuring the research process. Articles include examples and applications of research strategies and techniques, highlighting multidisciplinary options for observing social phenomena. The alphabetical arrangement of articles, the glossaries and cross-references, and the volumes' detailed index will encourage exploration across the social sciences. Visit http://books.elsevier.com/measurement for more information.

New RMI Department Chair at Georgia State University

Dr. Sanjay Srivastava

At the end of June this year, Harold D. Skipper, Jr., stepped down as the chair of the Department of Risk Management and Insurance (RMI) in the Robinson College of Business at Georgia State University. He is succeeded by Dr. Sanjay Srivastava, a nationally recognized expert on mathematical and financial risk management who had been a visiting professor in the RMI Department since 2002 and director of its innovative mathematical risk management program. Dr. Srivastava was instrumental in developing the department's new vision and strategic plan, unveiled last January. Commenting on the department's future, he says, "Our goal over the next few years is quite simple: to achieve a reputation for excellence so that when anyone thinks of 'risk management,' they think of Georgia State."

Specializing in the area of financial risk management, Dr. Srivastava focuses his research on the design of financial contracts, asset allocation and portfolio selection, the organization of financial markets, and experimental studies of asset markets. His work appears in *The Journal of Risk*, *Journal of Finance*, *Journal of International Economics*, and *Journal of Economic Theory*, among others. In addition, he has served on many major journals' editorial boards and has published several textbooks and other teaching materials.

Before joining Georgia State, Dr. Srivastava was associate dean of Carnegie Mellon University's Tepper School of Business, an alumni professor of economics and finance, and director of CMU's Center for Financial Analysis and Securities Trading (FAST) program. This program operates in twenty countries and is part of the permanent research collection on innovative information technology at the Smithsonian Institution's Archive of American History. Other teaching appointments were at the California Institute of Technology, Monterrey Institute of Technology (Mexico), and Aoyama Gakuin University (Japan). His connection to the business

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A second strain of research, commenced in the mid-1990s, looked at the issue of catastrophe risk and the impact of regulatory constraints. A stream of research ensued as part of the Wharton Project on Managing Catastrophic Risks [with Martin F. Grace and Paul R. Kleindorfer (Wharton School); culminating article: Martin F. Grace, Robert W. Klein, Paul R. Kleindorfer, "The Demand for Homeowners Insurance with Bundled Catastrophe Coverages," (2004) *Journal of Risk and Insurance*, 71: 351-379]. We revealed significant frictions between regulatory constraints and insurers' needs to adjust their prices and concentrations of exposures in high-risk states such as Florida. Fortunately, insurers were allowed to gradually adjust their portfolios to the new realities and, by the late 1990s, high-risk markets were approaching a sustainable equilibrium. We also found evidence of significant changes in certain coverage terms, such as consumers' election of much higher deductibles for wind-caused losses in response to price signals.

However, amidst these improving conditions, we also uncovered some persistent problems and vulnerabilities [Martin F. Grace and Robert W. Klein, "Natural Disasters and the Supply of Home Insurance," Report to the National Association of Realtors, February 2002]. In Florida, for example, there is still conflict over rates in the highest-risk areas and a resurgence of reliance on residual markets to absorb "unwanted" exposures. In California, the Earthquake Authority has been an abject failure, with most homeowners dropping earthquake insurance. We concluded that government insurance and reinsurance mechanisms are not the answer to the catastrophe risk problem. Instead, we have advocated easing regulatory constraints on insurers to allow markets to adjust and send the appropriate signals to homeowners, as well as the elimination of tax charges on catastrophe reserves.

Most recently, the tightening of home insurance markets in various parts of the country led us to examine the nature of the trends and associated issues [Martin F. Grace and Robert W. Klein, "Overview of Recent Developments in Residential and Commercial Property Insurance Markets," Report to the National Association of Realtors, July 2003]. Our analysis confirmed that the price of homeowners insurance increased significantly beginning in the latter part of 2001 and continuing into early 2003. The rate of increase varied considerably among states, with a number of states experiencing price increases in excess of 10 percent in 2002, and some experiencing considerably higher increases (average premiums more than doubled in California and Texas since 1997). There was also evidence that some homeowners had to search more widely for coverage and to switch to less desirable sources of coverage.

Additionally, we found that the cost of claims has been rising rapidly, particularly in some states, suggesting that it is the primary factor behind the price increases and tightened availability. Fierce competition among insurers during the 1990s caused prices to lag behind cost increases, and this increased the magnitude of the rate hikes needed to bring prices to adequate levels. The cost of and greater uncertainty about new risks, such as mold contamination, have been added factors in certain jurisdictions (e.g., Texas). Weather-related perils also contributed to rising costs and prices in a number of states (e.g., tornadoes and hailstorms in the Midwest), and the risk of earthquakes and hurricanes continues to be an issue in areas subject to these threats. Contrary to critics' allegations, we did not find that insurers' investment losses prompted them to manipulate prices, although we did observe that a lower rate of return on invested reserves would cause the present value of insurance costs and prices to rise.

The most recent indications suggest that the supply of homeowners insurance is beginning to increase in many areas and prices are leveling or even falling. This reflects the natural adjustment of the market to improved conditions for underwriting risk. However, market problems could persist in a few states where regulation or other constraints have hampered adjustments or where costs continue to escalate.

Hence, we believe that regulatory restrictions on prices and underwriting are not the way to address market problems. The most beneficial policies will be measures that control claim costs, encourage market entry, and help homeowners find sources of coverage. The clarification of policy language

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governing coverage for mold also should have a beneficial effect on the cost, supply, and price of insurance. Mitigating the impact of weather-related perils and natural disasters may prove more difficult, but cost-effective mitigation investments are being explored.

While the controversy and turbulence surrounding home insurance markets is easing, acts of mankind and nature will probably continue to stir the waters. Insurers looking for a respite from the vicissitudes of auto and commercial markets will not find it in home insurance. There is the consolation that it will provide a fertile field for risk and insurance researchers. As market participants and public officials navigate economic stresses and technological change, scholars will have many interesting issues and questions to explore.

The Workers Compensation Research Institute

by Diana Lee, *ARIA News* Editor

Established in late 1983, the Workers Compensation Research Institute (WCRI) is an independent, not-for-profit research organization providing high-quality, objective information on issues involving workers' compensation systems. The Institute does not take positions on issues it researches; rather, it provides information obtained through studies and data collection efforts, conforming to recognized scientific methods, with objectivity further ensured through rigorous, unbiased quality control procedures. WCRI's work provides much needed data and analyses that help answer the following questions: How are workers' compensation systems performing, and how can they better meet workers' needs? How do various state systems compare? What factors are driving costs? What is the effect of legislative change or proposed system changes on system outcomes? What are the consequences of alternative solutions?

In its first decade, WCRI sought to establish its credibility as an independent source of useful, high-quality information on public policy issues, producing new knowledge about how systems worked, including the key leverage points and major cost drivers. Its work helped to reduce public officials' reliance on anecdote by providing objective information about system performance. The influence of WCRI's research was seen in the major cost-containment reforms of the late 1980s and early 1990s. Building upon this foundation, in its second decade, WCRI established new tools for monitoring and benchmarking system performance. These benchmarks are widely cited to identify systems that are outliers in terms of costs, medical utilization, litigiousness, and timeliness. Entering its third decade, WCRI has launched a new strategic initiative–developing tools to measure key worker outcomes. Combining worker outcome measures with cost and medical utilization data provides a powerful opportunity to search for "win-win" solutions in workers' compensation. According to WCRI's executive director, Richard A. Victor, J.D., Ph.D., "Such solutions would improve outcomes for injured workers without materially raising costs to employers; or they would lower costs to employers without materially lowering outcomes for injured workers."

WCRI has developed the largest, most comprehensive and most representative claims database in use today. The Detailed Benchmark/Evaluation (DBE) database contains more than 13 million claims from insurers, state funds, and self-insurers, representing more than 60 percent of the workers' compensation benefits paid nationwide–a unique asset for WCRI and the workers' compensation community that permits detailed, timely analyses of important issues.

The Institute's work takes on several forms, such as *original research studies of major issues* confronting workers' compensation systems (e.g., permanent partial disability, litigiousness, and occupational disease). Other analyses include evaluating *individual state systems*, where change is of interest and where there is an unmet need for objective information, and *states that have undergone major legislative changes* to measure the impact on those changes and draw possible lessons for other states. Moreover, WCRI staff conducts studies to i*dentify those system features* associated with

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New RMI Department Chair at Georgia State University, continued

community includes serving as an advisor to Morgan Stanley Dean Witter, JP Morgan Advisors, and OS Financial Trading System. Dr. Srivastava earned a B.A. in economics at Warwick University (U.K.) and a Ph.D. in economics at the Massachusetts Institute of Technology.

And the SITE Innovation Award Goes to…

At its June annual conference in Orlando, Fla., the Society of Insurance Trainers and Educators (SITE) presented its 2004 Innovation Award to ARIA's executive director: the American Institute for CPCU and the Insurance Institute of America. This award recognizes the Institutes' new and innovative training programs and their commitment to continuous improvement through innovation. Begun in September 2003, the initiative has revamped the process by which the Institutes' educational materials are developed and updated, showing the Institutes' desire to improve their ability to respond to customers' needs as well as a desire to improve their product offerings. The Institutes are now better able to meet demanding production schedules and produce instructionally sound textbooks and course guides. Congratulations to the Institutes on this prestigious honor!

Ken Dauscher, AICPCU Senior Vice President

The Workers Compensation Research Institute, continued

positive and negative outcomes; prepares *Research Briefs* on significant new research, data, and related issues; and makes *presentations* on research findings to legislators, workers' compensation administrators, industry groups, and others interested in these issues.

Current research programs are: (1) System Evaluation Research Program, (2) CompScope™, and (3) Disability Management/Benefit Integration Research Program.

System Evaluation Research Program

The objectives of this program are to evaluate workers' compensation systems and identify best practices; identify leverage points and quantify opportunities for system improvement; measure outcomes experienced by injured workers; and measure the effect of reform. The current research agenda includes the following studies: tools to predict the frequency and amount of permanent partial disability payments; worker outcomes; characteristics of long-duration claims determinants of substantial return to work and temporary disability; and administrative inventories. Recently published studies are:

- *Outcomes for Injured Workers in California, Massachusetts, Pennsylvania and Texas*
- *WCRI Medical Price Index for Workers' Compensation*
- *Workers' Compensation in Iowa: Administrative Inventory*
- *Revisiting Workers' Compensation in Missouri: Administrative Inventory.*

CompScope™

CompScope™, WCRI's multi-state benchmarking program, measures and benchmarks the performance of a growing number of state workers' compensation systems. Each year, CompScope™ studies quantify performance trends, benchmark improvement opportunities, and assess the effectiveness of policy changes. Using special statistical methods, the Institute has created performance measures and interstate comparisons that are comparable across otherwise diverse states. By identifying either incremental or sudden large changes in system performance – trends that may signal either improvement or possible deterioration in system performance – goals for system performance can be set, improvements accomplished, and crises avoided. The fourth edition of this annual benchmarking study, *CompScope™ Benchmarks: Multistate Comparisons*, was published recently.

Disability Management/Benefit Integration Research Program

After a decade of innovation in disability and medical cost management, participants in workers' compensation systems are now asking, "What works?" This innovative WCRI program improves public and private decision making about the quality and cost of medical care, the management of occupational and non-occupational disability, and the potential integration or coordination of workers' compensation and non-workers' compensation delivery systems. Among the current topics for evaluation are the effect of networks; benchmarks of medical costs, prices, and utilization; worker outcomes; and provider choice laws. Recently published studies include:

- *The Anatomy of Workers' Compensation Medical Costs and Utilization: Trends and Interstate Comparisons, 4th Edition*
- *Benchmarking the 2004 Pennsylvania Workers' Compensation Medical Fee Schedule*
- *Patterns and Costs of Physical Medicine: Comparison of Chiropractic and Physician-Directed Care*
- *WCRI Medical Price Index for Workers' Compensation.*

In its twentieth year, the WCRI published nine major studies and eight research briefs on a broad range of topics. This brings the Institute's total to 124 books and 196 research briefs on a wide variety of important workers' compensation issues affecting a growing number of states. At present, the Institute has nine reports in progress. Dr. Victor states, "We believe that the search for the 'win-win' opportunities has the greatest impact potential for WCRI's third decade, and we are excited to try to drive it to meet this potential. If we are successful, then we can reflect back in 2013–the start of our fourth decade–to find more cost-efficient systems that are doing a better job of serving injured workers in their time of need. And we will observe far less frequent major reforms." Visit http://www.wcrinet.org to learn more about WCRI's work, access more than 100 study abstracts, and order its reports.

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