

The background of the cover is a photograph of a long, straight road stretching into the distance under a starry night sky. The road is dark with a white dashed line down the center. The sky is dark with many small, bright stars. The overall mood is serene and contemplative.

FUNDAMENTALS OF INSURANCE

Robert I. Mehr

Second Edition



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ROBERT I. MEHR

University of Illinois
Urbana-Champaign

Second Edition
1986

A GIFT OF
THE ASIA FOUNDATION
BOOKS FOR ASIA
SAN FRANCISCO, CALIFORNIA, U.S.A
美國亞洲基金會敬贈

IRWIN

Homewood, Illinois 60430

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ISBN 0-256-03357-9

Library of Congress Catalog Card No. 84-81125

Printed in the United States of America

4567890V3210987

DEDICATION

This book is dedicated to my academic progeny—the following group of graduate students who transformed my work at the University of Illinois from a daily routine to a delightful experience, enhancing my life immeasurably. Over the past 38 years we have challenged each other with open minds as both professor and student should in a community of scholars if minds are to expand and learning is to be intellectually enriching and enjoyable. I am proud of them all. Most of these students are now teaching at other universities and building academic families of their own. I wish for them as much happiness from their students as they have given to me.

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Gary J. Eldred	Joan A. Krueger	Jay A. Yager

Also included in this dedication are the graduate students who exchanged intellectual experiences with me at the universities where I have served as a visiting professor, both in the United States and abroad. These students are too numerous to mention by name.

A PREFATORY LETTER

Robert I. Mehr
101 W. Windsor Road Apt. 1102
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January 1986

Dear Reader:

Edward Gibbon in *The History of the Decline and Fall of the Roman Empire* observed that one Roman had 62,000 books and 22 acknowledged concubines. Seneca philosophized that "Since you cannot read all the books which you possess, it is enough to possess only as many as you can read." One purpose of this letter is to explain why this book is one you can read and thus one you should possess. As for concubines, I have no advice to offer and I am truly sorry.

Before giving you the reasons for possessing this book, I must tell you a story about its development. Originally the publishers asked for an essentials of insurance text. They wanted a short, simplified version of my *Principles of Insurance* text originally written with Professor Cammack. That book was born in 1952 and is now in its eighth edition (1985). So what happened to the essentials text? Really nothing, because I soon found that few people agree on what is essential.

After much agonizing over the issue, I decided that no one can determine what is essential *per se*. The answer seems to depend on the interests of students, teachers, and on course objectives. Fortunately for education, these interests do not have to coincide. This text has been designed with this thought in mind. The prenatal name *essentials* was changed to the broader given name *fundamentals* while retaining the family name *insurance*. Too bad you missed the christening ceremony—it would have done justice to royalty!

Now that we are on the subject of royalty, let's digress for a moment. James Boswell in *The Life of Samuel Johnson LL.D* said, "No man but a blockhead ever wrote except for money." Do you know that until 1709 authors had no legal right to a royalty on the sale of their books? The first statute in the world that gave them this right was an Act, Statute 8 Anne, c 19. Such writers as the university wits (Christopher Marlowe, George Peele, John Lyly, Thomas Lodge, Robert Greene and Thomas Nashe), Geoffrey Chaucer, and Francis Bacon all published before 1709. Would you call them blockheads?

In contrast to Boswell's curious statement, the possibility of royalties is not a consideration in the writing of this book. My goals are multifaceted, and all of them are for your benefit. Your desire to learn and the fulfillment of this desire are the rewards—two powerful forces.

Let's get back to the objectives of the text rather than my personal goals. Despite the abandonment of the proposed title, the objectives remain unaffected. The challenge is how to achieve them. I want to help you build a foun-

dation of insurance knowledge that you will find useful regardless of whether you are an undergraduate at an institution of higher learning or studying on your own. In this case *useful* means learning sufficient basic elements of the subject so that you can deal with insurance as buyers, sellers, concerned citizens, company employees, or regulators. To reach this goal requires a second objective: An *elementary* text that encompasses all concepts and practices that could be considered essential to any one of these interest groups.

So what is the challenge I face? Several insurance scholars reviewed the text as it developed, and they all wanted additional concepts discussed; rarely did they suggest deletions. When a deletion was suggested, it was usually a discussion that another reader wanted expanded. Yet, all wanted the size of the book reduced! Such is the life of an author. If I didn't enjoy writing so much, I would look upon it as George Orwell did in *England Your England*: "Writing a book is a horrible, exhausting struggle, like a long bout of some painful illness." Now if experts can't agree on what is essential, how can a beginning student make this determination? I have lived with this discipline so long that I think everything about it is essential. I know this is wrong, but if I had to make a selection, it would not be the same as your instructor's.

When you learn more about the subject, you will develop your own ideas about what is essential. So for most readers, this text will include some "non-essential" essentials. That is why the book is called *Fundamentals*. All that is essential is fundamental, but all that is fundamental is not essential. The important quality of the book is its breadth which makes it possible for you to learn about the concepts and practices that *you* find interesting, particularly as you expand your interest in the subject. Forcing people to learn what they do not want to know is as foolish as feeding them what they do not want to eat. Why feed people broccoli, for example, when the only good thing you can say about it is that it has no bones.

In writing about *Paradise Lost*, Samuel Johnson said, "it is a book that the reader admires and lays down, and forgets to take up again. Its perusal is a duty rather than a pleasure." I want this book to be a pleasure to read so that you can enjoy your learning experience. That is really the overriding objective.

As I have been writing in the basic principles field over 35 years, it is impossible to write a new book without some repetition of ideas from past writings. But this text has been structured with the appeal directed toward special interests, special likes, and special dislikes. Individuality, not standardization, is the theme. The book could be viewed as *A Variation on a Theme of Mehr, Cammack, and Rose*. However, it is written with a different emphasis and new concepts that further distinguish it as a separate book without plugging the slot reserved for the *Principles of Insurance* in the scheme of insurance education.

The recognition of the inequality of individuality is the principal means used to help this text meet its objectives. It is divided into eight parts, and each part includes two or more chapters. The chapters are divided into articles, sections, stanzas, and verses with the headings plainly marked. The parts are clearly described, the chapter objectives are stated, and the titles of the chapter

components are distinctly identified. Each part, chapter, and segment stands on its own. Entire parts, whole chapters, and parts of chapters can be skipped without interfering with the continuity of the text. For example, Part Five, employee benefit plans, can be eliminated or Chapter 18, Social Insurance, included in Part Five can be omitted. If some but not all of Chapter 17 (Retirement Plans) in Part Five is of interest, segments of that chapter can be ignored: the funding issue, taxation, and/or special types of retirement plans can be disregarded. If the emphasis is to be placed on personal insurance lines to the exclusion of business insurance coverages, most of Chapters 10, 11, and 12 can be eliminated. If an analysis of insurance company functions and operations is not a course objective, chapters 19 through 23 can be omitted. The book has been written and organized to cater to many appetites. In this regard, I think of myself as a cafeteria dietitian providing a wide selection of food for thought. No one is expected to select all items on display in a cafeteria on the first visit!

The text contains a number of innerscripts judiciously interspersed throughout the book. These innerscripts, akin to postscripts except for their location, are another technique used to permit selection because they can be skipped. They provide information that falls into one of three classes: interesting but not essential (frills), amusing but can be skipped (thrills), and too difficult for an elementary text (chills). The chapter summaries and questions also can be helpful in selecting subject matter of interest.

You will find Chapter 8 to be filled with details and at times *seemingly* dull. However, if you use this chapter for the purpose for which it is designed, you will find it exciting and useful. The objective of this chapter is to provide a full outline of the provisions of the 1984 edition of the Homeowners 3 policy as a learning aid in applying the techniques of policy analysis discussed in Chapters 6 and 7. You should make no attempt to remember all the provisions discussed. (I am sure that I do not remember all of them.) In answering questions about policy coverage, you should refer to the policy itself, which in this case is reproduced as appendix 3 of this text. The policy is more appropriate than the text for this purpose once you know the procedure for policy analysis and understand the many types of provisions that can affect coverage.

At the appropriate places throughout this book, reference is made to President Reagan's (1985) tax overhaul plan which affects insurance. While no one knows at this writing what action will be taken on the various proposals included in this plan, the expectation is that the proposal will not be adopted without some significant changes.

In this revised edition, I have made an effort to up-date the book thoroughly and to simplify the discussion where necessary. Thus, I believe this edition is a major improvement over the first edition as it should be. As Thomas Carlyle so aptly put it: "Today is not yesterday. We ourselves change. How then, can our works and thoughts, if they are always to be the fittest, continue always the same." Change will continue after this book is in press. "I do wish I could tell you my age," said the vain person "but it is impossible. It keeps changing all the time."

The extensive glossary at the end of the book was prepared by Irving Finston and should be helpful. Words included in the glossary are printed in bold-faced type. The use of the index with the glossary is helpful in locating the pages in the text where these concepts are discussed more fully, and thus could be of additional aid in selecting material for study.

Professor Sanford Halperin has prepared a student's manual for this text to help you learn, understand, and retain as much as you can from your assignment. The manual could be especially valuable at some later time if you need help in studying segments of the text that have not been assigned.

Let's chat a moment about the publisher. Sometimes authors regard publishers as scheming, deceitful tightwads. Thomas Campbell, a poet who clamored for the founding of London University, in toasting Napoleon at an authors' dinner said, "to Napoleon! I agree with you that Napoleon is a tyrant, a monster, the sworn foe of our nation. But, gentlemen—he once shot a publisher!" In *Summaries of Thought*: "Authors," Christian Bovee wrote: "There is probably no hell for authors in the next world—they suffer so much from critics and publishers in this." We'll get back to critics, but as for publishers, the first edition of this book was among the first to be published by Richard D. Irwin, Inc., in 1983, its golden anniversary year. I am especially proud to have a book published by Dick Irwin during that important year for him. I suspect writers who criticize publishers have never had the pleasure of working with Richard D. Irwin. My relationship with Dick goes back nearly 35 years. "It is with publishers as with wives: one always wants somebody else's." Not me, I have the best of both!

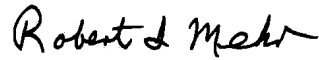
As for critics, some of the more complimentary remarks made about them are that they are legless people who teach running; they know the way but can't drive; they are people who seek to grow important at small expense; and they are hot, envious, noisy, proud and, furthermore, they waste paper. Some of the less complimentary remarks are unprintable, at least in this prefatory letter. But I like critics and welcome their comments when they are helpful. Everyone's work can be improved by the suggestions of competent critics. You are not only invited but urged to write me about any aspects of this text that you believe can make it more palatable.

I thank Mike Smith and a reviewer unknown to me for their valuable comments on the first edition of this book. Most of the comments were helpful. I am grateful to Irving Finston for preparing the glossary and to two students (Susan Wagner and John Sulga) who helped with the first edition. I also thank Sister Marie Golla for her help in typing the manuscript and for handling other technical matters relating to the manuscript. Finally, I thank my wife, Margaret, for her help in offering suggestions on many (it seems like all) aspects of this book and her tireless effort in proofreading. (She reads proofs like she reads the hundreds of catalogs that come our way, except in the catalogs she overlooks price! All that I owe, I owe *because of my wife*.) Seriously, we all owe this special person a great deal, for I could not have made it through this project without her dedication.

In closing, I believe you will agree that this book is handsome and beauti-

fully designed. It should be one you will want to keep not only for its practical value but for its beauty. "No furniture is so charming as books, even if you never open them or read a single word." Perhaps you will want to redecorate your living room, with this book as the focal point on your coffee table. So take care of it.

Cordially,

A handwritten signature in black ink, reading "Robert I. Mehr". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Robert I. Mehr

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