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Presidential Address: Risk Management and Insurance Education: Will We Miss the Boat?

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It is a high privilege and a great honor for me to serve as president of this Association and thereby to be identified with such distinguished scholars as our previous presidents.

I thank all of you for your support and trust, and look forward to your continuing counsel and active involvement in the affairs of the Association—for your active involvement is crucial to our future. We and our association are entering turbulent waters, and the course that we set now and over the next five years will determine whether our discipline prospers or declines.

Why do I make this assertion? First, as is well known, the national demand for undergraduate business education peaked in the late 1980s and has been declining since (Green, 1992). Additionally, applications for MBA programs have fallen at most schools. At the same time, questions of the value and quality of business education have arisen. Our discipline is not immune to these trends and questions.

Second, financial problems abound for universities. Given declining business school enrollments, the timing could not be worse. Our discipline is feeling these effects.

Third, in such a stringent environment, specialty courses and programs probably are most vulnerable. We are perceived as such a specialty.

Fourth, and in many ways the most important, I question whether we and our association have made as much progress in certain key areas as we ought to have made. What do I mean?

Three Challenges Facing Business Education

According to the *Commission on Admission to Graduate Management Education* (1990), three key issues will affect business students and programs in the future: accelerating rates of change, increasing demographic diversity, and

In preparing these remarks, I benefited from the deliberations of the Strategic Planning Committee and from discussions with Neil Doherty, Robert Marshall, and Ellen Thrower. I thank all for their valuable insights.

globalization of world markets. I would like to speak briefly about these three challenges in the context of RMI education.

First, regarding change: clearly, business education is changing. External pressures stem from business questioning the relevance and value of much of what we do and in turn from those who control the purse strings requesting proof that our output is good and our assessment methods sound.

Internal pressures come from reports such as Porter and McKibben's *Management Education and Development* (1988), and from the AACSB's new mission-linked accreditation guidelines. Indeed, introspection and change probably will come to characterize business education issues of the 1990s.

Yet, I wonder whether we can similarly characterize RMI education? To be successful into the next century, we must be adaptable. Do our courses prepare students for the world of the twenty-first century, where change is the only constant, or do they reflect a more static world view? Do our textbooks convey a sense of dynamism, or are they more compilations of institutional facts and figures? Do we produce thoughtful, forward-looking research that provides insight for the future, or are our efforts directed more toward investigating whether things are being done right rather than whether the right things are being done?

To understand change—to educate for change—we must help students appreciate the social, economic, and political forces that drive change. This means that our courses, our textbooks, and our research should routinely view RMI within a broad context. I fear that too often we treat RMI in isolation from these catalysts of change. We must demonstrate how RMI is influenced by and how it, in turn, influences the environment.

True, we should help students develop skills for their first jobs, but, more importantly, we should help them establish an RMI learning paradigm that serves them well through their last jobs. It is as important that students understand the social, economic, and political forces that cause change in insurance company operations as it is that they understand the operations themselves. Yet how many of us and how many of our textbooks provide such a vitally important environmental context? Of five leading introductory RMI textbooks that I reviewed, none did so. Too often we focus primarily on micro-risks—those over which the firm has some modicum of control—ignoring the more strategically important macro-risks. We must broaden our perspective to incorporate the forces of change if our discipline is to prosper into the next century.

The Commission's second challenge deals with increasing demographic diversity. I see this challenge as a subset of the first challenge—that of change—so will touch on it only briefly.

All of us have heard the figures. One in four U.S. households is composed of an individual living alone, and this proportion is increasing. Only somewhat over one-half of U.S. households are husband/wife households, and this proportion is decreasing. The proportion of married women working outside the home continues to increase. The population is aging. Today, one in five U.S. citizens is nonwhite and that proportion is growing. Growing immigration is viewed by many as a potentially explosive issue.

To what extent are we weaving the implications of these and other demographic trends into our courses? Our textbooks? Our research? Our Association? We all know the answers. We must do a better job of incorporating demographic diversity into activities if our discipline is to prosper into the next century.

The Commission's third key issue is globalization. Of course, worldwide economic integration is well along. Today, perhaps 80 percent of U.S. goods and services compete with those of other countries, either here or abroad, and the proportion is growing. Whereas U.S. exports generated one in eight jobs in the mid-1980s, exports are now responsible for one in six, and these figures ignore employees of internationally-owned U.S.-based firms. In insurance, one in ten U.S. premium dollars is now paid to non-U.S.-owned insurers. By the year 2000, the proportion is expected to double. Not many U.S.-owned insurers and reinsurers are active internationally but this is changing, if slowly. We now speak easily of global risk management programs.

Internationalization should not be thought of primarily in terms of trade. Business in general and insurance in particular is being internationalized in more subtle ways. Thanks to technology, the internationalization of production—intra-firm cross-border trade in components, parts, and business services—is well developed. Consider that in Fermoy, Ireland, some 150 workers of a large U.S. life insurer analyze U.S. medical insurance claims and review new policies sold. Near Limerick, Ireland, workers of another U.S. insurer monitor the movement of money into and out of U.S.-based pension plans to ensure compliance with U.S. laws. This dimension of the globalization trend is turning domestic environmental, competition, investment, and technology policies—including those relating to financial services—into global trade issues. Are we preparing students adequately for this new, disaggregated business world?

In the quarter century following World War II, U.S. international education was driven largely by national security concerns and humanitarian considerations. These twins led to the creation of pockets of international expertise within universities, typical of which are the area studies programs. Primary responsibility for university internationalization rested with these and other elite internationalists, who sometimes jealously guarded this charge—often to the exclusion of others.

Today this model is antiquated. The global economy transcends narrow advocacy groups. We are seeing and will continue to see comparatively less emphasis placed on international business experts and greater emphasis placed on discipline-based experts who possess a sound international understanding. The internationalization of the business curriculum is too important a task to be left to the international experts! Rather, more general international knowledge must be woven throughout all coursework.

To obtain a rough idea as to our discipline's attention to its international dimensions, I reviewed the same five leading introductory RMI textbooks for international references. Of a total of 3,345 pages in these books, only 45—about 1½ percent—contained any non-U.S. reference. Of course, the RMI fundamentals presented in the early chapters of these texts are in one sense international, but surely the explicit international dimensions and environment of risk and insurance warrant more than a 1½ percent coverage. If this result is representative of our other course materials and content, we must improve our treatment of this vital subject if our discipline is to be relevant for the twenty-first century.

Many observers believe that economic globalization is the most potent force driving our educational system. For example, Sven Groennings (1990) of the Center for Educational Competitiveness has said that the global economy "is causing international to be arguably the most powerful substantive redirection in the history of American higher education." After all, the purpose of education is to prepare students for the world in which they will live, and theirs will indeed be the world.

In a global economy, competitiveness is heightened as price increases (and inflation generally) are no longer viable alternatives to improved efficiency and cost containment. Given that 80 percent of the value added to goods and services is attributable to people—to human capital—efficiency gains are more easily achieved through enhanced knowledge. In such an environment, what moves an economy forward is knowledge. Colleges and universities are historically the most potent sources of knowledge creation and dissemination, and they are naturally international: theory and method transcend national boundaries. Programs that are superior at knowledge creation and dissemination and that are most relevant to the future will prosper. RMI programs will be among them if we craft them appropriately.

Besides worldwide economic integration, we are also witnessing limited worldwide political integration. A precondition to greater political integration, of course, was the end of the cold war. We see signs of some meaningful regional political integration—witness the European Union, NAFTA, ASEAN, and MERCOSUR efforts. The inexorable globalization of markets and production beyond the jurisdiction of a single country will continue to render national regulatory efforts increasingly inadequate. Greater political integration is inevitable. To what extent do our teaching and research incorporate this trend? Will we miss the boat?

What Needs To Be Done

We have much to do if our discipline is to prosper well into the next century. As a niche discipline, we must operate at the highest levels. With the preceding remarks as background, I would like to share with you some of my thoughts as to what we might do to help ensure a bright future.

First, we should demonstrate the role and importance of RMI education to our non-RMI academic colleagues and to others within our universities. In doing this, we should take a broad, macro-risk view rather than a narrow view. We should help our academic colleagues to include discussions of risk and its management within their finance, management, marketing, accounting, and other courses and materials. We should encourage such cross-fertilization both as a means of enhancing and reinforcing student learning and as a means of establishing the role and importance of our discipline with our peers. We should studiously avoid the myopic view that risk management professors have sovereignty over risk.

A first-rate curriculum plus good job opportunities will attract more students into our discipline. We should help student recruiters, placement personnel, and others directly involved with students to understand the true nature of risk management and insurance. Misconceptions abound.

Second, I invite each of us to review the content and balance of our RMI course offerings and textbooks carefully in light of my earlier remarks. Indeed, we should strive to lead our business schools in the three areas of change, diversity, and globalization if we are to operate at the highest levels. Thus, for example, if the goal is to internationalize your teaching and research to reflect better the global economy, the acknowledged means of most effectively doing so is to spend substantial periods of time abroad.[1]

True, spending significant time abroad involves both professional and personal costs. University rules often penalize faculty for spending time abroad when they should do the opposite. Those denigrating little remarks sometimes made by administrators and colleagues suggesting that travel abroad is somehow extravagant or worse, frivolous, are, at best, irritating and often insulting. Consulting opportunities are lost. Your pecking order within your university and professional organizations often slips because of your absence. Burdens are also placed on others, especially colleagues who must shoulder a greater weight because of your absence—but their goodwill usually prevails, as many of us have thankfully experienced first-hand.

Yet the benefits of a meaningful international experience routinely outweigh the costs. As many in this Association can attest, such experience often proves to be a time of great professional and personal growth and refreshment—often liberating one from the tyranny of familiarity, habits, and ethnocentricity. This can be especially important for junior faculty members.

We simply must do a better job of preparing students for a world where change is indeed the only constant; where demographic diversity drives human resource, marketing, and production decisions; and where a global economy will continue to reshape business, government, and higher education.

Third, we should establish a more active involvement with the RMI practitioner communities. A more active involvement in no way suggests academic compromise. This involvement should be at both the individual and the Association level. I suspect that involvement at the individual level is sound for most of us. At the Association level, the situation is different. As you know, over the past few years, we have experienced declines in general and institutional memberships. I was exceedingly disappointed that some of the largest

[1] See generally Goodwin and Nacht (1991) for an excellent examination of the means by which greater internationalization can be achieved.

companies did not join in with us this year. Of course, the fault rests with us for not establishing to them our added value.

We have much work to do in selling the value of our work. Each year we educate hundreds of new, industry employees and future RMI executives. Each year, we educate thousands of future business decision-makers in RMI principles. Each year, our research, publications, and testimony help shape important business and government policy.

If we cannot convince practitioners of the value of these and our other activities, our future is not bright. Along the way, we need to ensure that we understand what practitioners value most in our activities. Our Association is the logical vehicle for helping to accomplish these critically important tasks.

Fourth, we need to bring to our Association the same critical eye that I hope we all will bring to our courses and our research. Is the Association structured, governed, and staffed for a world of change, demographic diversity, and globalization? Personally, I have my doubts. For example, has the time come for us to engage professional association management? A part-time executive director cannot shoulder the existing work load, let alone the increased work load that inevitably will materialize if we are to move this Association aggressively into the next century. The Board is examining this issue.

Also, the time has come for us seriously to consider broadening our Association's appeal. Is the *American* Risk and Insurance Association meant to perceive the world solely in American terms? We all know the answer is "no," but do others? A name says a lot about how an organization's members perceive themselves and are perceived by others. Is it time to change the Association's name to reflect a more international perspective? If we wish to remain predominantly a North American organization, let's retain our name. If we intend a broader appeal, our name should reflect this goal. The Strategic Planning Committee will look into this issue.

Our *Journal* has a role to play here also. David Cummins has assembled a truly first-rate 17-member editorial board, including two Canadians. Again, consistent with my message, I invite the editor to consider still stronger international representation on his editorial board and to consider how we might secure more submissions by non-U.S. authors and on non-U.S. topics. In a typical year, fewer than 10 percent of the published articles in the JRI have any explicit international component. While on the subject of our journal, ARIA should move forward expeditiously on the decision whether to develop a second journal. Such a journal, with its policy orientation, would permit our members and others wider publication possibilities. Such a journal would do much to enhance our reputation, especially within the RMI practitioner community. The journal, however, must retain academic respectability.

On another issue, I believe that it is time to afford general members the right to vote for Association officers and, if they wish, to seek election. I will ask our membership committees to investigate this issue. Other major academic associations permit such full privileges, and our doing so would strengthen our Association.

Finally, much of what I have proposed will be costly. The Association's finances are in good order but existing revenues will not support an expanded program of activities. If the various committees to which the preceding tasks are assigned and you believe that we should implement this program, we will approach one or more potential funding sources for transitional support.

Conclusion

In conclusion, risk management and insurance education does indeed face rough seas ahead, yet RMI education arguably is more important than ever. Insurance and the management of risk lie at the heart of every major economy. With increasing development, risk management and insurance become even more crucial.

Our task is to ensure that our contributions to our discipline's improvement reflect faithfully students' and the public's needs, not just through the balance of the 1990s but into the next century. This means that we must redouble our efforts to teach RMI fundamentals, for they are timeless; avoid undue emphasis on institutional details, for they are transient; and ensure that our curricula provide points to view, not points of view, by building in elements of change, diversity, and globalization.

If we do these things, I personally feel confident that we will not only avoid missing the boat, but that they may even let us captain it.

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