



# RMI STRAIGHT LINE

A NEWSLETTER FROM THE INSURANCE PROGRAM OF OLIVET COLLEGE

WINTER 2009

## Welcome to *RMI Straight Line*.

Why "*Straight Line*"? We want to provide a forum for an open, unembellished, no-spin line of communication about the risk management and insurance issues of the day. And as insurance exposures are measured in lines or layers, we want to promote a clearer understanding of the exposures of the business of risk-taking. We hope you'll find the *RMI Straight Line* to be a stimulating and informative newsletter. We invite your comments, criticisms, opinions on the topics of the day, responses to other articles, and letters to the editor for publication in future editions. Please send your submissions to [rmi@olivetcollege.edu](mailto:rmi@olivetcollege.edu).

Michael R. Hubbel  
Editor

## The Mission of the Insurance Program of Olivet College

Our mission is to provide the best collegiate insurance, financial planning, and risk management education in the nation – to prepare our students to have all options available to them upon graduation – and to deliver that education in the context of *The Olivet Plan*, with a strong liberal arts and business base, in partnership with the insurance, financial planning, and risk management community, with co-curricular activities fully integrated into our curriculum. Our secondary mission is to be a resource to the business community – a source of information, and a provider of interns and graduates of character and competence with the ability to collaborate with people of diverse backgrounds.

### Feature Article by:

Charles A. McAlear, CPCU  
Founder of McAlear Associates, a wholesale broker, founder of the National Association of Professional Surplus Lines Offices, Ltd., and author of *The Foundering Ark: Insurance on the Rocks*

## This Issue's Featured Article by Charles A. McAlear

**If you are looking for glad tidings, you are reading the wrong rag.** Through the summer and into the fall, readers, audiences and innocent bystanders were continuously urged to look at the bright side of the financial drama they were witnessing. History challenged politicians were inadvertently quoting Herbert Hoover as to the "soundness" of the American economy. Every televised lectern became a cracker barrel, a launching pad for ill considered or barely formulated opinions on events never described in enough detail to allow serious evaluation.

**Volcanic eruptions and forest fires were cited as examples of disasters that terrified contemporary witnesses by their destructive efficiency and massive scale.** It was suggested that the public take comfort in the fact that, with the passage of a few decades, the impact of even these most destructive forces is just barely discernable. That the serious damage was repaired by life forms that had been evolving on the same stage where unfriendly fires and eruptions are common events, went unexamined. These plants and animals had been rehearsing and adapting to their role of rebuilding after almost total devastation for millions of years.

**Trading something valuable for paper has a shorter history.** Western sources trace the origins of paper money to China, suggesting a time a little more than ten centuries ago. This exotic Asian innovation did not catch on in the United States until after the Civil War. A little over a century ago, U. S. political parties still were debating whether U.S. paper money should promise payment in gold or in silver. In that simple world, paper money promised precious metal on demand and the cost of that metal determined its value. A country could safely promise to deliver only what metal it had in storage and was ready to ship.

**In its modern form paper money has been around for only 37 years, since all pretences that it represented a precious metal were dropped in 1971.** Thirty-seven years is not much time in which to learn to manage a critical new medium of exchange. Modern experts undoubtedly have a lot to learn and pretending that they already know more than they do is not likely to be productive.

**"Off with their heads,"** was the likely response from Sung Dynasty mandarins, who had little sense of humor when it came to counterfeiting their paper money. It is not the value of the notes counterfeited that measured their potential loss, but the impact that false money in circulation had on the entire economy. Merchants don't like to play a financial version of musical chairs with each one knowing that they are the ones who might lose big time. The usual response is to find another medium of exchange or to stop trading. Economies shudder to a halt.

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## Michigan Insurance Hall of Fame Mission

The role of the Michigan Insurance Hall of Fame is to recognize individuals for excellence in leadership, service and contributions to *improve the ability of the Michigan insurance industry to serve the public in the state of Michigan*, and furthermore to support education, research, and technology that advances the understanding and public awareness and recognition of the economic role of the insurance and risk management business.

**What is real money and what just pretends to be?** Real money is declared to be such by a government. If offered in the payment of a debt, it must be accepted. The value of the money depends partly on the relative power of the government, economic, political, and military. (Occupying armies issue worthless script that passes as real money as long as the armies remain and insist that it does.) In modern societies, much business is transacted by using instruments which function as money. The poker player, who endorses his paycheck and puts it in the pot, may continue to play, if the other players agree. But it is not quite cash and players may freely object to its acceptance. Players also may offer their markers which are definitely not money, but, if the players agree, the game continues.

**The cash-light player can also produce his dear departed mother's engagement ring and propose to bet it.** This poses two questions. Is the form of the bet acceptable to the rest of the players? What monetary value can be agreed upon? If the participants in a market can agree on what is an acceptable medium and its value, it need not meet any other definition of money.

**In the coming months the national debate will swirl around what is enough like money to be acceptable as capital in banks and insurers, and how much leverage should be allowed with that capital.** Securities based upon home mortgages are not leading candidates for acceptance as capital; the wounds they have caused are too evident and too recent. Predictably that is where the band-aid will be applied. Mother's engagement ring may not make the cut this time as capital, but stranger things have happened, and recently. Those pushing to recognize as money for capital various instruments which only bear a casual relationship with cash, often believe they are advocating a position that increases wealth. Other voices suggest that while money is established by fiat, wealth (and therefore capital) is determined by a more realistic process dependent upon markets. Recognizing wealth where it does not already exist is simply inflationary.

**When individual have borrowed 100% of the value of all their assets, they might be advised to stop borrowing.** That is why personal bankruptcies don't generate the publicity that corporate or public failures do. In finance, leverage is an exclusive gift to business and public entities. "How many times its capital should a bank or a financial institution carry as debt?" Conservative scholars who ponder the question generally begin by suggesting a limit like two or three times capital. Under this theory, a million dollars in capital allows a firm to borrow (or assume liabilities in the case of an insurer) up to three million dollars. Instead of only putting its capital to work, it also employs the money it has borrowed (or assets associated with liabilities it has assumed).

**If a dollar invested earns a dime, then \$4 million in assets would earn \$400,000.00 for the leveraged entity.** If only its capital (\$1 million) had been invested, it would earn \$100,000.00. The capital risked by the investor remains the

same but the return on investment increases from ten percent to near forty percent. Obviously, putting borrowed money to work increases return and has become the accepted approach to running a modern business. It nearly always works when there are profits involved. At one time, Fannie Mae was leveraged with forty dollars of debt for each dollar of capital. When it was profitable, it was extremely profitable. For this reason, speculators prefer to borrow as much as possible, substantially increasing the potential return at little additional risk.

**However, if the leveraged dollar lost a dime, capital would be reduced, not by ten percent but by (\$4 million x 10%) \$400,000.** In this case the firm would be left impaired because the reduction in capital (from \$1 million to \$600,000.00) would reduce their capacity to borrow. Kitchen table arithmetic would suggest that just a 2.5% loss of assets by Fannie Mae, when it was leveraged at 40:1, would wipe out its capital completely.

**\$123 billion that will be loaned to AIG by the United States Government.** At least that was the last revised figure, as of Thursday, October 09, 2008. To put that amount and other figures in perspective, the total Policyholders Surplus of the property/casualty business in the United States at the end of 2007 was \$537.9 billion. By midyear 2008, that number was \$512.9 billion, ominously down 4.5% for the period. In other words, the rescue/bailout of the financial sector is expected to cost considerably more than the net worth of the entire American property/casualty insurance business.

**It has been seen as a victory for state regulation that AIG owned companies are open for business** while the parent company had to be "rescued" (or "bailed out," depending on one's political orientation). The sheer size of the hole AIG has dug for itself suggests that every aspect of the insurance business will have to be reappraised as soon as the dust settles. A. M. Best is likely to find they have best sellers on their hands when they publish the year-end numbers of the business for 2008. While unemployment figures may increase elsewhere, they certainly will be working overtime in Oldwick, New Jersey.

**Every relationship with every insurer must be re-examined by every party with even a vague potential interest in the insurance transaction.** Not just agents and brokers and their myriad clients but citizens in all their various guises, from school board members to drain commissioners and traffic cops, will have to become aware of the financial condition of insurers. (The driver of an automobile in an accident may produce a certificate of insurance but is the insurer still answering the phone?)

**Some insurers will survive in fine shape.** Others may not last long enough to publish this year's numbers. Those who invested heavily in equities are likely to be most exposed. Those controlled by adventuresome holding companies, by

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whatever name, may find that they wear an albatross on their neck, rather than a blue ribbon. And the damage to others may be reflected far beyond the smoking ruins of their balance sheets, in the actions they must take to survive in a new era.

A few months ago, the learned gnomes of London and Zurich judged global insurance capacity sufficient to weather this year's hurricane season and continue to support a soft market in 2009. More recent events may have caused these oracles to reconsider their position. It seems a lead pipe cinch that there will be less capacity in the New Year. That does not necessarily translate into higher rates. However, insurance company managements do not have an exemplary record of responding intelligently to sudden financial stress. ■

## Michigan Insurance Hall of Fame Nominations

We invite you or your organization to nominate an individual that is generally recognized within the Michigan insurance and risk management industry as a leader and/or innovator who has had significant impact on the ability to serve the public. The nominee must meet one or more of the following criteria to be selected for induction by an election panel consisting of a cross-section of the Michigan insurance and risk management community:

- The Nominee has created or implemented a product, service, program or communication innovation that has had an outstanding impact on the ability of the industry to better serve and/or protect the public;
- The Nominee has developed or implemented meaningful improvement in the level of knowledge and education with the industry as related to its ability to more effectively serve the public;
- The Nominee has provided significant support in attracting and/or developing new participants to the insurance and risk management industry through the efforts of professional organizations, college/university programs, internships and like activities to assure the long-term ability of the industry to consistently serve the public;
- The Nominee has influenced or played a significant role in the development and positive growth of legislative and/or regulatory activity as it related to the ability of the industry to serve the public; and/or
- The Nominee has provided exemplary service to the public in any role or circumstance not described above that has had a positive impact on the ability of the industry to serve and protect the public.

These criteria are offered as guidelines and as such are not expected to be all-inclusive. At the discretion of the election panel, nominations based on factors not described here but deemed appropriate by the panel are eligible for consideration.

An election panel of professionals from a cross-section of the insurance and risk management community will review the nominations and vote to induct up to three new members. Any candidate not inducted in their first year of consideration will be automatically reconsidered in the second year (additional supporting material would be encouraged).

An application is available at <http://web.olivetcollege.edu/mihof/>. The application, or information in the same format as the application, must be submitted with a \$250 nonrefundable application fee before the deadline on March 1, 2009. We encourage you to provide documentation of the achievements and contributions in the areas listed above, and letters of support from others. The supporting documentation is very important to the election panel in their deliberations. Please format the application and documentation to follow the order of criteria listed in the application form.

New members are inducted each year at the most prestigious annual social event in the Michigan insurance and risk management business, a semi-formal reception and dinner held on the third Thursday in August. Current members of the Hall are honored in addition to the new inductees. This year, the dinner will be held on August 19, 2009, on the campus of Olivet College. Proceeds from the dinner are placed in a fund to support insurance scholarship and research.

The Michigan Insurance Hall of Fame was established as a 501(c)(3) corporation in 1994 to recognize the outstanding contributions of insurance and risk management professionals, and is housed in the Burrage Library at Olivet College. The bios and portraits of current members may also be viewed at <http://web.olivetcollege.edu/mihof/>. The Board of Directors of the Michigan Insurance Hall of Fame consists of a cross-section of the Michigan insurance and risk management community. Please contact the Administrator of the Hall, Professor Michael R. Hubbel, at [hof@olivetcollege.edu](mailto:hof@olivetcollege.edu) or call 269-749-7626 if you have questions. ■

## Remarks upon Induction into the Michigan Insurance Hall of Fame

*By Janet K. Holstine*

Thank you, Florence Nagy and the Michigan Council of Insurance Women for nominating me, with special thanks to Bonnie Avila, Linda Britton, Barbara Norris, and Margaret



Janet K. Holstine

Wildi for their wonderful letters of recommendation and thanks to others who have been involved in the nomination process. It is indeed an honor to represent insurance education providers and the Michigan Council of the National Association of Insurance Women (NAIW) in the Michigan Insurance Hall of Fame. I appreciate being recognized for my role in the education of women and men in various arenas of the

Michigan insurance industry.

I believe in education, I believe in people who are learning or struggling to learn anything and I believe in the insurance industry. I've been involved in education in some form or fashion nearly my whole life. I'm sure, over the years I had other career thoughts, but I knew I wanted to be a

teacher since I was in grade school. I started my professional working career as a teacher/librarian in public schools. When I was laid off from teaching, I found myself working for an insurance agency where I'd done some work while going to school. I worked in agencies as a full lines agent, started my own agency, merged the agency with another in Kalamazoo and it is at that point I got involved with Professional Insurance Agents and met Sue Stratton. Sue encouraged me to teach classes for agency personnel – before CE was mandatory. She then encouraged me to apply at Olivet and I became the Director of the Insurance Program. She then encouraged me to apply to be the Educational Consultant for the Certified Insurance Counselor (CIC) programs. All of this led to Insurance Educators which Sonia Thorndyke, Carol Breed and I started when the state began to require mandatory continuing education.

From my formative years to today, I believe in education, I enjoy education and I am personally a life long learner. Anatole France said “nine-tenths of education is encouragement” and I believe being an “encourager” is my strongest skill. Being an educator, mentor and friend comes natural to me.

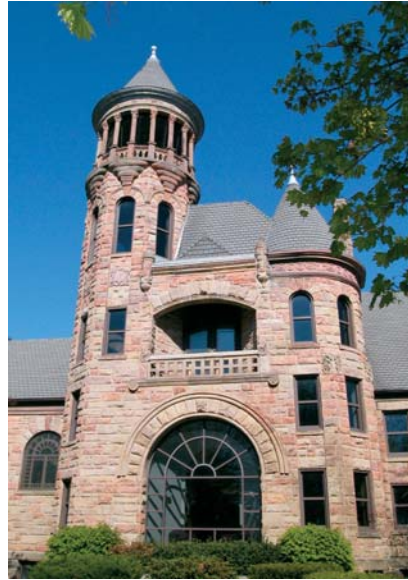
I love seeing former students grow in their career and their lives. College life is tough in any program but students in the Olivet College Insurance Program are urged to take part in insurance industry events in addition to their academics. They are invited to partake in many industry functions that are representative of the diverse positions available in our industry. By the time they graduate from Olivet, they have a fairly good idea of what it is like to work in our industry. It is wonderful to see students grow from fledglings to professionals in a few short years and to know you had a part in that. I revel in the accomplishments of students.

It is definitely an honor to be inducted into the Michigan Insurance Hall of Fame. It is a special source of pride being included in this hall because during my tenure here at Olivet College, I was able to work with members of the Michigan Council of NAIW and members of the Olivet College Insurance Program Advisory Committee to bring this institution to fruition. Through the efforts of these folks, the Michigan Insurance Hall of Fame holds a special place in the Michigan insurance industry. ■

## Olivet College

Established in 1844, Olivet College is a private, liberal arts institution located in south central Michigan. The college remains dedicated to its academic vision of *Education for*

*Individual and Social Responsibility* by providing a quality higher education to all, regardless of gender, race or financial means. The college is home to more than 1,000 students, who study under *The Olivet Plan*. In this unique educational experience, students engage in both curricular and co-curricular programs that combine real world experiences with lectures and service learning.



Olivet College is home to the internationally recognized undergraduate risk management program. The Alpha Alpha Chapter of Gamma Iota Sigma, the international collegiate risk management society, consistently ranks among the top three chapters internationally each year – the “best chapter” four times. This year we have over 120 insurance, risk management and financial planning majors. Our program in risk management has been recognized as one of 20 of the best risk management education programs in the world by *Risk Management* magazine, in the Sept. 2008 edition. For more information, visit our Web site at <http://web.olivetcollege.edu/insurance>, e-mail [insurance@olivetcollege.edu](mailto:insurance@olivetcollege.edu), or call (269)749-7626. ■

The opinions expressed in this newsletter do not necessarily reflect the positions of Olivet College or the Michigan Insurance Hall of Fame.

Issues of *RMI Straight Line* will also be available on our Web site at <http://web.olivetcollege.edu/insurance/>.

If you have questions or comments, please contact the Insurance Program at Olivet College by mail at 320 S. Main St., Olivet, Michigan 49076, by phone at (269) 749-7626 or via e-mail at [rmi@olivetcollege.edu](mailto:rmi@olivetcollege.edu).

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