INSURANCE AND SOCIETY: A LIBERAL STUDY *

Kailin Tuan
Upsala College

In his article entitled "The Other Eighteen Hundred,"[1] Professor Will Johnston has raised a very important question in insurance education, that is, the role of insurance education in the other small, 1800 colleges, where specialized insurance courses are not usually being taught. He affirms that there is a place for insurance courses in the smaller college, but it remains in the Business Department. He suggests the small college can offer a reasonably complete insurance curriculum for business undergraduates without offering a single course with the word insurance in its name. The magic is to blend the topics of insurance with other business subjects. Since "insurance cuts across all fields of business, insurance can be taught systematically in many courses which have names seemingly far removed from insurance."

This may be a viable approach. The potential pitfall lies in the approach itself: teachers of other business courses may not be inclined to incorporate the seemingly related topic of insurance into their subjects. Seldom is there a department of business, even in a small college, that gives any single teacher complete control of all the business courses.

Equally concerned, Professor Phillips has raised another important question: "Is the student enrolled in a 'first course' in 'Risk and Insurance', or 'Principles of General Insurance', or some such title, the forgotten child?"[2] He has frankly presented a dismaying portrait of such a forgotten child, the class of "students who have elected of their own free will to take a 'first course' in Risk and Insurance." According to his analysis, a typical class of 'first course' in insurance includes: (1) an engineering student with a keen mind and an alertness to risk from a safety engineering standpoint, (2) one rare student who has already made up his mind (by parental prodding perhaps) to study insurance and engage in the field, (3) several more simply waiting to be attracted to the glorious challenges of the modern day insurance industry, in one capacity or another, and (4) quite a number who feel they should "know something about insurance."

Pertinently, Professor Phillips asks again, "For whom then shall we structure our course? The answer is, of course, for all." Thus, he continues:

> We must have something for all of these students, from the most inquisitive to the most lethargic, so that this introduction to our field will be challenging, rewarding, informative, interesting, and practical. It

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[1] Published in the September, 1969, issue of the *Journal of Risk and Insurance*, "Curricular Concepts," section.

[2] W. S. Phillips, "The Experience of Teaching Risk Analysis by the Case Study Method," *Journal of Risk and Insurance*, Vol. XXXVII, No. 1, March, 1970, pp. 125-129.

must also be basically preparatory, by giving the student prone to advance to further study a good introduction to the basic principles. This is a task which should not be taken lightly—indeed, to satisfy these requirements, no formulation could be taken lightly, with deep concern and conviction.

To carry out such a noble task, it is high time, in this era of social and academic upheaval, that "perhaps we should be interested in seeking to review our beginning course in insurance."

The review suggested by Professor Phillips, in my opinion, is not only desirable but imperative. Since the beginning of this century, insurance has been taught as a business subject. Insurance textbooks were based upon the principles and practices of the insurance business. This was natural and appropriate when the course was concerned with nothing else but the business of insurance.

But today we live in a vastly different society, and America in the 1970's will witness even more technological and societal changes. The marching of events in the interval of seventy years has clearly revealed the "social" character of insurance —a very important ingredient in the definition of insurance [3] that has always been talked about but seldom given serious attention by insurance academicians. Besides being a business, insurance today is popularly used as a tool for family security planning, business management, and social welfare. If such is the case, the appropriateness of studying insurance, exclusively from the view of insurance business is questionable.

While I do agree with Professor Johnston in recognizing that "Insurance is an important part of our economy, and all students of business and many students from other academic fields should receive a basic insurance education in the small college as well as in the large university", I feel compelled to disagree with his suggested solution. The negative consequences of such an approach are obvious: (1) it will lead to the fragmentized study of insurance, (2) it will perpetuate the confinement of insurance study in the business department and among business students. Thus, it can hardly expand the study of insurance to "many students from other academic fields" as he hoped, and (3) worse still, in a time when "quite a number . . . feel they should know something about insurance," such an approach will relegate the subject of insurance as a distinctive academic discipline into obscurity.

A positive approach to promote the academic study of insurance on all the college and university campuses, including the other 1800 is to adopt a new, broader orientation—an orientation away from the study of insurance from the exclusive point of view of the insurance business but still including the insurance business as part of the study. In a way, this broader orientation is the extension of the efforts initiated by the American Risk and Insurance Association ten years ago. The widely circulated *Curricular Concepts in Risk and Insurance* [4] gives recognition to the importance of risk and stresses its equal importance with insurance as an area of study encompassing the whole spectrum of risk and its treatment.

After 1962 several new introductory textbooks were published, each including the word "Risk" in addition to "Insurance" in its title, and most claiming to offer "something new in the field" or "an approach substantially different from anything previously available" or "a substantial departure from existing texts on insurance principles . . ." Other new books have been published recently that place insurance in context as a business management tool, thus, bearing the titles such as *Risk*

[3] See later discussion of this subject.

[4] Distributed by the Association to all members in 1961 and published in the *Journal of Insurance* in its June, 1962 issue.

Management in the Business Enterprise and *Corporate Risk Control.*

Despite the appealing and eye-catching title of these new books, they still treat exclusively the management of non-speculative risks and essentially consider insurance as the most important solution. Naturally, these new books continue to provide all, or most, of the discussion of insurance for the students of economics and business. The only difference is that, while the old insurance books remain plain, the new "Risk and Insurance" books have become fancier with some extra trimmings.[5]

What really has been accomplished by the collective efforts of the A.R.I.A. in the past eight years is a partial shifting of the approach to the study of insurance from the point of view of the insurance business exclusively to a bilateral examination: the views of general business as well as the insurance business. Professor Phillip's experiment in teaching risk analysis by the case study method typically reflects this new trend in insurance education. The introduction of a case study of a medium-sized manufacturing risk in a course entitled "Principles of Risk and Insurance" presents a mini-skirted version of what has become popular today, risk management in business enterprise.

This new approach certainly gives recognition to the interests of business and manufacturing enterprises—the large, industrial consumers of insurance. The modern type of insurance education reasonably meets the needs and serves the interests of the first three groups of students who happen to register in an introductory insurance course. It will also help to prepare business students who intend to pursue advanced study in either insurance or risk management. But, will this new, fashionable course really generate interest in the study of risk and insurance for the last group of students, those "who feel they should know something about insurance," and serve their purpose well? This group, in truth, represents the prototype of future individual consumers of the mass market in an affluent society. In other words, can a contemporary introductory insurance course based on any one of the classical-style (Principles of Insurance) or new-fashioned (Risk and Insurance) textbooks serve satisfactorily the educational purpose of educated consumers in an era of "Consumerism"? The answer that one ventures to give is at best a "maybe."[6]

The present dual approach in the study of risk and insurance was developed just a decade ago against a background of "liberalizing" business education. It was hoped also to enhance the academic status and respectability of the insurance teaching profession within the business school and the academic community at large. It is doubtful that serious attention has ever been given, then, in restructuring insur-

[5] How much has the academic standard been elevated by the new Risk and Insurance books? To find an answer for this question, one needs only compare the 1969 edition of Mowbray's *Insurance*, with revisions and additions made by Blanchard and Williams, with Mehr and Cammack's *Principles of Insurance* (1966 edition), or among the new-fashioned books, Greene's 1968 edition of *Risk and Insurance* or Athearn's 1969 edition bearing the same title, or even Magee's *General Insurance* which was completely overhauled by Bickelhaupt in 1964. Can a reader find among these books any differences, real or imaginary? Then, compare all of these books (including a somewhat different textbook also entitled *Risk and Insurance* by Denenberg et. al. and published in 1964) with the very first edition (1930) of Mowbray's *Insurance*. One can again ascertain for himself how much real progress has been made in insurance scholarship during the interval of 40 years.

[6] This is, of course, a personal judgment, but is based on close observation of a decade of teaching insurance courses in a liberal arts college. A case in point: from the insurance companies' point of view, it is both natural and justifiable to charge higher and higher automobile insurance premiums for young drivers; but "not so" from the point of view of a young college student who depends upon a 1960 car going to school every day. Why should they, at the lowest ladder of income, bear a larger share of the burden of automobile accidents, which is, in the broad sense, a social problem?

ance curricula to enhancing the status of insurance teaching in society generally and to winning respect for risk and insurance courses in the minds of all college students (not just students of business and economics).

Normally a decade seems a rather short period, but this past decade happens to be a period during which unprecedented changes took place in America, a decade during which college students of the "now" generation often become rebellious. Today, at the start of the seventies, insurance companies are suffering heavy underwriting losses and are responding by withdrawing their services from the market place.[7] The industry in general is subject to vehement indictments. This may be an appropriate time for the A.R.I.A. to reevaluate, if not to revise, the *Curricular Concepts in Risk and Insurance* which were formulated before the current wave of all-pervasive academic revolution. I concur with Professor Phillips that we should seek to review, at the least, our beginning courses in Insurance.

In the opinion of this writer, we may have to continue our efforts to broaden the approaches to the study of risk and insurance. Insurance cuts across all fields of business; but more than that, insurance cuts across all the fabrics of economy and society and affects everybody's everyday activities.

There will be more of the fourth group of students in colleges (and perhaps even in high schools) who "feel they should know something about insurance." Some of these students may be recruited into the insurance business after graduation; others may become risk and insurance managers in business enterprises. But, certainly they will all be consumers of insurance. The leaders of this group will examine closely the role of insurance in the economy as well as society in general. Insurance curricula will serve greater educational purposes if we add two additional dimensions to the study of risk and insurance. Specifically, we ought to study the subject of risk and insurance from the viewpoint of consumers at large as well as from the vantage point of society as a whole.

The suggestion to add these two dimensions is by no means revolutionary. We have neglected to adopt these two views for so long simply because we have tailgated our study of the insurance business. The A.R.I.A. initiated a first step of liberation ten years ago, and it is now time to move two more steps toward the insured side of the insurance equation in a mass society. Furthermore, these additional dimensions in the study of insurance will bring about a redemption of insurance as a means for promoting social well-being, not merely as a business for profit-making for some.

In its essence, insurance has often been defined as a "social device" since the inception of formal academic study at the beginning of the twentieth century. For example, the widely cited definition of Willett reads: "We should define insurance, then, as that social device for making accumulations. . . ." (*The Economic Theory of Risk and Insurance*, 1901). In formulating his definition in 1942, Kulp crystalized his thinking by stating, "Es-

[7] The insurance scene in the state of N.J. is disastrous. The automobile insurance business in New Jersey is not an isolated case, but the focal point of national attention. When the N.J. Department of Banking and Insurance rejected a rating bureau filing for a 21 percent rate increase last year, the insurers operating in the State sharply cut back on their writings and, in effect, instituted a boycott. The tense situation has in no way been resolved. The property and liability insurance business has also created an unprecedented historical record in the state and in the nation when the non-renewal of coverage by a major company forced the closing of the entire school system in New Brunswick. And another leading insurance company served notice to cancel insurance coverages on public housing projects in 22 cities throughout the state of New Jersey. (The cancellation was later rescinded after negotiation between the State's Insurance Commissioner and the company's executive).

sentially, insurance is a formal social device for the substitution of certainty for uncertainty through the pooling of hazards." (*Casualty Insurance,* 2nd edition).[8] And this has been further affirmed by Mehr and Cammack in 1952 by stating, "Insurance itself may be defined as a social device for reducing risk . . ." (*Principles of Insurance,* 1st edition through 4th edition, 1952 to 1966), and other writers in the 1960's. These suggested two dimensions of insurance study will focus the emphasis on the word, "social", in the definition of insurance, or the "social" character of insurance.

Prior to 1883 in Germany and to 1911 in America, insurance was nothing but private business. The affirmation of the social character of insurance was made shortly after Willett's days with the establishment of the first workmen's compensation insurance programs in this country since 1911. Kulp, justifiably, continues the use of "social" in his definition as the bulk of his book, *Casualty Insurance,* was devoted to the study of industrial injury hazards and workmen's compensation insurance. But, Mehr and Cammack and the other textbook writers of the current era, I submit, are merely paying lip service by retaining the word "social" in their definitions of insurance. In their last edition in 1966, in the 32 chapters of the whole book, only a single chapter on "Social Insurance is alloted to the study of the "Principles of Insurance." Mehr and Cammack may be enjoying their "antiquity".[9]

How about the advocates of the new fashion? Two new books bearing the same title, *Risk and Insurance,* both first published in 1962,[10] have won sufficient popular acceptance to merit the publication of the 2nd edition of each in 1968 and 1969 respectively. In both books, the fate of social insurance remains the same, and it has not received any better treatment—a single chapter in each book. While remaining true to their tested approach, Mehr and Cammack frankly recognize that more persons are insured under social insurance programs. In the opening sentence of the chapter on Social Insurance, the authors affirm that, "As extensive as are the activities of private insurance companies in the field of life, property, and casualty insurance, it is safe to say that even more persons are insured by the instrumentality of state insurance."

Facts, cited from private insurance business sources, eliminate any risk of disputing this statement. In 1968, life insurance companies received total income of $41,-863 million, of which the bulk represents premium receipts totaling $31,087 million. In the same year, Americans received $14,-385 million in benefit payments from life insurance policies and annuities. By contrast, under the Federal Old-Age, Survivors, and Disability Insurance program, employers and workers jointly contributed a lesser sum of $27,034 million, but received $10 billion more in benefits. The monthly and lump-sum payments under FOASDI in 1968 amounted to $24,936 million.[11]

The long-run trend of growth since 1955 is leaning further toward social insurance rather than to private insurance. Yet the introductory insurance textbooks of the modern era, old and new-fashion alike, make the same backward, unbalanced pre-

[8] Kulp did not give any definition of insurance in the first edition of *Casualty Insurance,* which was originally published in 1928.

[9] I want to avoid labels—"conservative" or "liberal" which have heavy political connotations. The word "antiquity" is borrowed from the Preface of the authors' 1966, 4th edition. In my personal opinion all the insurance teachers are conservative (including this writer), since we are inclined to play safe against "risk."

[10] James L. Athearn, *Risk and Insurance,* Appleton, Century, Crofts, N.Y., 1962 (2nd ed. 1969); Mark R. Greene, *Risk and Insurance,* Southwestern Publishing Co., Cincinnati, 1962 (2nd ed. 1968).

[11] All figures cited from *Life Insurance Fact Book,* 1969 edition, published by Institute of Life Insurance.

sentation.[12] Furthermore, even the private insurance business of the 1960's has been starting to acquire the "social" character that it has long ignored. Property insurance companies at long last have managed to change their mind and cooperate with the leadership of government in developing a flood insurance program. On the other side, after its debacle in not providing medical insurance for the aged in the early 1960's, the life insurance business is beginning to channel billions of its investment dollars into urban ghetto areas, as "evidence of the concern of the life insurance business for the quality of life in the United States continuing to grow during 1968, particularly as it affects families living in core city areas." [13] It is high time that insurance teachers catch up with new developments, even if the textbooks have not.

In the 1969 edition of his textbook, *Risk and Insurance,* James L. Athearn states:

> Social Insurance commands more attention now than it ever has in the history of modern society. In the United States it is a twentieth-century phenomenon which accounts for the redirection of a considerable portion of the national income. . . . Increasing attention to social insurance is a result of the great social and economic changes that have taken place in the United States in the past century, and particularly in the last fifty years. Some of the major changes which have taken place are; (1) aging of the population, (2) industrialization and urbanization, (3) rising standards of living, and (4) a growing concern for the unfortunate and the underprivileged.[14]

These changes have gained momentum in the decade of the sixties to thrust the American economy into the "service economy." They have also pushed America forward to the threshold of an "Age of Discontinuity." The changes will become further intensified in the coming decade, the 1970's.

In order to ride through these rapid and dynamic technological and societal changes, the effective and relevant teaching of risk and insurance, especially the

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[12] For example, a widely-used introductory textbook by Bickelhaupt and Magee, *General Insurance,* has just entered its 8th edition. It is a very traditional book but has been given a "face-lifting" to make a new appearance for the latest two editions. In promoting the new 8th edition, which has just been published in January 1970, it is pointed out: "this new edition . . . is a purposeful blend of several different approaches to the study of insurance and risk." Part III of the book is titled "Insurance and Government" and according to the co-author, "emphasizes the 'social' approach." Any reader will readily discover that, like those other books, this part includes one chapter on "Insurance Regulation" and one chapter on "Social Insurance." In an introductory chapter discussing "Insurance and Its Significance." it was shown in the 7th edition (1964) that the total insurance premiums in the United States for 1962 were $58 billion, which included $39 billion for private insurance and $19 billion for social insurance. Five years later, the total volume of insurance premium and tax for 1967, as presented in the new 8th edition, increased to $97 billion, of which $59 billion was for private insurance and $38 billion for social insurance. There is a 50% increase in private insurance premiums; but a 100% increase for social insurance contributions. During this period, a most significant development on the American insurance scene was the introduction of the program of "Medicare for the Aged" under Social Security in 1965. The only recognition given to this important program by the co-author in the new edition of 1970 is a change from "O.A.S.D.I." in the chapter on "Social Insurance" in the 7th edition to "OASDHI" in the same chapter of the 8th edition: an addition of a capital letter "H" and a small paragraph mentioning it. Yet, the co-author states in the paragraph: "The sizable nature of the program is seen in the estimated benefits paid in 1969 of approximately $6 billion." (p. 203). In comparison, for the same year 1969, the total health insurance premium receipts (not benefit payments) of all private insuring organizations, as stated in the book (p. 787), were nearly $14 billion.

[13] This is the opening sentence of the 1969 edition of the *Life Insurance Fact Book.* In 1968, the urban investment of $1 billion was fulfilled. Though this represented only little more than one half of 1% of life insurance business's assets ($187 billion), hopefully this is just a beginning. In the spring of 1969, the life insurance business announced a second $1 billion for its urban investment program.

[14] James L. Athearn, *Risk and Insurance,* 2nd edition, 1969, pp. 594-596.

introductory course, in a changing social and academic atmosphere, requires our collective efforts for a further redirection and re-orientation. This is the critical time for A.R.I.A. to continue directing its collective efforts toward a wider redirection and re-orientation, despite changes that were just initiated less than ten years ago.

It is against this social and academic urgency that the four-dimensional approach described in the Appendix is put forward for consideration. Theoretically, the four-dimensional study of insurance will put the subject of insurance in a better and clearer perspective. It suggests giving equal attention to the components of the insurance equation at both ends; two kinds of insured—individual and institutional; and two types of insurers—private and public. It will also help to search deeper into the true nature of insurance as a whole—a social device that is more than a mathematical exercise or a set of business practices.

Practically, this broad approach to the study of risk and insurance will permit the introductory insurance course to appeal to as well as stimulate the interests of a far larger body of students than is presently the case. It will help to make the subject of risk and insurance become more teachable on all the college and university campuses, including "the other 1800." It will help to achieve the goal of academic respectability for the discipline, earning a proper place for insurance teachers in the academic community as well as the insurance business and society in general.

The course will lead to a better and broader preparation for students who, in the words of Professor Phillips, are "prone to advance to further study a good introduction to the basic principles." Through this four-dimensional study of the subject, the future executives of the insurance business, like those in any other business, will be better equipped to face their social responsibilities during the remaining one-third of the twentieth century as well as in the decades beyond 2000 when they will be certain to have executive and managerial authority.

APPENDIX

Upsala College is a typical American liberal arts college, with a notable Swedish heritage and cosmopolitan atmosphere. The enrollment of the College has been stable in recent years at about 1,500 students, which makes it possible to establish a close relationship between students and faculty. The College's academic program is designed "to stimulate intellectual curiosity, to provide a basis for the critical analysis of issues and the formation of sound judgment, to foster the growth of discriminating aesthetic taste, and to develop the deep concern for people that leads to constructive action in society" (quoted from the College Catalog). Business education, including the insurance curricula, has long been provided by the College within the framework of a liberal education.

The College is located in the City of East Orange, which is only 20 minutes away from the corporate headquarters of the world's largest insurance company, the Prudential Insurance Company of America, in downtown Newark; and 45 minutes away from William Street on the tip of Manhattan, the street that has become the center of the international insurance market. In the meantime, as the result of the post war trend toward suburbanization, East Orange itself has been transformed in the past decade into a new center of insurance business.

In keeping with this setting, it is not surprising that insurance courses are being taught at the College. What may surprise many is the fact that insurance courses have been taught here ever since early in the 1930's. A major in insurance was established in 1950 with a comprehensive offering of insurance courses unmatched by insurance programs in many major universities. These courses were consolidated and the insurance major changed into an area of concentration in the Department of Business Administration after this author took charge of the insurance program in 1959.

Today (1969), the academic program of the College as a whole has undergone another major revision, leaning toward providing greater academic freedom to students in pursuing their independent study and research. The new insurance program, as a part of the curricula of the Department of Business Administration, includes six courses: the introductory Principles of Risk and Insurance course and the following advanced courses such as: Property & Liability Insurance, Life & Health Insurance, Marine & Transportation Insurance, Industrial Welfare & Social Security, and Corporate Risk Management. All these are one-semester courses. The introductory course is taught in two sections each semester and during the summer session. Advanced courses are being given in alternate years.

It may surprise many that the introductory insurance course is not a required course in any manner, not even to students majoring in business administration at Upsala. Yet, for any or all of the reasons Professor Phillips has mentioned in his article, the Principles of Risk & Insurance course has maintained its popularity on the Upsala campus. Each semester, in teaching this beginning course, the author faces a class of students composed of a wide variety of majors, ranging from art to sociology, with half of the class centering around accounting, business or economics majors.

Gradually there has been a need to modify the approach in teaching this course. (The emphasis has shifted over time as follows: from the traditional study of the insurance business and insurance contracts; the official A.R.I.A. "*Curricular Concepts*" Model, stressing risk & insurance management in business enterprise; the approach of insurance as a social institution, examining those critical issues of insurance in contemporary America; and finally, the formulation of the author's own theory (General Model for the Distribution of Losses) in unifying all the essential elements in all types of insurance (private vs public, life vs property, etc.) and the development of the four-dimensional approach to the study of risk and insurance.

This novel approach, subjecting insurance to an interdisciplinary study on a broad basis*, has been experimented with by this author for two academic years. The responses from the several classes of students have been overwhelming enthusiastic and are very gratifying. Indeed, the apparent success of this approach owes a great deal to the stimulating discussions, criticisms, and challenges from the mixed classes of students of the past years. If the subject can be successfully taught in one, small liberal arts college, it may provide some food for thought for teaching insurance in "the other 1800" schools. Thus, the following outline for the Principles of Risk & Insurance course is provided as a reference to interested A.R.I.A. members, and the author wishes to receive any comments and suggestions.

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* The author is well aware of Dr. Harry J. Loman's proposal concerning "The Future of Risk and Insurance as a Collegiate Subject of Study." (This is the title of Dr. Loman's address to the 1965 A.R.I.A. annual meeting and the text has been published in the March 1966 issue of the *Journal*.) He proposed a new approach to increase the emphasis on "risk, its analysis, treatment, and interdisciplinary relationships." Nevertheless, his proposal of interdisciplinary study still limits the study of risk and insurance as a business subject in business schools. In my personal view, we ought to take the study of risk and insurance out of this traditional confinement and to broaden the scope of the subject so that it will become an independent and universal academic discipline teachable in all the colleges and universities including, of course, the business schools. The "universality" of the subject is obvious as risk and security are the concerns of everyone in any society (primitive or modern), not just businesses.