ARIA NEWS

Vol. 8, No. 1

American Risk and Insurance Association

Spring 2003

In This Issue

ARIA 2003 Annual Meeting: A Mile-"Hi" Welcome to Denver!

by James Carson, ARIA Vice President and Program Chair

Make your plans now to attend the 2003 Annual Meeting, August 10 to 13 at the elegant Adam's Mark Hotel (http://www.adamsmark.com/denver/index.asp) in the heart of Denver, Colorado (http://www.denver.com/). The theme for this year's meeting is "Assessing the Risks: Action and Reaction in the Insurance Industry," which will focus on new tools to evaluate, classify, price, reduce, and transfer risk.

The 3rd John D. Long Ethics Seminar will open this year's ARIA meeting on Sunday afternoon and will be hosted by Bill Rabel of LOMA. The 2003 Long Symposium topic is "Ethical Issues in Underwriting Life and Health Insurance." Speakers will include Patrick Brockett, Gus Wortham Chair in RMI, University of Texas, Austin, and Ross Morton, FLMI, executive vice president emeritus, RGA Life Re of Canada.

Three plenary sessions featuring insurance industry and pension experts also are planned. Diana Lee, NAII, will moderate one session, entitled "Give Us Some Credit," which focuses on the use of individuals' credit information in insurers' underwriting and rating operations. Speakers include Sam Sorich, president of the Association of California Insurance Companies, and Michael J. Miller, principal, EPIC Actuaries, LLC. Another general session, tentatively entitled "Women and Pensions," will be led by Vickie Bajtelsmit, Colorado State University. The primary speaker will be Anna Rappaport, a pension actuary with Mercer. She, along with other panelists, will outline the progress that has taken place over the last decades in improving the retirement security of women in the United States and will identify the particular failure areas that still need to be addressed. Joan Lamm-Tennant, General Cologne Re Capital Consulting, will also lead a plenary session on market shocks, including terrorism, and how our market responds to these shocks. In addition to these plenary events, more than 100 research papers from authors around the world have been selected for presentation in concurrent sessions.

Watch for the registration materials that will be mailed in May. Also, check the ARIA Web site (http://www.aria.org/) for updates and other information as the meeting date approaches. Please contact me with any questions about this year's program. I look forward to seeing you in Denver.

The ARIA gang says, "See you in Denver."

Colorado Rocky Mountains

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Proposed Amendment to the ARIA By-Laws

by Anthony J. Biacchi, ARIA Executive Director

At last summer's business meeting in Montreal, a proposed amendment to the ARIA by-laws was raised. A vote was not taken at that time because sufficient notice on the revision had not been given to the entire ARIA membership. Because ARIA's by-laws state that a sixty-day notice of any issue must be provided to members before a vote on the issue can take place, this notice is now being presented here for consideration at the upcoming business meeting on August 11, 2003.

Section VIII, AMENDMENTS, of the by-laws currently reads as follows: "The By-laws may be amended by submitting the proposed amendment, signed by at least two-thirds of the members of the Board of Directors or twenty members of the Association, to the members of the Association. The members shall either ratify or reject the amendment by a written communication addressed to the Executive Director of the Association. The amendment shall be deemed ratified and effective only if two-thirds of the votes received within one month of the date on which the copy of the amendment is forwarded to the members are in favor of such amendment."

It has been proposed that a second paragraph be added to Section VIII. This paragraph reads as follows: "The By-laws 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 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."

Further discussion and a vote on the second paragraph above will take place during the business meeting in Denver.

New Insurance Hall of Fame Gallery

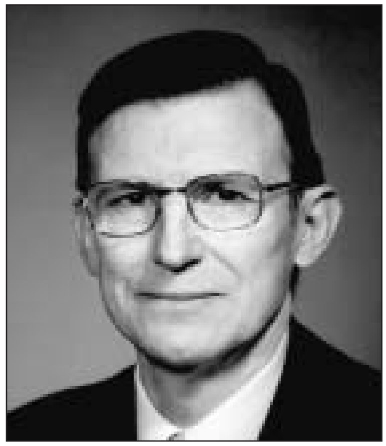
by Ellen Thrower, Executive Director, St. John's University School of Risk Management

Plans are underway to establish a state-of-the-art digital Insurance Hall of Fame at the School of Risk Management (SRM) at the Manhattan, N.Y., campus of St. John's University. The facility, being developed by the SRM in cooperation with the International Insurance Society (IIS), will display high-quality photographic reproductions of the more than 100 portraits found in the Insurance Hall of Fame in Tuscaloosa, Ala., as well as citation and biographical information, in English and other languages, for each of the honorees. Joseph C. Smetana, vice president, American International Group, Inc., and alumnus of The College of Insurance, has pledged $250,000 to fund the gallery, to be named The Joseph and Claire Smetana Gallery of The Insurance Hall of Fame.

The gallery's location in the world's preeminent financial center is expected to make it the premier site for viewing this unique and historical collection. It will be highly accessible to industry professionals, as well as to students, faculty, and business leaders from around the world. The gallery is designed to be not only a facility for viewing but also a place for educational programs and research and for important industry gatherings. Official unveiling of the new Hall of Fame gallery is scheduled for July 15, 2003, at a reception to be held on the SRM Manhattan Campus, 101 Murray Street, New York, N.Y. The gala event is timed to coincide with the 39th annual meeting of the IIS, held for the first time in New York City. In addition to conference attendees, special guests for the unveiling will include past laureates of the Insurance Hall of Fame as well as international insurance industry leaders.

Profiles of Insurance Scholars: Dr. Dan M. McGill

by Diana Lee, *ARIA News* Editor


Dr. Dan McGill

Today, there are 145 Huebner Fellows who teach or have taught insurance-related subjects or are otherwise involved with insurance education. These individuals were granted a fellowship sponsored by the S.S. Huebner Foundation for Insurance Education, named after Solomon S. Huebner, one of the founding fathers of insurance education. The Foundation was established in 1941 at the Wharton School of the University of Pennsylvania.

Perhaps not many Fellows today recall the names of the nine students of the inaugural Huebner class begun in 1941. This article profiles one of these students, following his career since the 1940s: Dan M. McGill from Greenback, Tenn. During the early 1940s, he received a B.A. from Maryville College in Tennessee and an M.A. from Vanderbilt University. World War II postponed his education, as he was drafted out of the University of Pennsylvania's doctoral program for service in the U.S. Army Air Corps, making his way up to the rank of major. Like General Douglas MacArthur, Major McGill did return, resuming his second-semester doctoral courses begun four years earlier and obtaining his Ph.D. six years after his initial start. In 1950, Dr. McGill earned the Chartered Life Underwriter designation from The American College.

Dr. McGill's academic career began more than a half-century ago, longer than the lives of many ARIA members. During this time, he held various positions at the University of Tennessee, University of North Carolina, Stanford University, and University of Pennsylvania, serving at Penn as the chairman of the University Admissions Committee (the McGill policy on admissions remains in effect to this day). Similar to Dr. McGill's days at Penn, his teaching at UNC was put on hold; this time, it was the Korean conflict, which took him away for seventeen months as he served on the staff of the global director of finance of the U.S. Air Force.

Dr. McGill is currently Emeritus Professor of Insurance at the University of Pennsylvania. His administrative positions at Penn have been many, including chairperson of the Insurance Department and founding research director of the Pension Research Council (PRC). Dr. McGill started the PRC when he entered the Wharton School, and he later became the Council's chairperson. The PRC greatly influenced the development of corporate pension plans, publishing about thirty books under Dr. McGill's tenure. Other distinguished positions he held at this university include executive director of the Huebner Foundation and chairperson of the Governing Board of the Leonard Davis Institute of Health Economics, which Dr. McGill also helped to found.

A prolific writer, Dr. McGill is the sole author of eight books, co-author of five others, and editor of eight, most of them published by the PRC. He also wrote a highly regarded life insurance text and numerous journal articles. His first book, *An Analysis of Government Life Insurance*, which was his doctoral dissertation, led to a complete overhaul of the program. *The Fundamentals of Private Pensions*, first published in 1955, and his *Fulfilling Pension Expectations* strongly influenced the enactment of ERISA, the governing statute for corporate pension plans. Dr. McGill's Guaranty Fund for Private Pension Obligations was the basis of Title IV of ERISA, the section establishing the Pension Benefit Guaranty Corporation. His most recent book, published in 1994, is *McGill's Life Insurance*, an updated and expanded version of his original 1967 work. Prepared by a number of academic and industry experts, this is the exclusive life insurance text of The American College.

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ARIA Members in the News

Bruce Palmer and his wife, Barbara, are the proud grandparents of Connor Rex Johnson, born January 15 to their daughter, Anne. Connor weighed 7 lb., 10 oz., and measured 20.5 inches.

Jin Park, a Ph.D. candidate at Temple University, has accepted a tenure-line faculty position teaching risk management and insurance classes at Illinois Wesleyan University for the fall of 2003.

Terrie Troxel, president and CEO of the American Institute for CPCU and Insurance Institute of America, was named one of *Insurance Letter*'s 100 Most Powerful People in the Insurance Industry, in the Insurance Education and Research category.

ARIA NEWS

is published semi-annually for ARIA members and sponsors.

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Produced by the American Institute for CPCU and the Insurance Institute of America

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Risk Foundation Established To Support Risk and Insurance Studies

by Ellen Thrower, Executive Director, St. John's University School of Risk Management

As part of the merger agreement between The College of Insurance and St. John's University, a newly formed Risk Foundation has been established. Its purpose is to provide support for the study of risk management and insurance through funding for various programs to attract scholars and students to the field. Although closely associated with the School of Risk Management (SRM), the foundation will operate as an independent 501(c)(3) foundation. Initial funding for the foundation comes from a $3 million contribution from St. John's University.

The foundation's ten-member board of directors includes Robert Clements, chairman; Brian Duperreault; Donald J. Greene, Esq.; Kathryn J. McIntyre; Robert Newhouse, Jr.; Brian M. O'Hara; Robert Parker, Ph.D.; Brandon W. Sweitzer; Ellen Thrower, Ph.D.; and Peter J. Tobin. All except Mr. Newhouse, chairman of the executive committee of AXIS Specialty Limited, and Dr. Parker, dean emeritus and Robert S. Parker Professor of Strategy and Finance at Georgetown University's School of Business, also serve on SRM's Board of Overseers.

Send in Your Ballots!

Ballots to elect ARIA officers for 2003–2004 were sent to all current members in mid-April. Completed ballots should be returned to the ARIA Executive Director's office, P.O. Box 3028, Malvern, PA, 19355-0728, for receipt by May 13.

Profiles of Insurance Scholars, continued

One significant journal article by Dr. McGill is based on an address he had the great honor of presenting before the American Philosophical Society; entitled "Economic and Financial Implications of the Aging Phenomenon," it is published in the Society's *Proceedings*.

Dr. Dan McGill, CLU, and his wife, Elaine, attended the 75th anniversary celebration of The American College in Philadelphia on June 12, 2002. Photo by Kelly & Massa Photography

In recognition of his accomplishments in insurance education, Dr. McGill became the original occupant of the first endowed Chair of Insurance in the U.S., from 1948 to 1951; this was the Julian Price Associate Professorship of Insurance at UNC. He also became the first occupant of the second endowed Chair of Insurance in the U.S., the prestigious Frederick H. Ecker Professorship of Life Insurance at the University of Pennsylvania (this was also the first endowed chair at Wharton). Dr. McGill was twice honored as recipient of the Elizur Wright Award of the American Association of University Teachers of Insurance (ARIA's former name). The award recognized the outstanding publication in the field of insurance and was given for *The Fundamentals of Private Pensions* (1955) and *Public Pension Plans* (1981). Other honors include the Huebner Gold Medal for outstanding contribution to insurance education (1977) and the Maryville College Medallion, in recognition of exceptional service to the institution and generous financial support (1994).

Dr. McGill's government services hail back to 1950, when he served as an expert on government life insurance, presenting testimony on the national service life insurance program before the Insurance Subcommittee of the Committee on Veterans' Affairs of the House of Representatives. From 1962 through 1980, he was a consultant for the Board of Governors of the Federal Reserve System on employee benefit programs. Other governmental affiliations include participation as a pension consultant for President Kennedy's Advisory Committee on Labor Management Policy, a public member of the U.S. Department of Labor's Advisory Council on Employee Welfare and Pension Benefit Plans, and a member of the U.S. Army Advisory Panel on ROTC. In the mid-1970s, Dr. McGill was appointed by President Ford and then re-appointed by President Carter to be first chairman of the Advisory Committee of the Pension Benefit Guaranty Corporation, while simultaneously serving on Senator Howard Metzenbaum's Advisory Committee to examine the governance of U.S. mutual life insurance companies. In the early 1990s, Dr. McGill was also a consultant for the National Commission on Judicial Discipline and Removal, authoring another prominent article entitled "Disincentives to Resignation of Disciplined Federal Judges in the Benefits Package of the Federal Judiciary."

As if he did not have enough to do, Dr. McGill also held a number of corporate board positions, some with tenure lasting more than a decade. From 1978 to 1990, he served as a director of Northwestern Mutual Life Insurance Company and was also on the boards of Maryville College from 1971 to 1979 (the final four years as chairman) and The American College from 1975 to 1984. And from 1980 to 1994, Dr. McGill served as a neutral member of the Retirement Board of the Massachusetts Bay Transportation Authority, where his role was to settle impasses between labor and management trustees.

Currently, Dr. McGill serves on the corporate boards of Independence Blue Cross (Southeastern Pennsylvania), Mutual of America Life Insurance Company (New York), Philadelphia Reinsurance Corporation, and Waverly Heights Continuing Care Retirement Community, a facility in Gladwyne, Pa. He also volunteers as a consultant for the Board of Pensions of the Presbyterian Church (U.S.A.); before this, he was a member of the

Profiles of Insurance Scholars, continued

board from 1975 to 1988, serving as chairman for eleven years. If anyone is looking for Dr. McGill, another of his latest endeavors is consulting and expert-testimony work for the U.S. Department of Justice. He was recently involved in five major tax-related cases, spanning six weeks of trial apiece; three of these were broad-based corporate-owned life insurance (COLI) cases.

When asked what he regards as his greatest contribution over such a long and successful career, Dr. McGill says, "I believe my greatest contribution was recruiting, guiding, and placing upwards of a hundred Huebner Fellows, who went on to become leaders in insurance education. A close second was the research that I personally undertook and the research that I organized and directed that led to the reform and general strengthening of pension plans in the corporate sector." Dr. McGill also offers this advice to younger insurance faculty: "…follow a balanced, sensible program of teaching, research, and public service, especially service, whether pro bono or compensated, at the federal level."

Finally, Dr. McGill reminds us that "the next year, 2004, is the 100th anniversary of the first organized multi-dimensional academic program in insurance instruction, which was established at the Wharton School by twenty-two-year-old Dr. S.S. Huebner. It would seem that this event should be commemorated in some way by ARIA."

Editor's note: When I first tried to contact Dr. McGill to write this article, I was told he would be gone all day to attend two meetings. After talking with him and reviewing his CV, I can now understand why he was not at home. Clearly, retirement has not slowed down Dr. Dan McGill one iota!

"Profiles of Insurance Scholars" is intended to be a periodic column in future issues of ARIA News. *Dr. McGill is the first ARIA member to be featured. Suggestions on profiling other insurance scholars and educators, past, present, or future, are welcome.*

Indiana State University Receives Honor

Late last year, Indiana State University received the largest gift in its history, a $20 million, four-year grant donated to ISU's School of Business by the Lilly Endowment, Inc. This endowment will provide the school with the resources to create NetWorks, an outreach of the School of Business to offer new directions in financial services. NetWorks is a shared vision and collaboration among faculty members of the ISU School of Business and representatives of the financial services industry and the state's political leadership. Using the school's long-standing reputation for developing leaders, these individuals were charged by ISU President Lloyd W. Benjamin III to "build upon the traditional strengths of ISU and its School of Business to provide a platform for the development of 'reality-based, innovative approaches' to dealing with emerging issues and trends in the financial services industry." Even though ISU already has provided twelve years of financial services education, both the state and university will now be able to attain even greater prominence.

NetWorks, whose headquarters will be in Indianapolis, is intended to serve as a catalyst for change within the School of Business and the financial services industry. To fulfill this purpose, it will function as an incubator of intellectual capital and develop new partnerships among educators and practitioners. Several goals of NetWorks include providing opportunities to support the financial services industry and a faculty internship with the industry, sponsoring conferences and continuing education programs in financial services for Indiana's K-12 educators, and supporting professional development of ISU's School of Business faculty.

According to Clay Robbins, president of Lilly Endowment, "For years, Indiana has been known for its outstanding insurance and financial services sector. Lilly Endowment

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Activities of Sister Associations and Affiliates

Asia-Pacific Risk and Insurance Association

2003 Conference (7th Annual)
July 20-23
Bangkok, Thailand
Primary organizer: Chulalongkorn University and the Society of Actuaries of Thailand
Web site:
http://www.scicollege.org.sg/apria.htm or
http://www.apria.chula.ac.th
For additional information, contact W. Jean Kwon, St. John's University, at kwonw@stjohns.edu.

Southern Risk and Insurance Association

2003 Annual Meeting (35th Annual)
November 23-25
St. Petersburg/Clearwater, Florida
The deadline for submitting proposals to present research findings is July 1, 2003.
Submissions may be made to:
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University of Georgia
Terry College of Business
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Athens, GA 30602-6255
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E-mail: sria-submit@terry.uga.edu

Send Us Your News

ARIA members can send notice of events of professional or personal significance that they would like published in *ARIA News* to the editor, Diana Lee, at diana.lee@naii.org. Please send announcements for the fall 2003 issue by September 1. If you do not use e-mail, you may mail messages to Diana at 1351 Autumn Way, West Chester, PA 19380.

Risk Management and Insurance Positions

Following is a list of organizations offering academic jobs that ARIA has received since November 2002, presented in chronological order of final posting on ARIA's Web site. Visit the Web site (www.aria.org) or contact these organizations for additional information.

November

University of Hartford
Assistant/Associate Professor of Insurance/Finance

December

HEC Montreal, University of Montreal
Department of Finance of HEC Montreal
Assistant, Associate, or Full Professor

University of Central Arkansas
Insurance and Risk Management Faculty Position

University of Nottingham
Swiss Re Chair in the Management of Risk
Lecturer in Risk and Economics

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

March

Appalachian State University
Assistant/Associate Professor of Risk and Insurance

Indiana State University Receives Honor, continued


Aurmaudra Bradley

believes that NetWorks can play an important role in shaping the future vibrancy of this sector of Indiana's economy through its educational and research programs. We want more people in our state to believe that first-rate activities and resources can thrive in Indiana, and the Endowment hopes that this center will play an important role in affirming this belief." The Dean of ISU's School of Business, Ron Green, said, "NetWorks will allow us to bring the brightest minds together, to bring faculty, students, scholars, practitioners, and executives into an educational setting that can be expanded to deal with issues in the financial services industry as they arise."

Students are also excited about this opportunity. ISU accounting major and insurance minor Aurmaudra Bradley said, "What (NetWorks is) going to do is connect ISU with the financial community and with the business world, which will help with hiring. Employers will say, 'Oh, she's from ISU. We've heard of them. We've worked with them.' So I think that will help in student hiring and in the learning process altogether. Being able to do hands-on things and being able to talk to people who've been doing what I'm doing…will give me a better feel for what I want to do and where I want to go." Complementing her remarks are those of H. Peter Hudson, retired chairman and chief executive officer of Monroe Guaranty Insurance Company (Carmel, Ind.) and honorary life member of the ISU Foundation Board of Directors: "I think it will help the students gain a greater knowledge of the totality of the financial services industry and the individual uniqueness of each one of them. It will help them to know the common traits as well as the differences through the sharing of information that can occur through this forum."

Thanks to the Lilly Endowment's foresight and generosity, what began as a concept has now become a reality. "We are very pleased that President Benjamin and the Lilly Endowment decided to create this emphasis in financial services. The impact will be felt not only in Indiana, but also across a much wider industry audience," said ISU professor and ARIA member Mary Ann Boose. Congratulations to Indiana State University on this great honor!

Insurance Studies Within the Framework of the Current Italian University Reform: An Insider's Experience

by Maurizio Pompella, Richard Goodwin Faculty of Economics, University of Siena, Italy

Introduction

Widespread reform is now "flustering" the university education system in Italy. During the second half of the 1990s, a process reforming Italy's university system began and is now nearing completion.

These reforms have affected both university research and teaching, where innovations of great importance have taken place. They were brought about by the recognition of a series of defects in the old system, among which were the following: (1) the lack of reasonably short vocational professional courses allowing the student to find a professional position immediately; (2) the duration of study courses, which were longer than seven years on average, compared to the typical duration of four years (e.g., economics) or six (e.g., medicine); and (3) a high student dropout rate.

The reform's objectives were to simplify bureaucratic procedures, completely restructure the teaching supply, and develop a more qualified research system. All of these have occurred from the point of view of internationalizing the system and the need to adapt to the standards recognized by the European Union. In addition to the teaching and research systems, with the direct involvement of the international scientific community in the process of projects evaluation, the recruitment system for professors (both full and associate) and for university researchers (those who are becoming university teachers, with no compulsory teaching duties) has been reformed.

The first effect produced by the reforms has been greatest in the teaching sector, as mentioned. In the previous system, the following programs were available: (1) two- to three-year *diploma universitario (DU)* courses, equivalent to short university courses, leading to a "diploma" (i.e., a degree of lower level) and parallel with the ordinary degree courses; (2) four- to six-year *laurea* diplomas (i.e., degree courses); (3) *diplomi di specializzazione (DS)*, post-graduate Diplomas of Specialization of at least two years' duration; and (4) post-graduate *dottorato di ricerca* courses, Ph.D. courses of at least three years' duration.

Today, in addition to the generalized introduction into the system of "credits" (i.e., points gained at each course exam until the total number of points necessary for graduation has been reached), the general architecture of the study courses provides for the student's mobility within the Italian and European university system. Moreover, a series of stages external to the university, lasting at most one year, has been conceived. Now the following are available: (1) A three-year *laurea breve* (i.e., short degree) or simply *laurea*, with a vocational professional content; (2) a two-year *laurea specialistica* (*LS*), specialized degree, which may commence after the consignment of the first degree; (3) first- and second-level *master universitari* (master's), which may commence, respectively, after the degree and the specialized degree, for post-graduate specialization; and (4) post-graduate Ph.D. courses.

Thus, formative training has been reformed completely, and the variety of degree courses, whether short or specialized, has been enriched enormously. In fact, within the realms of the autonomy conferred upon it, each university has used all its resources to shape the disciplines it offers to meet the demands of these new study courses and to adapt to local demand and changes suggested in the context of the job market.

Insurance Studies

At academic sites where economics is taught, disciplines in the insurance area are normally provided as "advanced" courses (these were placed in the third or fourth year of the old course system). Because the reform process affects these areas as well, new programs have been proposed for "specialist degree" courses. New master's degrees have also been initiated with a great deal of attention to risk management and insurance, and elements of *Economia delle Aziende di Assicurazioni* (Insurance Firms Economics) have been inserted into many financial intermediaries' economics courses offered in the "short degree" courses that began last year.

The Richard Goodwin Faculty of Economics, Siena (Italy)

The Richard Goodwin Faculty of Economics in Siena may serve as a good example of the experience observed in various other Italian universities. Founded more than 750 years ago, it is one of the oldest institutions in Europe and is now ranked among the best in Italy for scientific productivity, the quality of teaching supply, and the extent of foreign relationships (i.e., degree of internationalization). The seventy-hour course I have been teaching during the last five years, *Economia delle Aziende di Assicurazioni* (Insurance Firms Economics), has continuously formed part of the "leader" *Scienze Economiche e Bancarie* (Economic and Banking Sciences) degree course, upholding the tradition of the Faculty of Economics since its formation in 1966.

Economia delle Aziende di Assicurazioni is structured as an introductory risk management and insurance course, which is primarily designed to provide undergraduate students with the conceptual tools necessary to gain a perspective into the fundamentals of life, property-casualty, and liability insurance. At this time, it is the only insurance course available at the faculty; hence, it has also been designed to include a series of other traditional subjects, such as insurance contracts, markets, regulation, and profitability measures. Traditional and innovative contracts, as well as both theory of insurance markets and institutional profiles of the insurance industry, are covered. Students have the support of a Web site, which acts as a documentation center. Additionally, complimentary annual seminars, organized in collaboration with IRSA (*Istituto per la Ricerca e lo Sviluppo delle Assicurazioni*—Institute for Insurance Research and Development) and some of the leading insurance companies in Italy, are open to the public.

Although not radical, the new system has imposed changes to the program, which will take effect this year. A selection of the old Insurance Firms Economics course contents has been transferred to the corresponding new course of only fifty hours offered for the *laurea breve* (short degree), from which the profiles most directly relating to economic theory have been excluded. In addition, a series of the contents has been transferred to the specialist-level degree.

As with specialized degrees of many other universities beginning in the 2003-2004 academic year, a higher and deeper level of theoretical learning of specific themes is guaranteed by the programs offered by the specialist degree in *Economia e Gestione degli Intermediari Finanziari* (Financial Intermediaries Economics and Management). Within this specialist degree is a further (advanced) course in *Economia delle Aziende di Assicurazione*. The course contents are essentially composed of FRM (Financial Risk Management) and of risk immunization techniques, with three optional modules dedicated to, respectively: (1) the management of financial risk derived from the introduction of innovative products (e.g., index and unit); (2) the securitization of the pure risk and the market instruments (e.g., catastrophe bonds and contingency instruments); and (3) insurance derivatives. The institutional and actuarial-mathematical aspects are both taught in other courses.

The three-year short degree in Banking and Economic Sciences aims at providing a degree that directly meets the needs of the job market. It is capable of fulfilling managerial functions for both banking and insurance companies and, in particular, meeting managerial needs in the sectors of profitability analysis, credit granting, and

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the distribution strategies of banking and insurance products. The market demand for this type of professional person in Italy has grown significantly in the last few years because of the new role that life insurance policies have assumed in investors' portfolios. The phenomenon of *bancassurance* and its accompanying product innovation has attracted a new type of customer to insurance products, especially the products that also function as an investment, now prevalently distributed through the banks. Consequently, this has caused a need for additional professional staff with experience in insurance products at the operational level. On the other hand, in view of their professional training, graduates from the specialist degree course (a prerequisite into the second-level master's degree or doctorate program) in Financial Intermediaries Economics and Management must perform at a higher level as management and administration experts and consultants, if not banking and insurance entrepreneurs and managers.

Other "Financial Intermediaries Economics" Degree Courses in Italy

As one might expect, there are naturally many other Italian degree courses in which insurance sciences are explicitly addressed. All the same, the connotation of "insurance" is almost never exclusive, at least at the level of short degrees. Few courses are composed entirely of insurance themes because the market is not yet ready for a product of this type. In the wider ambit of Financial Intermediaries Economics are various centers of excellence, among which are the Bocconi University of Milan, the Catholic University of Milan, the University of Venice (*Ca' Foscari*), and the University of Modena and Reggio Emilia.

Example of Post-Graduate-Level Insurance Courses in Italy

At the post-graduate level, the experience of La Sapienza University in Rome allows a brief review of one of the most recent initiatives in Italy, which qualifies as a second-level master's degree under the new regulations, namely the Master in Financial Management (MFM)—Insurance Sector. As this is a higher-level course, a selection of lecturers from the most prestigious Italian universities takes part, with each participant being responsible for one area. Along with the academicians are contributions from a host of professionals and managers from the insurance sector who deal with the operational profiles. Many other second-level master's degrees are available, often germinating from private inspiration. In fact, generally speaking, all of the major insurance companies are involved—directly or indirectly (and not only as sponsors)—in post-graduate-level professional training projects.

At the MFM–Insurance Sector, I deal with coordinating the Theory of Risk section. The teaching of this section has been organized alongside the lessons of university staff from research institutes and insurance companies as well as industrial company managers. The themes are addressed with the highest level of sophistication possible; seminars in this first edition of the course have concentrated mostly on risk pricing, stability problems, reinsurance, and the use of advanced models for the estimation of risk (e.g., through neural networks).

Conclusions

The reforms described here are not the first to be activated in the Italian university system and will certainly not be the last. This is the first provision that brings the Italian system nearer to the Anglo-American system. In a few years, the results will reveal whether these changes are an improvement. What is apparent now is that, at all levels of university education in Italy, an unstoppable growth of insurance disciplines in the field of risk management and insurance is occurring. This is the consequence of the diffuse product innovation of recent years, characterized by an increasing integration of finance and insurance, and also of the renewed attention being given to the management and transfer of pure risk to the market.

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Scholarships Available

The Derek Hughes/NAPSLO (National Association of Professional Surplus Lines Offices) Educational Foundation has established a number of $2,000 scholarships to further the study of exceptional students. To be eligible, undergraduate or graduate students must major in actuarial science, business, economics, insurance, finance, management, risk management, or statistics and have a GPA of 3.0 or above. The application deadline is June 1. For additional information, visit www.napslo.org/Content/Foundation/Foundation.htm or contact the NAPSLO Educational Foundation's Insurance Scholarship Committee at (816) 741-3910 or foundation@napslo.org.

Modernizing Collegiate Insurance and Actuarial Education in Asia

by W. Jean Kwon, St. John's University

Development of an insurance industry requires a continuous supply of human resources specializing in risk management, insurance, actuarial science, and investment, among others. Meeting this demand, particularly through generating college-educated individuals of high caliber, is critical as the economy develops and competition rises. Not surprisingly, numerous tertiary educational institutions in Asia, a continent of relentless development, offer degree programs in insurance and actuarial science. Many of these programs deal increasingly with fundamentals-oriented and theory-based subjects with applications not only to modern risk management and insurance but also to hybrid areas in financial services. In some companies, courses range from practice-oriented ones (e.g., compulsory and marine insurance), which have not changed, to newer ones (e.g., international insurance and pension) that are being developed. This article describes the status of collegiate insurance and actuarial education in Asia.

The status of a country's insurance education, or training, is usually closely related to the country's economic status. Underdeveloped or developing economies depend more on nonuniversity programs for human resources development, whereas advancing and advanced economies depend more on university programs for the same purposes. (Visit APRIA's Web site, www.apria.org, for a list of universities and institutions offering insurance programs.) For example, no known universities in Bhutan, Cambodia, Laos, Myanmar, Nepal, North Korea, Pakistan, Sri Lanka, or Vietnam offer formal programs in insurance or actuarial science. Two advancing countries, Brunei and Macau, have no formal university programs either, yet, interestingly, dozens of insurers operate there.

In Bangladesh, Indonesia, Malaysia, the Philippines, and Singapore, industry-supported entities offer well-structured training programs. Bangladesh Insurance Academy, Indonesian Insurance Institute, and the Insurance Institute of the Philippines offer numerous short-term courses. Malaysia Insurance Institute and Singapore College of Insurance offer short-term training programs, and they also offer, or plan to offer, university-level distance-learning programs in collaboration with foreign universities. Of course, many other Asian countries, such as China, Japan, Korea, and Taiwan, which also have university programs, use industry-supported institutes as training and continuing education centers for insurance professionals.

Limited university-level programs can also be found in Malaysia and Singapore. Universiti Tenaga Nasional and Institut Technologi Mara, both in Malaysia, offer insurance courses. In Singapore, Nanyang Technological University used to offer undergraduate programs in insurance and actuarial science. Although it attracted more than 100 students each year, the university decided to close both programs and, instead, offers selected courses in these areas. Vigorous and decade-long university programs also exist. "Report of the Survey Regarding Collegiate Insurance and Related Education," a study published in 1999 by the Insurance Society of Japan shows that, in June-July 1998, 408 undergraduate and graduate schools in Japan had at least one insurance subject and that more than 400 professors taught insurance subjects to more than 50,000 undergraduate and 1,800 graduate students. Insurance subjects are commonly part of the broader curriculum of the business school, where the majority of students get a bachelor's or master's degree in general business. Similarly, quite a few universities offer actuarial science courses, which are often taught by adjunct professors working in the industry.

Collegiate education in insurance is also considered significant in Korea (South). Sungkyunkwan University, Kyunghi University, and Segang University, for example, have long offered insurance courses, especially in their graduate programs. The opening of the domestic insurance market to foreign firms, as well as continuing growth of the domestic insurance market, triggered several universities to offer insurance as a stand-alone major or as part of an insurance-finance-banking major. Today, more than two dozen universities (e.g., Mokpo University, Hanyang University at Ansan, Sangmyung University at Chonan, SoonChunHyang University, and Taegu University) attract a number of high-caliber students. Korea probably has the world's second-largest body of terminally qualified insurance professors and scholars, many of whom have studied overseas. In contrast, no universities offer collegiate actuarial science programs in this country.

Insurance education in Taiwan first became active at Feng Chia University. Now, several universities, including National Chengchi University, Ming Chuan College, and Tamkang University, offer degree programs in insurance here. In particular, National Chengchi University plans to introduce doctorate programs in insurance soon. In Thailand, actuarial science is a well-known specialization. Chulalongkorn University in Bangkok has offered a bachelor's degree program since 1968 and a master's degree program in actuarial science since 1992. This university's programs are unique in that students learn both actuarial and insurance subjects. On the other hand, Assumption University (formerly ABAC) and National Institute of Development Administration confer degrees in insurance.

Fast growth of collegiate programs in China and India should never be underestimated.

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Government-supported insurance training programs are still strong in these countries. However, the younger generation seems to be increasingly interested in insurance and actuarial programs available from local universities. In China, the government supports ten nationally well-known universities for their insurance or actuarial science programs. They include East China Normal University, Fudan University, Hunan University, Nankai University, Peking University, Renmin (People's) University, Shanghai University of Finance and Economics, University of Science and Technology of China, Wuhan University, and Zhongshan University. Additionally, provincial and municipal universities in coastal as well as inner China offer or plan to offer insurance courses and majors. This change is not surprising given the potential size of the local market and the interest of the Chinese government and foreign insurance entities. China's special administrative region, Hong Kong, has Lingnan University offering an undergraduate program in insurance. Moreover, Chinese University of Hong Kong and Hong Kong University offer courses in insurance and actuarial science, respectively.

A similar degree of interest from the government and the industry exists in India, which opened its local market by permitting joint-venture operations with foreign insurance firms. Indian Insurance Institute and the National Insurance Academy continue to offer short- to medium-term courses or certification programs. They also offer joint programs in insurance with foreign universities. Focus has shifted now, as more universities in India have begun to offer formal degree programs. For several years, the Indian Institute of Management at Bangalore has offered graduate courses in insurance. University of Hydrobad, University of Pune, Bharatidasan University, and many others offer courses in insurance as well. National interest in producing qualified actuaries has also triggered formal education in actuarial science in many universities in India.

Changes in collegiate insurance and actuarial science education are indeed evolving in many Asian countries. For healthier growth of academia, especially in countries that do not have formal programs or that are planning to expand programs at their infancy, a few quintessential elements should be present. Faculty development, especially attracting terminally qualified faculty members, is one of them. Curriculum development is another, particularly, updating programs to reflect changes in the modern insurance industry in the midst of the financial services sector. A related essential element is developing textbooks in local context, which is especially urgent in China and India. Finally, more emphasis on the academic field of risk management (in which insurance is a risk financing and transfer tool) can be expected very soon, probably in all Asian countries.

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Terrorism Risk Insurance Act of 2002

by Donald L. Griffin, National Association of Independent Insurers

Introduction

The September 11, 2001, terrorist attacks in New York, Pennsylvania, and Washington, D.C., produced the largest insured loss in history, estimated at between $30 and $50 billion. While all covered claims have been or are being paid, insurers, reinsurers, the business community, regulators, and lawmakers have expressed grave concern about how to address future unpredictable and potentially catastrophic exposures of this type. The industry did not anticipate, nor could it accurately charge for, an event of this magnitude. Another large terrorism event could devastate the industry and cause ripple effects throughout the U.S. economy. As a result, the insurance industry and regulators, members of Congress, and the Bush Administration spent more than fourteen months lobbying and debating how best to address the effect of potentially catastrophic and unpredictable terrorist activities on the private insured sector. The final product is the federal Terrorism Risk Insurance Act (TRIA), passed and signed into law on November 26, 2002, which provides a high-level federal backstop for foreign acts of terrorism.

History

Two reasons led to the need to craft TRIA. First, the "war" exclusion contained in all policies (except workers compensation) did not cover the circumstances causing the Sept. 11 attacks. Second, reinsurers suffering a serious financial blow from this event (roughly two-thirds of losses) began terminating contracts and excluding future terrorism-related losses; this created an affordability and availability crisis, particularly for commercial accounts that are perceived as target risks.

In an effort to provide insurers with the flexibility to serve primary markets in a post-Sept. 11 world, insurance advisory organizations filed exclusions that companies could use to reduce exposure to future terrorism losses. Many insurers adopted these exclusions over the coming months. Five states—California, Florida, Georgia, New York, and Texas—refused to approve these exclusions affecting standard/generic contract forms, and all but California refused to approve individual company terrorism exclusion filings. These states are especially important not only because they are large insurance markets but also because they may be more vulnerable to future terrorist activity in view of their landmark buildings, theme parks, and other infrastructure. The problem of being able to serve primary markets also became particularly acute for workers compensation risks, as the provisions for coverage are set by statute, and neither war nor terrorism can be excluded without changes to state laws.

Furthermore, statutes or regulations in twenty-eight states required insurers to meet a minimum standard for fire coverage (for all property policies) based on the 1943 New York Standard Fire Policy. This meant that even if a company could obtain approval of its terrorism exclusions, the loss caused by fire following a terrorist event would still be covered. The industry collaborated with others to secure approval of the use of exclusions and continues to work on a way to address the standard fire policy issue.

Congressional Activities

Beginning in late September 2001, the industry, along with members of the U.S. House and Senate, was busy drafting terrorism bills. The House passed H.R. 3210 on November 29, 2001; although it included several problematic provisions for the insurance industry, the industry supported moving the legislation to the Senate. Because of other debates on the Senate side, however, no action by this group occurred before Congress adjourned in 2001. When Congress reconvened the following year, the predicted January 1 insurance market "doomsday scenario" of widespread coverage gaps and nonrenewals did not occur. Hence, Congressional activity waned, despite separate lobbying efforts by the business community. As time passed, President Bush began to escalate his involvement with and commitment to the issue, drawing heightened national attention. The debate over terrorism reinsurance quickly became the focal point of ongoing disputes over "tort reform." The Senate finally passed S. 2600 on June 18, 2002. While the legislation contained some desirable elements, including a true risk-sharing mechanism and per-company retention, it still had several problems. Significant differences in H.R. 3210 and S. 2600 resulted in lengthy conferences between key legislators, and, after protracted debate between the two sides and discussions with the administration, negotiators reached a tentative final agreement on October 17, 2002.

TRIA

The Terrorism Risk Insurance Act of 2002 was signed by the President on November 26, 2002, and became Public Law 107-297. It is a complex compromise of many elements of H.R. 3210 and S. 2600, as well as new provisions not presented before. TRIA is a three-year program that began on November 26, 2002, and ends on December 31, 2005. The backstop provision is limited to foreign acts of terrorism (domestic terrorism is not covered) as well as war coverage for workers compensation. The Secretary of the Treasury (Secretary) determines what an "act of terrorism" is, in concurrence with the Secretary of State and the Attorney General. He or she must then "certify" the act. To be covered, aggregate industry losses must be at least $5 million in damages. The Secretary may not delegate or designate anyone else to make this determination, and any certification by the Secretary is final and not subject to judicial review.

In short, the definition of an eligible insurer is any entity or an affiliate that is: (1) licensed or admitted to write primary or excess coverage; (2) an eligible surplus lines insurer listed on the National Association of Insurance Commissioners' (NAIC) Quarterly Listing of Alien Insurers; (3) approved to offer property-casualty insurance by a federal agency that regulates maritime, energy, or aviation activity; or (4) a state residual market insurance entity. Captive insurers, self-insurers, and any other entity may qualify if the Secretary deems it appropriate, before the occurrence of an act of terrorism, and are subject to the same rules as other eligible insurers. All entities must receive direct earned premiums for any commercial line. "Eligible lines of insurance" are commercial property-casualty insurance, including excess insurance, workers compensation, and surety insurance. Not included are crop/hail, livestock, private mortgage, financial guaranty, medical malpractice, health, life, group life, or flood insurance; reinsurance; and retrocessional reinsurance.

Participation in the program is mandatory for commercial insurers (as defined in the Act). These insurers must "make available" through 2004 (which may be extended by the Secretary) coverage for foreign terrorism acts that does not differ materially from the terms, amounts, and other coverage limitations in the rest of the policy. To be eligible to submit a claim under the Act, insurers must disclose in "clear and conspicuous" language, and within specified time periods, the premium charged for covered foreign terrorism losses and the federal share of compensation for those losses.

TRIA immediately preempts and nullifies preexisting terrorism exclusions (to the extent that they exclude losses covered by the program). These exclusions can be reinstated only if the insurer receives a written statement from the insured making such a request or if the insured does not pay the terrorism premium within thirty days after proper notice. Under TRIA, the federal government is responsible for paying 90 percent of each insurer's primary and excess losses above that insurer's annual program deductible. Each insurer's deductible, which increases each year by a specified amount, is based on a percentage of that insurer's direct earned premium for lines of business covered in the prior year.

Each year, the industry must report to the Secretary the premiums charged for terrorism coverage; the Secretary, in turn, must make this information available to Congress, if requested. The Secretary must also notify Congress if annual losses resulting from terrorist activities exceed $100 billion. Because the excess is not covered under TRIA and neither the government nor the insurance industry is liable for losses above this amount, Congress shall determine the procedures for and the source of any such payments. Policyholder surcharges are mandated for any difference (gap) underneath an annual aggregate loss figure and the total amount of insurer loss payments (deductibles plus their 10 percent quota share),

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which are $10 billion in the first year, $12.5 billion in the second, and $15 billion in the final year. Any surcharges above these annual numbers, up to the program limit of $100 billion, are at the Treasury's discretion. The decision on whether to impose such surcharges is based on economic conditions, with the maximum annual surcharge on an insured being 3 percent of the premium on an annualized basis. All commercial policyholders, whether they purchase terrorism coverage or not, are to be surcharged, based on their location, size, type of business, etc.

Implementation

After the signing of the legislation last November, the industry began to grapple with many issues related to its implementation. These include disclosure notice, premium and workers compensation disclosure issues, the identification of specific included lines, event determination timelines, pro rata procedures based on a $100 billion cap, claim processing, loss commutation, state property residual market clarification, and treatment of terrorist assets.

On the same day TRIA was signed, the National Association of Insurance Commissioners publicly released a model bulletin addressing prior-approval and waiting-period filing preemption provisions, including model disclosure notices. Potential terrorism losses are divided into two categories: certified (losses covered by TRIA for foreign terrorist acts) and noncertified (for all other terrorism losses), the latter subject to regular state prior-approval and waiting-period requirements. At the time of this writing, forty-eight states have issued bulletins to address TRIA's implementation; many have adopted the model with minor revisions. Florida continues to maintain that no exclusions will be approved for noncertified losses. California and New York allow exclusions for certified losses and will allow companies to make their case, on an individual basis, for filing noncertified exclusions.

On December 3 and 18, 2002, respectively, the Treasury released its first and second interim guidance documents. The first guidance provides for a "safe harbor" for insurers following the model disclosures issued by the NAIC, although those disclosures are not the exclusive means of compliance. The guidance also enumerates the lines of business covered by the Act and seeks to clarify that the "make available" provisions do not require that coverage be available for all types of risks (e.g., nuclear, biological, or chemical). The second guidance clarifies previously raised issues and addresses additional compliance issues. On January 22, 2003, the Treasury's third interim guidance document was released, with wording on the "offer, purchase and renewal" disclosure provisions and final terms of terrorism insurance coverage. Also included are "separate line item" disclosure requirements for where clear and conspicuous disclosure may be placed on the policy, disclosure certification by insurers, application of the Act to non-U.S. insurers, and determination of "insured loss" for U.S. air carriers and flag vessels. The first "final interim regulation" was released on February 25, 2003, further clarifying the information in the three interim guidance documents.

What Does the Future Hold?

Many implementation issues still must be addressed. The possible effect of the high per-company retention could financially devastate an insurance company and the industry, with the backstop providing no protection for "noncertified" losses. Thus, insurers still face some significant decisions on writing and renewing risks with terrorism exposures. The guidance issued to date by the Treasury does not address many of the industry's key concerns, and it remains to be seen how this will affect the marketplace. The short-term nature of the program also requires companies to incur significant expenses to comply with the provisions of TRIA and then puts the coverage back into the private market at the end of 2005. This process, along with the considerable confusion over the coverage for policyholders, will undoubtedly lead to litigation if an event occurs. The true value, cost, and effect of TRIA may not be known until years after the program ends. It will depend on the final implementation regulations, the number and magnitude of future terrorism events, and changes in primary and reinsurance market conditions. One thing is certain: the events of September 11, 2001, have changed our industry, our community, and our country forever.

For further information on TRIA, contact Don Griffin, Assistant Vice President, Business and Personal Lines, NAII, at donald.griffin@naii.org.

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