The Review

PLAYER'S POINT

Academia Meets Reality Check
By Thomas A. Player

My friends, Harold Skipper and Jean Kwon, have written a text book. An ambition of mine has been to publish one of those New York Times type book reviews where an erudite reviewer savages hapless authors. In this case, a seasoned on-the-ground practitioner dissects well-meaning but ivory-towered academics.

The problem is that the book, "Risk Management and Insurance: Perspectives in a Global Economy" is a good textbook but a better discussion of risk management policy.

I first met Dr. Kwon when Dr. Skipper introduced me in Shanghai as I was presenting opening remarks to the Asia Pacific Risk and Insurance Association on Terrorism Coverage during the summer following 9-11. The world and the world of risk management have changed more in the six years since 2001 than in the previous 35 years that I have been following their fortunes.

What were academic ideas prior to 9-11 have now matured into working hypotheses. In my mind, nowhere has this happened more than in the area of Societal Risks. The authors have devoted several chapters to discussing the practical application and economic impact of societal risks.

Simply put, societal risks involve risks which society either feels a moral obligation to cover or an economic motivation to cover, but which its citizens cannot adequately cover on their own account. A good illustration of government subsidy of risk is found in the debate surrounding the implementation and extension of the Terrorism Risk Insurance Act ("TRIA"). Currently the debate is raging as to whether, and how, to again extend terrorism coverage.

As I said in the Fall 2005 Player's Point, "What is in place with TRIA is a refined mechanism to discharge what will surely be a governmental obligation in the event of a large scale terrorist attack. Much thought and discipline has gone into putting in place the machinery for coverage, claims handling and reimbursement." This is shorthand for a government subsidy of a societal risk.

Other illustrations are found in initiatives to provide national CAT cover, expand Federal Flood protection, and, of course, the long suffering proposal for national earthquake coverage.

Chapters on societal risk assessment in the book should be required reading for Congressional Staffers. The authors are not judgmental as to which societal risks they recommend receiving government subsidies. What they focus on are the principles which should be consistently employed in making the decision on subsidies. They also note that providing a subsidy can produce unintended secondary economic results, such as now being seen in Florida. Coastal building is at an all time high, partly as a result of the availability of subsidized property coverage, both in terms of programs provided by the State of Florida and by the Federal Flood Insurance Program.

This text book is applicable to both graduate and undergraduate programs. It covers the nuts and bolts of insurance. What is noteworthy, however, is that it begins with a
strong analysis of the economics of risk management. Certainly much of the information is in an academic format, but much is unusually practical. For example, there are useful chapters on:

- Enterprise Risk Management
- Both Internal (ART) and External (Securitizations) Loss Financing Arrangements
- Political Risk Management

Skipper and Kwon have hit a long ball. While I don't think it will be soon appearing on the New York Time's Best Seller list, I do think it will grow into an academic favorite.

As to the answer of the opening question, "What happens when Academia meets Reality Check?" Academia produces a helpful and readable text called: "Risk Management and Insurance: Perspectives in a Global Economy."

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