BOOK REVIEWS

McGill's Life Insurance edited by Edward E. Graves (The American College, 1994).

Reviewer: Sajjad A. Hashmi, Emporia State University

As a student of Dan McGill at Wharton, I used the first edition of the book presently under review as a text. With the help of 19 authors, the original book, written in 1959 and revised in 1967, has been significantly enlarged in depth and breadth. Fifteen of the 44 chapters are completely new; all are rewritten, some completely so. The editor, Edward Graves, Associate Professor of Insurance at The American College, also is a major contributor to the text.

The text preserves the lucid and logical style of the original. Just when a reader is unsure of a point, the next sentence or paragraph addresses the question. Several much-needed chapters—such as the one on long-term care insurance—have been added, making the text comprehensive and excellent reference material. Other information makes the text practical. Life insurance agents, primary readers of this book, will find the chapter on life insurance marketing very helpful. A helpful appendix addresses the issue of how much life insurance is enough. The checklist at the end of some chapters makes the text user-friendly. More of these checklists (in chapters such as Individual Disability Income Insurance) would also have been helpful.

A laudable feature of the book is an effort to deal with ethical questions. We all know how "illustrations" can be misused by practitioners. Enough insureds have been misled that lawmakers and regulators are seriously considering relief through government action. A chapter on Needs Analysis, Surrender Options, and Policy Illustrations, discusses the issues involved and reproduces "A Professional Practice Guideline of the American Society of CLU and ChFC." One can only hope that this will help minimize the problem. Although there is some discussion of replacement of policies in chapter 26, a more detailed discussion of "churning" from ethical as well as from public relations viewpoints could have served the reader better. Misrepresentations of policies (calling them retirement insurance rather than life insurance, for example) could also stand a more direct treatment.

There is a crying need for straightforward treatment of the subject of fraud in life insurance sales. A text for life insurance practitioners seems to be an ideal place for a frank discussion of the matter, especially if the industry wishes to regulate itself without interference from state or federal regulators. It is not that the text does not make an effort, it is just diffused.

Beyond the usual chapters in life insurance text books, *McGill's Life Insurance* includes chapters on Selection and Clarification of Risks, Insurance of Substandard Risks, and Reinsurance. On the other hand, although there is a chapter on Individual Disability Income Insurance and another on Long-Term Care, there is neither a chapter on health insurance nor is the subject discussed anywhere else. A chapter on health insurance, while making an already thick book thicker, would have made the text complete.

Legal concepts are discussed in over 135 pages spanning 11 chapters. There are two chapters on the beneficiary and a full chapter each on Assignment of Life Insurance Contracts and Protection Against Creditors. Readers, depending upon their viewpoint, may find this comprehensive treatment highly satisfying or too overwhelming for a basic text. I believe the lengthy treatment is well justified if the intended audience is life insurance professionals and those who might use it as a reference source.

Diagrams and illustrations are not assimilated in the discussion either by mention or reproduction. For example, the discussion of universal life begins on page 70. However, diagrams explaining universal life appear on pages 59–60, and a universal life illustration is found on page 223 in another chapter. No mention is made of these diagrams or illustrations in the main discussion of universal life. Incidentally, universal life again is discussed in chapter 27. A separate comprehensive discussion of group universal life in chapter 33 on Group Life Insurance is well done and adds significantly to the general knowledge on the subject.

The text is a gold mine of information on life insurance. Although it is designed for the CLU program, it also may be used in graduate classes where elementary as well as in-depth discussion is needed. In an undergraduate class, the text will be overwhelming not only for its detail but also for its printing. The text is not printed in an easy-to-read, attractive, eye-catching style; this cumbersome feature of Irwin's earlier publications has been maintained or even worsened. Furthermore, the printing is poor. Letters are not sharp. Some pages are lighter and hard to read.

A welcome feature of the text is that it includes a brief bio of the editor as well as other contributors. A little background on the authors makes chapters more meaningful. Strangely enough, biographical data on Dan McGill himself is missing.

Book Reviews

Managing Automated Activities, Second Edition by Barbara A. Harvey, Susan J. Biedma, and James Gatza (Insurance Institute of America, 1994).

Reviewer: Jason Hecht, Consulting Economist

This book is the required text necessary to complete the third course in the Associate in Automation Management program offered by the Insurance Institute of America. The book's emphasis is on understanding the process of automating tasks within insurance companies and agencies and presupposes little knowledge of either insurance operations, computers, or automation in general. The book is written clearly and should be accessible to a wide audience, although in parts it is somewhat too general for those who presumably have taken two prior courses in computers and automation in insurance.

The book is divided into eleven chapters, beginning with an introduction to management principles and concluding with how to manage the growth of a computer system. The breadth of the text enables the reader to acquire a good overview of the diverse aspects of managing computer systems. The first two chapters focus on the management process and working within groups. These two chapters are written at a very general level which could have included some historical and strategic context for understanding why insurers or agencies choose to automate. The introductory chapters of the first edition presented more relevant information, especially about the impact of changes in office technology on the production of insurance.

Chapters 3 through 8 focus on the process of developing automated systems, including planning for automation, needs analysis, system evaluation and acquisition, installation, user training, and conversion. These chapters constitute the core of the text, covering the procedures and sequence of steps necessary for implementing a computer system. The authors stress that the decision to automate a particular activity or set of activities can be quite complex and subject to numerous knowable and unknowable factors. Effective systems development necessarily relies upon the input from, and coordination with, a variety of personnel such as systems analysts, computer programmers, accountants, attorneys, etc. who work inside and outside the insurance organization. In addition, the text points out the need for a rigorous assessment of the requirements, costs, and benefits prior to purchasing a computer system.

In terms of planning and needs assessment, the authors should be commended for noting how some problems cannot always be solved by automation. For example, by itself, automation cannot improve an insurer's poor market position due to inferior products, inefficient distribution networks, and/or poor customer service. Moreover, automation may not be a cost effective solution if it involves mechanizing poorly designed work procedures or if those involved in the work process resist the changes brought about by computers. Finally, one of the problems with evaluating new computer systems is ascertaining how quickly their cost and capabilities can change. Technological obsolescence is often difficult to anticipate, but planners should always be mindful of how rapid change occurs with many types of information technologies. One minor clarification should be noted in this chapter: in their description of allowable depreciation costs for mainframe computers, the authors suggest that *all* purchased or created software should be treated as a depreciable capital asset. Unfortunately, NAIC accounting rules only permit the amortization of operating systems, *not* application software such as language processors, library routines, debugging aides, or other non-operating system software.

Chapter 5 provides a thoughtful and thorough analysis of the steps necessary to evaluate and acquire a computer system. These procedures can be applied to managing a large system for a major insurer or a small system for an insurance agency. The authors provide a systematic approach for evaluating vendors of computer software and hardware. Besides stressing a vendor's reputation, longevity, and financial stability, the purchaser should also contact "user groups" who are often a valuable source of information about a particular system. Independent automation consultants can also provide guidance and unbiased opinions about a new system. Furthermore, when negotiating a purchase agreement for a new computer system, the authors note how most standard contracts are written to the advantage of the vendor. Given the complexity of most systems, the buyer or project team assigned to make the purchase should clearly specify to the vendor performance standards, remedies, dispute resolution, and cancellation clauses. Many other important points about system evaluation and acquisition are contained in this chapter. The last three chapters of the text cover computer security problems and solutions and managing the growth of a computer system.

Although I enjoyed this text and learned quite a bit about managing computer systems, the book is a little terse and short on context, narrative, and examples from the insurance industry. Instead of weaving the impact of automation into the text, a separate discussion on managing automation at the insurer or agency level would have been useful. Once again, the first edition provided a series of cases about how a hypothetical insurance agency dealt with automating their office functions. In addition, the text is mainly geared for those involved with implementing computer as opposed to other types of automation networks such as optical imaging or scanning systems.

Finally, the authors could have addressed some current automation issues, especially those related to the slow rate of adoption of single-entry multi-company interface (SEMCI). SEMCI was supposed to give independent agents a competitive edge against direct writers by lowering policy processing costs while maintaining access to a range of different insurers. For a variety of reasons, the independent agency system and its carriers have not embraced SEMCI technology. These and other matters related to the interaction between competition and technology in the insurance marketplace could have been covered in a short introductory or concluding chapter. Despite these shortcomings, the authors have written a concise and clear text on a subject that is not easy to cover in a single volume. I recommend *Managing Automated Activities* for those interested in understanding how to successfully evaluate and implement computer systems for the insurance industry.

Book reviews

Principles of Risk Management and Insurance, Fifth Edition by George E. Rejda (HarperCollins, 1995).

Reviewer: Kathleen L. Henebry, University of Nebraska at Omaha

This latest edition of *Principles of Risk Management and Insurance* remains an excellent choice as a text for an upper-level undergraduate first course in insurance principles. The new edition retains the organization of the fourth edition, grouping 27 chapters into sections on Basic Concepts, Legal Principles in Risk and Insurance, Personal Property and Liability Risks, Commercial Property and Liability Risks, Life and Health Risks, and The Insurance Industry.

The layout allows for flexibility as individual chapters from within a section may be chosen with no loss of continuity. A rearrangement placing liability risk in the same section as the personal property liability risks makes it easier to assign these topics together.

The coverage of the topics and policies discussed is more thorough than any other undergraduate principles of insurance text I have seen. The book will be a useful reference for students. All chapters have been updated to reflect recent changes in law, policy, regulation, industry performance etc.

The addition of student learning objectives and key terms and concepts at the start of each chapter will help students and instructors define the emphasis for each chapter. Using these tools, students will be better able to focus their study efforts on the material to be emphasized in class.

The new and updated "Insights" boxes usefully connect the textual material to current events and students' daily experiences. The new columnar format makes the boxes easier to read as well.

The mini-cases at the end of each chapter are particularly good, especially for instructors who do not yet have a file of such examples to use in class. Although some of these cases come from previous end-of-chapter discussion questions, many of them are new or substantially revised scenarios.

The new section in chapter 21, on health care reform, summarizes the major proposals as of press time, late 1994. This addition will facilitate classroom discussion of the reform issue and the likely impact of different proposals on the students as insurance consumers and taxpayers.

The addition of investment performance information by type of life insurance policy in the life insurance section will help students make decisions as to which type of life insurance best suits their needs.

Tighter writing and careful editing have reduced the length of this edition by almost 70 pages, without loss of clarity. Although some details have been sacrificed in this effort, for the most part, they are not critical. The lost information can be picked up in more advanced insurance courses.

As mentioned above, the book's depth and rigor are suitable for upper-division first courses in insurance. It is also appropriate for a second course looking to provide greater depth of coverage for students who have already been introduced to the principles. As with the fourth edition, this text is probably too rigorous for a freshman or sophomore level introductory course.

The greatest difficulty with the main text is the use of endnotes rather than footnotes. Readers must turn back and forth to the notes section at the end of each chapter while reading.

I also miss the fourth editions's ethics logo in the margins next to topics most suitable for a focus on ethics. I found it useful in directing student's attention to those topics during their reading, to better prepare them for class discussions on the ethical considerations involved in insurance.

The book contains a great deal of information other than the body of the text. Informative and useful tables, showing insurance statistics (expenditures, accident rates, natural disaster losses, etc.) have been added to the front and back inside covers. These tables are good aids to discussion in class and convenient references for students. They can be used to incite student interest in the class, as students compare their own experiences to the numbers in the tables. The book also has a good glossary of terms and a helpful index.

The new edition contains updated sample policies in appendices for homeowners, whole life, personal auto, and universal life insurance policies. However, I recommend that the next edition add a sample health policy of some common type, and restore a sample disability income policy. Health and disability income are two of the most important types of insurance for most employed consumers.

With the new edition, Rejda offers a supplemental "Student Resource Guide to Insurance." This is more than a standard study guide, though it does have chapter summaries and additional problem sets for students to work through. Perhaps of most use will be the nine worksheets provided for students to work out their own risk exposures as an aid to their insurance purchase decisions. Also of interest are the directory of addresses of state insurance commissioners and insurance service organizations which are provided in this supplement.

All in all, this is a very good text for the upper-level undergraduate student.

The Legal Environment of Insurance, Fourth Edition, Volumes I and II, by James J. Lorimer, Harry F. Perlet, Jr., Frederick G. Kempin, Jr., and Frederick R. Hodosh (American Institute for Chartered Property Casualty Underwriters, 1993).

Reviewer: Bruce C. Hooper, University of Wyoming

The Legal Environment of Insurance is a two-volume textbook for the business law portion of the CPCU program of the American Institute for Chartered Property Casualty Underwriters. The authors present a general overview of the U.S. legal environment, including origin and evolution. The discussion includes a breakdown of the various court systems their jurisdictions, and relationships, and the players, their respective responsibilities, and interaction with the court.

Chapters 2 through 5 present the various elements of the construction, interpretation, and discharge of contracts and agreements; chapter 5 is strictly dedicated to insurance contracts. The outline and definitions are appropriate for the intended audience and the generalized scope of the texts.

Additional topics covered include commercial transactions, property law, tort law (negligence and intentional), agency law, employment law, business entities, and insurance regulation.

Although the texts are intended for students of CPCU 6, they provide a good read for anyone interested in the general business law environment as it applies to insurance and the interaction and reaction of insurance within that environment.

Future editions might consider a discussion within the context of business entities of the public sector. The public sector has continued to grow and evolve with respect to the legal environment and its application of insurance as a risk transfer alternative. Additionally, brief discussions on environmental pollution liability and employment practices liability insurance coverages should be included.

In sum, the texts present an excellent overview of the legal environment as applied to insurance and include changes that have been experienced in that environment since the publication of the third edition. Any shortcomings are directly related to the inability of books to maintain pace with rapid changes, such as those that have occurred in the area of employment law. Nonetheless, the texts serve the authors' intent of providing a general overview.

The CPCU Handbook of Insurance Policies by American Institute for CPCU (American Institute for CPCU, 1994).

Reviewer: Kathleen S. McNichol, La Salle University

One of the less popular but essential areas of insurance study is policy or contract language. In courses leading to professional certification as well as courses in an undergraduate program, understanding of the insurance contract is crucial. The American Institute for CPCU has published a book that aims to enable students to achieve this understanding.

The CPCU Handbook of Insurance Policies begins with an essay on "Reading an Insurance Policy" by Eric A. Wiening, who provides an interesting historical context within which to study the policies. Clear explanations of elementary and complex insurance terms are given with some account of how certain terminology has evolved. Also, the essay includes a concise but instructive presentation of information normally found in an introductory textbook to prepare the student for studying the insurance contract. Areas covered include, but are not limited to, self-contained versus modular policies, preprinted versus manuscript policies, and specific policy provisions such as declarations, definitions, insuring agreements, exclusions, and conditions. The section on exclusions is especially well written, giving very specific examples of each reason an exclusion may exist in a policy. A subsection on how to read an insurance policy provides a standard framework for evaluating any policy. The discussion includes strategies for analyzing a policy prior to and (especially) after a loss. The discussion of the concepts of replacement cost versus actual cash value and coinsurance could have been more detailed. Specific examples would provide beginning students with a better opportunity for understanding.

Following the essay is a useful additional readings list compiled by Kim R. Holston, which includes books, newsletters and periodicals, loose-leaf reference services, and publishers' addresses.

The CPCU Handbook of Insurance Policies provides specimen copies of a wide range of insurance policies, including both personal and commercial lines. The personal lines policies include homeowners, personal auto, boatowner, personal umbrella liability, and the standard flood insurance policy. Commercial lines policies include commercial property, boiler and machinery, commercial crime, commercial inland marine, ocean marine, businessowners, commercial general liability, commercial auto, surety bonds, workers' compensation, aircraft, and several professional liability forms. Each policy form is preceded by a brief introduction to and summary of the use for which the policy was designed. For example, the homeowners policy section summarizes the available homeowners series forms and the appropriate use of each form. A declarations page is completed with fictitious information for some policies to give students a better understanding of who and what the policy is insuring.

The American Institute has published a very useful resource for both IIA/CPCU students and insurance professionals. Teachers of insurance at the undergraduate level also will find it a useful resource in a variety of courses in which insurance contracts are discussed.

BOOK REVIEWS

Pension Funding and Taxation: Implications for Tomorrow edited by Dallas L. Salisbury and Nora Super Jones (Employee Benefit Research Institute Education and Research Fund, 1994).

Reviewer: J. Tim Query, University of Georgia

This book collects 11 papers that were originally prepared for a 1993 policy forum of the Employee Benefit Research Institute Education and Research Fund (EBRI-ERF) held in Washington, DC, on "Pension Funding and Taxation: Achieving Benefit Security." Three sections address the following questions: Where Is the Pension System Today? What Are the Implications of Tax Policy Change? What Do People Think It All Means?

An introductory essay by Paine pulls together the primary issues that need to be considered in the area of retirement income policy. Paine is successful in challenging conventional wisdom as two major questions are considered. The first is whether the private retirement system delivers enough results to be worthy of receiving the tax breaks the law provides. If such plans are deserving, what changes in rules might be considered to maximize their contributions to old-age security.

Section one of the book begins with an overview of public and private pensions by EBRI research analysts Silverman and Yakoboski. The paper includes 22 tables and 8 charts that analyze participation trends in defined benefit and defined contribution plans. This overview is followed by a description of the present tax treatment of pensions, by Hubbard. The paper is a readable summary of the complex and ever-changing pension tax laws, including the treatment of retirement plan contributions and funding by the employees and employers, taxation of distributions, and special retirement arrangements. Next, VanDerhei deals with the funding requirements of private and public defined benefit pension plan sponsors. Appreciation for the complexity of pension funding is increased after delving into this treatise of the numerous demographic and economic assumptions made by sponsors, along with the actuarial cost methods used. VanDerhei compares the six actuarial cost methods in an easy-to-follow format. An engaging sensitivity analysis of alternative actuarial assumptions is discussed in this paper as well.

The subsequent report in this section addresses the costs and benefits of pension tax expenditures. According to Salisbury, the primary value of pensions accrues to middle- and lower-income taxpayers. Elimination of the tax expenditure by taxing individuals would place the greatest burden on these individuals. Section one concludes with a paper by Schieber and Goodfellow. Their observation regarding the distribution of the pension tax preferences is that more than one-half of the tax preferences are accruing to less than 10 percent of the work force, namely public-sector workers.

The book's second section assesses how changing tax policy might affect pensions and benefit security. Gulotta begins with an essay on recent tax and funding rules changes, including an evaluation of the Omnibus Budget Reconciliation Act of 1987 and its effect on funding behavior. Various proposals that attempt to realign the interests of pension plan decision-makers with those of plan participants are advanced and should effectively stimulate debate.

Two papers by Liston and LaBombarde challenge public pension funding rules and the decrease in the compensation cap. The authors present strong arguments for state and local governmental units to fund pension benefits in advance, with intergenerational taxpayer equity being the focal point. Liston and LaBombarde point out that understanding whether a particular public pension plan is being adequately funded—a projection that closely coordinates the pension plan's net cash flow with the jurisdiction's overall budget, including future anticipated tax receipts—is necessary. The pension side of this projection should examine the degree to which the plan's past funding practices have transferred the funding for previously accrued benefits into contributions expected for future periods; the overall budget side of the projection should gauge the ability of the emerging tax base to support that transfer.

Their second essay examines the implications of the cap-lowering provision in the Omnibus Budget Reconciliation Act of 1993. Liston and LaBombarde contend that the objectives of this legislation are lost because any gains for nonhighly compensated employees will be negligible or nonexistent: as some pension plans are terminated, other plans are amended to approximate the pre-1994 balance, while any "lost" benefits for highly compensated employees are simply paid in other forms of compensation. Meanwhile, the costs in permanent damage to national pension policy—for example, by delaying funding of benefits—may within a short period of time exceed the very temporary jolt of revenues the provision might raise.

The final paper in this section scrutinizes income versus consumption tax treatment. Ippolito points out that, as long as low discounters accept the responsibility of financing part of the old-age consumption for those who do not save, they have a stake in the "free market" savings decisions of high discounters. Ippolito suggests two alternatives to the current special tax policy toward pensions: extend consumption tax treatment to all forms of savings or strip pensions of their special tax status. An appendix mathematically models the impact of eliminating special tax policy on retirement savings.

Section three offers opinions and suggestions from the EBRI-ERF Policy Forum. Selected interactions and comments from the proceedings are presented in an interview type format. This section discusses such topics as pension taxation, implications of tax and funding rules on plan sponsorship (401(a)(17) and 415 limits), private and public pension plan funding, economically targeted investments, and saving for retirement.

This interesting collection of essays comprehensively examines the status of the pension system as of 1993 and also examines how changes to pension funding and taxation rules might affect benefit security. Although certain aspects of the book are slightly dated due to the ever-changing regulatory environment of pensions, overall it provides a valuable insight into the policy debates and hearings occurring in Washington today. The editors have successfully compiled a series of papers that will be a useful resource in a graduate or advanced undergraduate employee benefits course.