RELATIONSHIP OF THE INSURANCE CURRICULA TO THE SUBJECT AREA OF FINANCE

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The insurance curriculum in the College of Business Administration at Louisiana State University is an integral part of the finance area. For administrative purposes the subject area is in the Department of Business, Finance and Statistics. There has been a notable change during the past three or four years in the department with a view toward experimenting and improving the course offering.

Philosophy

Almost every successful endeavor, including the development of an insurance curriculum, must have its goal clearly defined in order to be successful. The goals adopted in the formation of this curriculum are twofold. First, there is a recognition that the student should have every opportunity to develop into a leader capable of taking the initiative in business and government. Occasionally a writer points out that the majority of those who start out with the "necessary requisites" to be leaders end up substantially below top management. At Louisiana State University the assumption is made that the student will be in top management some day. Not only does this assumption give the student a better understanding of the overall functions of business, but this philosophy is a simple recognition of the fact so well-known in insurance marketing that it is highly unlikely that a person will attain a level higher than the goals he has set.

The second goal, used as a guide post, is the development of intelligent human beings who will have the foundation systematically to analyze the problems encountered in the business world.

In implementing these goals it is fully recognized that a college education is only a starting point. The statement by the Committee on Curricular Concepts in Risk and Insurance appointed in 1960 makes this point:

> Collegiate education—particularly at the undergraduate level—can and should do no more than provide the foundation for sustained intellectual effort by fanning the spark of curiosity and disciplining the student to be self-motivating.

A state university has an obligation not only to its students but to the general public. In the insurance area, this obligation is fully recognized and is carried out through the General Extension Division on a non-credit basis. This program will be explained below.

Importance of the Relationship

It seems only natural that the insurance curriculum would be included in the Deparent of Finance. After all, insurance companies are major financial institutions in which the managements of these financial institutions are responsible for directing the flow of savings into various parts of the economy. It is axiomatic that an insurance teacher must have complete

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command of the interrelationships of insurance and finance. But outsiders looking in are not always convinced that insurance graduates have such a command. Consider, for example, the communication in the March, 1963, issue of the *Journal of Insurance* by Mr. Herbert W. Florer:

> I am not so sure that the full concepts of insurance are connoted in the various curricula indicated (in *Curricular Concepts in Risk and Insurance*). It seems to me that a thorough college curriculum on insurance should include a real study of investments in general and insurance investments in particular. The effect of interest and other gain on invested reserves, surplus, capital, special reserves, etc., on the treatment of risk is, I believe, of major importance.

His communication also states:

> . . . it seems to me that a thorough treatment of risk and insurance at the college level should include study of investments in reasonable depth, the type of investments best fitted for insurance companies, the difference between the type of investments suitable for property and liability carriers, and the proper type for life insurance companies.

The editor, Dr. John D. Long, then pointed out:

> Whether or not risk and insurance curricula and/or finance curricula should include more attention to insurance investments is, of course, a many-sided question. The fact is, however, that most risk and insurance majors know appallingly little about investment desiderata for life insurance companies and non-life insurance companies. The same statement might be made in respect to finance majors. If Mr. Florer's observations are in order, *somebody* should be tending the store.

The following examples, some of which are rather unusual, are indicative of Mr. Florer's concern and are suggestive of the necessity for a closer connection between insurance and finance.

1. The perennial problem of explaining how a company can make a profit when it has lost money on its insurance operations, is still around. Mr. Florer brings this out in his communication. In addition, Dr. Calvin Brainard pointed up this problem in the December, 1963, issue of *The Journal of Insurance* under the heading of "My Most Difficult Concept to Teach."

2. Consider next a student who has observed in the *Life Insurance Fact Book* that the percentage distribution of assets of U. S. Life Insurance companies include less than 5 per cent in stocks and 35 per cent in mortgages. He then wonders how a particular company whose statement shows 33 per cent stock and no mortgages, can be financially stable and profitable. Or what about the company that has 89 per cent of its admitted assets in government bonds?

3. It is to be assumed that most insurance teachers are succesful in explaining the arithmetic of life insurance, including the subject of reserves. But what happens when the annual statement of a life insurance company shows that the ratio of investment earnings to required reserves is 13 per cent. The explanation of reserve computations has stressed the necessity of earnings a mere 2½ or 3 per cent.

4. It is very interesting to look at a series of annual statements for a particular company, especially a small company, and notice the changes in capital and surplus. A case in point is where the owners of a closely held company borrow from a bank (using the stock representing ownership of the life insurance company as collateral) and put the money in the company just before annual statement time in order temporarily to bolster its surplus. The reader can imagine the problems of getting this money out again.

5. A final example might be the case where there are several corporations

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owned by the same family, which include a life insurance company, a funeral home (which has a contract with the life insurance company to accept funerals at a certain percentage of the face value of the policies), and an investment company which has been set up to purchase and subsequently rent non-admitted assets to the insurance company.

There is no point in belaboring the first item of investment profits covering underwriting losses. It should be pointed out that the other illustrations are all actual cases which are not too uncommon in very small companies. It should be emphasized here that these are not indicative of Louisiana insurance companies. The case of the company with 33 per cent of its admitted assets in stock and no mortgages simply reflects the fact that this is a very small company which has no servicing facilities for mortgages, and has blue chip income-producing stocks.

The company with 85 or 90 per cent of its admitted assets in bonds is able to do this because of a related business which is sufficiently profitable to cover officers' salaries and other related overhead without charging it to the insurance company. The officers have virtually no interest in the insurance operation. Here again, this is a very small company.

The company earning 13 per cent on its reserves is able to do so due partially to its unique position of having a ready market for certain kinds of loans. This company actually borrows money from the bank and lends it out on home improvement loans. In the not-too-distant past the charge to the borrower by the insurance company was 8 per cent on a discount basis. By the time the company pays the cost of this borrowed money, the 13 per cent will, of course, be reduced.

The example of small companies borrowing to bolster temporarily their surplus is not common but is legal in some states.

For a business firm to employ vertical and/or horizontal integration is not uncommon whether it be a large company or a very small company. The same holds true whether it be a financial institution or a manufacturing business.

In any case, the above unusual examples should be sufficient to emphasize the need for a thorough understanding by insurance students of the ramifications and intricacies of finance.

The Colleges' Approach

The courses in the Finance Department include insurance, investments, corporation finance, real estate, bank administration, foreign exchange and international finance, financial administration, and a few other courses which are cross-listed with the Economics Department, such as business cycles and money and banking. Although the Ph.D. program does not include the degree of Doctor of Philosophy in Insurance, per se, the emphasis on insurance can be shown by the following statement in the catalog.

> Before a student is admitted to candidacy for the Ph.D. degree, he will be required to pass a general examination in his major field, and a minimum of two minor fields. The major field may be either business finance or statistics. A major in business finance may include a specialization in insurance.

The graduate offering in insurance is being expanded with the hope that in the not-too-distant future there may be a separate degree of Doctor of Philosophy in Insurance with an emphasis on finance.

It was mentioned above that the University has an obligation to serve the general public because it is a state university. This is handled through our General Extension Division on a non-credit basis. The C.L.U. and C.P.C.U. programs are both offered and they in-

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clude finance, money and banking, analysis of financial statements, etc.

Through the joint efforts of the College of Business Administration and the General Extension Division, the University has been successful in obtaining the Institute of Insurance Marketing which was formerly located at Southern Methodist University. Such an Institute helps to relieve the pressure of the general public wanting the "how" taught in the regular college courses. In addition, because many small companies are served, the contacts of the Institute's faculty with the financial problems of these companies supplies the College with a wealth of examples and case material.

Finally, the University runs several conferences for both companies and agents.

The purpose of this discussion of the relationship of the insurance curricula to the subject area of finance has been to point out the need for a closer connection and to explain L.S.U.'s approach. Some of the examples are admittedly unusual ones, but have been included to emphasize the point that finance and insurance cannot be treated as different areas. The trend at L.S.U. is to bring them closer together.

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