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BOOK REVIEWS

Risk and Insurance, Eighth Edition, by Mark Greene, James Trieschmann, and Sandra Gustavson (South-Western Publishing, 1992).

Reviewers: Arthur T. Cox and A. Frank Thompson, University of Northern Iowa, Cedar Falls

The authors and publisher of *Risk and Insurance* are to commended on their revision of a comprehensive text on insurance. This book provides a large volume of information on personal lines and business insurance coverages, interspersed with brief topical issues related to a number of insurance principles.

A great deal has changed since *Risk and Insurance* was first written. Over the last few years, the number of students taking risk and insurance classes has declined at larger institutions and grown at smaller schools. In addition, risk management departments are more widely accepted in all types of businesses, and insurance companies have grown substantially in asset size and numbers of employees. We were interested in how well *Risk and Insurance* has adapted to this new teaching environment.

The book offers and alternative for those seeking to cover the entire landscape of risk and insurance topics. Unlike the voluminous tomes of the past, this book will not literally weigh students down with the burden of the subject. Although the book is not large, the publisher has reduced the print to permit an extensive coverage of insurance literature. One drawback to the reduction in print is the cluttered appearance of the pages. For example, the inside leaves of the book list the figures and tables found within the text. These two pages have 77 listings that blanket both pages in small print. Each ensuing page has this same general format, which may leave students confused as to the more important elements of the text.

The use of graphics would highlight the most important concepts and would simplify learning, particularly when differences in topical situations could be introduced. For example, the difference between cliff vesting and gradual vesting lends itself to the use of graphics. In addition, bullet lists would bring out the separate issues relevant to a particular topic. As it is, the text format obscures the authors' points.

Risk and Insurance provides an extensive review of insurance principles, legal concepts, life, health, property and liability coverages, risk management, and insurance industry information. The text offers details on such distinguishing insurance features as: (1) how to conduct a risk management audit, (2) exposures due to loss of health, (3) annuity taxation, (4) elements of professional, as opposed to liability, insurance, and (5) special insurance contracts like plate glass coverage.

Despite the well-intentioned efforts of the authors to thoroughly cover insurance and risk management topics, the chapters and sections of the book lack a cohesive focus. Some examples illustrate what may need to be addressed in future editions. On page 12 the authors refer to an objective risk measurement as equal to the probable variation of actual from expected losses divided by expected losses. Most of us recognize this as a restatement of the coefficient of variation. However, it is not until page 675, Appendix B, that the authors mention that coefficient of variation was used in Chapter 1. Chapter 18 is entitled "Buying Personal Insurance." indicating to many student that this material deals with purchases of all forms of insurance. However, this particular chapter deals exclusively with casualty related topics involving evaluation of property and liability insurers. In the preface, the authors mention that they have innovatively combined the discussion of workers' compensation with liability insurance. This idea may have merit in dividing coverage up more evenly, but pedagogically speaking it would be hard for students to make the connection between these two diverse topics. Chapter 19, "Business Liability and Workers' Compensation Insurance" appears to be two chapters in one. The first half of this material introduces business liability insurance (CGL, business auto, and liability contract provisions) and the second half offers information on workers' compensation insurance. No effort is made to connect the two apparently unrelated topics. On page 423, when discussing the Business Auto Policy, the authors refer to the SCLP, but this acronym is not explained until a later chapter mentions that it refers to the Simplified Commercial Lines Portfolio policy.

Readers of *Risk and Insurance* should be aware also that the discussion of some topics is incomplete. For example, many would find the treatment of superannuation, the needs approach to life insurance programming, and preexisting conditions not adequate. The authors do an excellent job of introducing the topics, but some instructors will wish to delve into the topics in more detail. This is not necessarily a deficiency in *Risk and Insurance*; if every concept was fully developed, the book would be excessively long.

Students who already have a knowledge of risk and insurance will find this book to be a useful reference for an advanced course in risk management. There is admirable descriptive material. The authors, however, do not extend their discussion to include the importance and relevance of the issues raised to family and business applications with which students will be faced. Some discussion is needed to provide a basis for real-world decision making. For example, there is no discussion regarding the relative importance of life insurance versus disability income insurance.

In summary, we feel *Risk and Insurance* can give students a good background in risk management issues, particularly if the instructor expands

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upon the text instead of using it as the entire course. Nevertheless, the authors have made an important contribution to the upper end of the insurance education literature.

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Personal Insurance, Second Edition, by J. J. Launie, George E. Rejda, and Donald R. Oakes with Anita W. Johnson (Insurance Institute of America, 1991).

Reviewer: Gerald D. Cook, Associate Professor of Accounting, Risk Management and Insurance, University of New Brunswick

Personal Insurance was written specifically for INS 22, the second course in a three-part program developed and offered by the Insurance Institute of America (IAA). This second edition updates an earlier edition published in 1987. Another text, *Property and Liability Insurance Principles*, supports the first course, INS 21, while *Commercial Insurance* is used in INS 23, Successful completion of these three courses and their related national examinations leads to the IAA Certificate in General Insurance.

Each of these texts is intended for students who have completed some introductory study in insurance concepts and terminology. The majority of individuals undertaking these courses are found in insurance and/or insurance-related occupations. The courses are intended to enhance their comprehension of insurance practice by providing an understanding of the principles and functions of insurance and insurance contracts.

Whereas the perspective of the previous text, *Property and Liability Insurance Principles*, is primarily that of an insurance practitioner, this second text, *Personal Insurance*, attempts to develop an overview of the lòss exposures encountered by individuals and families, and the types of insurance and various policies developed to cover these loss exposures. The focus of this text is succinctly clarified in the early pages of chapter one, and may be paraphrased as follows:

> Personal loss exposures are those loss exposures faced by individuals and families. Personal insurance consists of those insurance coverages designed to transfer the financial consequences of personal losses from individuals and families to an insurer. Although the term personal loss exposures is used to denote the full range of property, liability and human loss exposures faced by individuals and families, to avoid confusion, this text uses the term human loss exposures to describe losses that directly affect individuals, such as losses caused by death, poor health, disability, and unemployment.

The remainder of the first chapter is devoted to identifying specific individual and family loss exposures that might result in property loss, liability loss, and human loss. The book's twelve chapters average a concise 25 pages and each presents an impressive amount of information.

Chapters two, three, four, and five deal with property and liability loss insurance coverage, policy conditions, and pricing mechanisms related to homeowners' and other residential insurance policies, including insurance for tenants, condominiums, and mobile homes, Chapter six elaborates upon this discussion with an explanation of inland marine, watercraft, and personal umbrella policies and how these expand the loss protection provided to consumers.

The next three chapters provide a comprehensive discussion of the various facets of automobile insurance, including the problems of availability and affordability as well as the topical subjects of tort liability based on fault and the meaning and characteristics of no-faulty insurance.

The focus of the text then shifts from property and liability exposures to human loss exposures. Chapter ten discusses the need for life insurance and the various types of policies designed to meet these needs. Also, a concise discussion of major life insurance policy provisions and riders is included to acquaint the reader with many of the associated contractual and legal implications. Chapter eleven continues with an informed discussion of the availability and benefits of protection for individuals and families against financial losses resulting from sickness and accidental injury, encompassing the categories of both medical and disability insurance. Again, a good presentation of the commonly encountered policy provisions is provided.

The final chapter identifies numerous federal and state government insurance programs that operate to add to the financial security of American individuals and families. These include the major compulsory social insurance programs of Social Security, unemployment insurance, workers' compensation, and temporary disability insurance. The chapter concludes with a brief, but informative description of a number of additional government programs such as Federal Flood Insurance and the Federal Deposit Insurance Corporation (FDIC), to name but two.

Each chapter concludes with a useful one- or two- page summary of the salient topics. Also, at their conclusion, most chapters provide some chapter notes which are very useful for reference purposes. Two very interesting cases included in the text are a valuable feature: a family residence insurance case at the conclusion of chapter five and a personal auto policy case at the end of chapter eight provide sterling examples of the concepts and contracts applicable to the described situations.

There frequently is a temptation to fault a text such as this because of its lack of illustrations "insight readings," questions, and anecdotes Bearing in mind the intended purpose, its audience, and its place in a three-volume series, this reviewer is of the opinion that the quantity of factual instructional material and relevant discussion contained in a text of this size is quite laudable. In their day-to-day work, many readers will be able to supply their own practical examples that relate to the various topics covered. For those who cannot, there are numerous excellent academic texts that can readily embellish any perceived shortcomings. Personally, I am pleased to have this very fine text as part of my insurance reference library.

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A Guide to Effective Insurance, Second Edition, by Francis Tierney and Paul Braithwaite (Butterworths Canada, 1992).

Reviewer: Roger Harris, Graduate Student, London School of Economics

This book, designed as "a concise summary of consolidated information on general insurance," is intended for preliminary reference by corporate manages and small business owners, rather than for reading by experienced risk management professionals. That is not meant to imply that its treatment of the subject is in any way cursory. Few topics go unaddressed, and the reader cannot fail to leave the book with a sound grasp of how to obtain effective coverage for most risks.

The book's contents can best be described by dividing them into two separate parts. The first, of a general nature, includes considerations of such points as the application process and methods of risk identification and control. The roles and responsibilities of the various participants in the insuring process are examined in a separate chapter, and there is a helpful discussion of how to minimize insurance costs by such measures as layering and efficient use of reporting clauses and deductibles. The legal principles underlying liability insurance are summarized also.

The most significant contribution of the work probably lies in the second part, which is a review and explanation of the contents and format of the most common insurance policies. The specific provisions found in such policies are discussed in some detail. It is rather notorious that few lay persons have the time or inclination to wade through policies,* and the book should do much to make their contents more accessible. Property, business interruption, general liability, automobile, and homeowners insurance are all covered fully, and there is an additional chapter entitled "Liability Insurance: Endorsements, Riders, Specialized Policies and Excess Policies."

The text is very user-friendly and is liberally supplemented with simplified examples. Another useful feature is the inclusion of tables and diagrams to illustrate the various forms of coverage available under specialized property policies and how gross earnings are defined for the purpose of business interruption cover. Specimens of actual policies are reproduced at the end of the appropriate chapters.

The book is well written and nicely produced, and the only real fault is with the style of its index. Organized in the "sub-sub-topic" format, it is difficult to use quickly and detracts somewhat from the book's value as a handy reference source.

A Guide to Effective Insurance takes what many people would regard as a dry, overly-technical subject and presents it in a manner that is approachable

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* As Mr. Justice Paull stated in *King v. Chambers & Newman (Insurance Brokers) Ltd.*, [1963] 2 Lloyd's Rep. 130 at 137, "I am the last person ever to think that any insured ever reads his policy through from end to end. I am quite satisfied that it is only the very, very exceptional person who ever does."

without being patronizing or superficial. It can be warmly recommended to all insurance consumers.

2 ***Foundations of Insurance Economics***, edited by Georges Dionne and Scott E. Harrington (Norwell, Mass.: Kluwer Academic Publishers, 1992).

Reviewer: Mark L. Cross, Ph.D., Professor of Finance and Insurance, Louisiana Tech University.

Economic and financial research on insurance markets has grown significantly in the last thirty years. Before 1960, the literature was basically void of analyses of the nature of insurance markets or of the economic behavior of agents acting in these markets. *Foundations of Insurance Economics* provides a brief introductory survey of the major areas of insurance econmics along with selected key articles that deal with these areas. The main objective of the test is to provide greater exposure for the key articles in the area of insurance economics.

The articles were selected on the basis of the significance of the contribution, the representativeness of the work, and the desire to achieve a balance between empirical and theoretical articles. The text concentrates on the applications of insurance economics to property-liability insurance. Areas such as life, health, annuities, and social insurance are not addressed. However, the articles illustrate issues, concepts, and methods that are applicable in all areas of insurance.

The following is a brief description of each section and a list of selected articles included in each section.

Utility, Risk, and Risk Aversion deals with the theory of optimal insurance decision making under uncertainty.

Mark J. Machina, (1987) "Choice Under Uncertainty: Problems Solved and Unsolved," *Journal of Economic Perspectives* 1:121-154.

John W. Pratt, (1964) "Risk Aversion in the Small and in the Large," *Econometrica*, 32:122-136.

Demand for Insurance considers the optimal choice of insurance for a risk-averse decision-maker.

David Mayers and Clifford W. Smith, Jr., (1982) "On the Corporate Demand for Insurance," *Journal of Business*, 281-296.

Jan Mossin, (1968) "Aspects of Rational Insurance Purchasing" *Journal of Political Economy*, 553-568.

Insurance and Resource Allocation analyzes the role of different institutional arrangements for risk shifting, such as insurance markets and stock markets.

Kenneth J. Arrow, (1971) "Insurance, Risk and Resource Allocation," Chapter 5 in *Essays in the Theory of Risk Bearing* (Elsevier Publishing Company), 134-143.

Karl Borch, (1962) "Equilibrium in a Reinsurance Market," *Econometrica* 30:424-444.

Moral Hazard and *Adverse Selection* (two sections) deal with reasons why risk shifting is limited.

Steven Shavell, (1979) "On Moral Hazard and Insurance," *Quarterly Journal of Economics* 93:541-562.

Michael Rothschild and Joseph E. Stiglitz, (1976) "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics* 90:629-649.

Market Structure and Organization Form addresses the market structure, conduct, performance and ownership structure in the U.S. property-liablity insurance industry.

Paul L. Joskow (1973) "Cartels, Competition and Regulation in the Property-Liability Insurance Industry," *Bell Journal of Economics,* 375-427.

David Mayers and Clifford W. Smith, Jr. (1988) "Ownership Structure Across Lines of Property-Casualty Insurance," *The Journal of Law and Economics* 31:351-378.

Insurance Pricing deals with the determinants of long-run equilibrium pricing in the insurance industry.

Nahum Biger and Yehuda Kahane (1978) "Risk Considerations in Insurance Ratemaking" *Journal of Risk and Insurance* 44:121-132.

J. David Cummins, (1988) "Risk-Based Premiums for Insurance Guaranty Funds," *Journal of Finance,* 823-839.

Insurance Regulation addresses solvency and rate regulation.

Jörg Finsinger and Mark V. Pauly, (1984) "Reserve Levels and Reserve Requirements for Profit-Maximizing Insurance Firms," in G. Bamberg and K. Spremann, *Risk and Capital* (Springer-Verlag), 160-180.

Patricia Munch and Dennis E. Smallwood (1980) "Solvency Regulation in the Property-Liability Insurance Industry: Empirical Evidence," *Bell Journal of Economics,* 261-279.

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Professional Liability Insursance, Volumes I and II, by Robert A. Bregman and Jack P. Gibson, (Dallas: International Risk Management Institute, 1991).

Reviewer: Joseph V. Carcello, Assistant Professor of Accounting, University of North Florida

These two volumes, which contain over 800 pages of text and over 1,000 pages of tables and sample forms, present an exhaustive examination of professional liability insurance. The breadth and depth of the coverage is impressive. Although the test is lengthy and some material is repetitive (of necessity), I read both manuals in their entirety, and it significantly increased my knowledge of this topic.

Before discussing the specifics of these volumes, some overall comments are appropriate. The manuals are well written and easy to understand even for someone without an extensive background in this area. Examples are used liberally thoughout and serve to clarify some of the more technical concepts. A large number of tables provide reference information and numerous sample policy forms. Color-coded tabs separate the different sections of the manuals. One of the few overall drawbacks of these volumes is their repetition. For example, each section that dicusses a particular type of liability insurance has a chapter on "policy coverage analysis." These chapters tend to be very similar across policies. However, this is not likely to be a problem for the typical reader, who will probably not need to read these manuals in their entirety.

The first volume contains eight sections: (1) legal aspects, (2) practical concerns, (3) markets, (4) common features, (5) coverage triggers, (6) directors and officers, (D&O) (7) governmental and noonprofit, and (8) fiduciary. The first five sections cover background material on professional liability insurance that serves as a foundation for a discussion of the particular coverage lines. All users of these manuals would benefit from reading these chapters. Beginning with the section on D&O liability insurance, the remainder of volume one addresses specific types of liability insurance.

The second volume contains sections on seven types of professional liability insurance: (1) accountants, (2) lawyers, (3) insurance, (4) medical, (5) architects and engineers, (6) media, and (7) miscellaneous. The section on medical professional liability covers two different types of exposures—the liability of hospitals and physicians' liability. Professional liability insurance for media professionals seems to be the most unique of the various coverages discussed.

Each section discussing a particular type of professional liability insurance is organized in a similar manner. The first chapter presents a brief introduction, typically between one and four pages. The second chapter, which invariably is the most illuminating and interesting, reviews a number of general concerns relative to the particular type of liability insurance discussed in that section. These general concerns typically include exposures faced by the professeional, underwriting factors, loss control techniques, and coordination with general liability insurance. The third chapter, entitled "markets," lists the names, addresses, and contact persons for companies offering coverage for the type of liability exposure being discussed. The fourth chapter analyzes typical policy provisions. This chapter is the most uniform from one section to another and includes a discussion of covered services/covered acts, covered persons, covered organizations, covered territory, covered damages, covered defense costs, and claims settlement procedures. The last chapter contains various policy documents and checklists.

The section on professional liability insurance for accountants was of particular interest to me. There was a rather fine discussion of causes of actions against accountants and loss control techniques. This section did contain a few misstatements that might have been detected if an accountant had reviewed the chapter. For example, on p. XIII.C.4, the authors state that a qualified audit

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opinion is appropriate when material uncertainties are present. The AICPA's 1988 *Statement on Auditing Standards No. 58* changed the required reporting guidance in the case of material uncertainties. A qualified opinion (subject to) is no longer issued; rather, an explanatory paragraph about the material uncertainty appears after the opinion paragraph in the auditor's report. The description of a "review report" appearing on the same page is poorly worded. Even with the se minor problems, this section of the manual presents a complete and accurate discussion of the liability risks faced by the accounting profession.

Both volumes have been written in a manner that facilitates updating and expansion. A discussion of the liability exposures faced by consultants and nurses may be a useful addition to a subsequent publication.

These manuals are not targeted at an academic audience and probably would not appeal to such. They should, however, be of interest and of use to individuals in the business community. Risk managers, brokers, agents, and even practicing professionals should find *Professional Liability Insurance* to be a worthwhile additon to their libraries.

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Workers' Compensation: Strategies for Lowering Costs and Reducing Workers' Suffering, edited by Edward M. Welch (Horsham, Penn.: LRP Publications, 1989).

Reviewer: Kathleen S. McNichol, MBA, CPCU, Risk Management and Insurance Program, La Salle University

This book is a compilation of selected proceedings from workers' compensation conferences held in Michigan in 1987 and 1988, which focused on the sharing of creative and innovative techniques for handling the spiraling costs and challenging situations presented by the workers' compensation program in Michigan.

The book is divided into four sections—Disability Management, Three Success Stories, Contributions from Government, and Thoughts from the Scholarly Community—with three or four essays in each section. The book is introduced by the editor with a very optimistic essay regarding the potential for overcoming problems associated with teh workers' compensation program. The essays that follow do, in fact, present some very positive results from employing creative and innovative techniques to control costs and increase communication among all the parties involved in workers' compensation programs and disputes. To its credit, the book discusses programs at both large and small companies,

One recurring theme in the proceedings is the necessity for each firm to capture data that describe workers' compensation losses. Once these data are available, the firm can concentrate on controlling their program since they know where to place emphasis. However, an initial stumbling block may be upper management's resistance to investing in such a data capture system. In Part Two, Three Success Stories, several authors stress the importance of upper management's commitment to programs designed to control costs. These essays are valuable because they discuss techniques to obtain this commitment.

Another important message echoed in several entries is the need to improve communication between employers and employees. Several successful programs are cited in which the frequency and severity of compensation claims decreased largely due to improved interpersonal relationships between the firm and its employees: Good risk management in practice!

Each essay provides valuable insight on its own; but the synergy created by all the essays together leads to an important strategical sense of *disability management.* There are entries that discuss practical strategies to deal with specific problems such as claims management; also, an entry dealing with ethics provides a philosophical basis on which to develop a workers' compensation program.

The greatest benefit of the se readings is that they offer many different points of view. Managers with different philosophies should find useful solutions to problems they face. The main audience for this work is professionals facing mounting costs in their own workers' compensation programs. It would also be a useful reading for undergraduate students studying insurance, because problems currently faced by professionals are discussed along with some practical solutions to these problems.

The only flaw in the book is that some of the material seems dated, such as the statement that many firms do not have an AIDS policy. Since these readings were compiled, there has been much movement on the part of companies to develop working AIDS policies. Also, the impact of the passage of the Americans with Disabilities Act on many of the programs discussed in the proceedings is not considered since the latest proceedings were from 1988. These shortcomings are mentioned only because some of the programs and techniques which proved successful for the firms at the time may be in need of modification due to the necessity for firms to deal with AIDS and the ADA proactively.

Workers' Compensation: Health Care Cost Containment, edited by Judith Greenwood and Alfred Taricco (Horsham, Penn.: LRP Publications, 1992).

Reviewer: Dean G. Smith, Assistant Professor of Health Care Finance, University of Michigan

Workers' compensation is one of the fastest growing components of employers' expenses, and health care costs are the leading source of workers' compensation cost increases. *Workers' Compensation: Health Care Cost Containment* highlights the importance of many issues surrounding health care costs and addresses the issues about why costs for workers' compensaton are so high and what might be done to remedy the situation.

The chapters of this edited book can be divided into four distinct sections. the first three chapters introduce the long-standing problem of increasing health care costs. It is suggested that the issues underlying workers' compensation costs are unique to its system and not easy to address. the essence of the unique nature of workers' compensation costs is that they are generated in a system in which the payers (employers) have little control over benefits or payment rates and that these coasts are treated in isolation from other health care coasts. Although some states have fee schedules and other mechanisms reflecting market power, the general lack of control results in cases where the workers' compensation system sometimes pays twice as much as other parties.

The second set of chapters (4-9) considers operational issues for those interested in measuring and understanding the nature of health care costs. Some of these issues are administrative, such as rating and how benefit plans for workers' compensaton are determined. Other issues are medically oriented, such as standards for assessment of low back pain, and the comparative cost of using physicians or chiropracters. For people new to the area of workers' compensation, the discussion of causation by Dr. Gots and Gots is particularly telling of the problems of controlling workers' compensation cost. When it is difficult to determine whether a compensible event has occurred, how can its treatment be controlled? The chapters on low back pain are the only ones that present traditional health services research results. However, since low back pain is the trickiest of the medical services problems facing workers' compensation, this may be the only area worthy of this type of consideration.

The third set of chapters (10-14) presents cost containment reform possibilities that are fairly specific for workers' compensation. The chapters on utilization review and independent medical examinations are particularly short, indicating the dearth of research on these issues. It is interesting in a book on cost containment and reforms that there is only one mention of the Occupational Health and Safety Act and little attention to prevention.

The final set of chapters (15-17) discusses general strategies to address issues of health care costs. Despite the motivation provided in earlier chapters on the uniqueness of workers' compensation, these chapters consider national health insurance, health care reform and ethics for the country as a whole. Since most of the chapters focus on issues and not on specific soluations, the reader if left with the impression that the unique characteristics of workers' compensation make incremental reforms ineffective and that overall health care system reforms are necessary—a timely suggestion.

As a whole, this book presents a good picture of the problems and the limited nature of solutions for containing increasing workers' compensation costs. Unlike many similarly titled books, this one is aimed at the larger policy issues confronting workers' compensation, rather than matters of how to achieve cost-savings for employers. *Workers' Compensation: Health Care Cost Containment* will make especially good reading for people interested in having the major policy issues presented in the context of system reform.