Testimony Before the

Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises

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Martin F. Grace, J.D., Ph.D.
James S. Kemper Professor of Risk Management &
Associate Director of the Center for Risk Management and Insurance Research
J. Mack Robison College of Business
Georgia State University
Atlanta, Georgia

Testimony of Martin F. Grace Center for Risk Management and Insurance Research, Georgia State University

Introduction

Chairman Kanjorski and Members of the committee, good morning and thank you for the opportunity to testify before the Subcommittee on the topic of insurance regulation.

My name is Martin Grace. I am the James S. Kemper Professor of Risk Management at the J. Mack Robinson College of Business at Georgia State University. I am also the Associate Director of the Center for Risk Management Research and an Associate at the Andrew Young School of Policy Studies. I have been at Georgia State for 21 years coming to GSU from the University of Florida where I earned a law degree and a Ph.D. in economics. Previous to that I attended the University of New Hampshire where I earned my undergraduate degree.

My entire career at Georgia State has been spent conducting research in insurance regulation and taxation. Since the industry is regulated at the state level, this has been predominately an exercise in the study of state regulation. However, the question of whether the state is the appropriate level of regulation is becoming more important and I have spent the last four years thinking about that question.

This brings me to what I have been asked to talk about today. The question of who should regulate the insurance industry has been debated in the United States since the time of the Civil War. Insurance continues to be regulated by the states despite several challenges to their authority over the years. The states' authority over insurance was supported in various courts' decisions until the *Southeastern Underwriters* case in 1944. In *Southern Underwriters*, the Supreme Court determined that the commerce clause of the Constitution applied to insurance and that insurance companies (and agents) were subject to federal antitrust law. The Court's ruling caused the states and the industry to push for the McCarran-Ferguson Act (MFA) in 1945, which delegated the regulation of insurance to the states.

At that time, the majority of insurance companies favored state over federal insurance regulation. However, today the bulk of insurance is written by national (and international) companies operating across state borders. Many of these insurers have come to view state regulation as an increasing drag on their efficiency and competitiveness: these insurers now support a federal regulatory system. This is reflected in recent proposals that would establish an optional federal charter (OFC) for insurance companies and agents. The proposal would allow them to choose to be federally regulated and exempt from state regulation. As you are quite aware, there is fierce opposition to an OFC from the states and from state-oriented segments of the industry.

One of the main problems with the OFC approach is that it is based upon a structure designed in the 1860s through the National Banking Act and cobbled together with state consumer protection language. The OFC approach is based on a view of the world that had changed significantly in the last two years. While the authors of the proposal now add a systemic risk regulator to the mix, they still beg some questions about who should be subject to federal regulation.

The current problem facing insurance regulation, though, is quite different from regulatory issues of the past century. Today's problem is not based on regulation of solvency, market conduct, or insurance pricing which have been undertaken by the states. It is, instead, the problem of systemic risk which, for the most part, has not been an issue with the insurance industry. Further, systemic risk is of national rather than state in scope. Specifically, the types of market failures used historically to justify regulation of the insurance industry have been ones that pertain to local markets. This is in direct contrast to the effects a failure of a company like AIG has on national and international markets.

Why Regulate Insurance?

Economists believe the role of government is to rectify market failures.[1] In the insurance industry, potential market failures are due, in essence, to imperfect information. Customers cannot, for example, observe the behavior of insurance company management. For a life insurance consumer, this might be important because of the long time between when a contract is purchased and when a payout might occur. Also, there is no effective way to discipline the insurer's management. For example, a life insurance consumer cannot "punish" a "bad" company by exchanging his long term policy for one with another insurer. Thus, economists would argue that government can and should monitor a firm's solvency position and take action to prohibit insurer actions which reduce the value of life insurance contracts.

A second potential market failure is related to the imperfect information embodied in the insurance contract itself. An insurance contract is a complicated financial agreement, so the government could standardize contracts or approve contract language to reduce errors and misunderstandings in the contracting process.[2]

A third informational problem might arise from an insurer's strategy and marketing structure. Because insurers have different marketing (direct versus independent agents)

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[1] See Skipper and Klein (2000) for a more thorough treatment of how economists think about the regulation of insurance.

[2] This standardization is common in personal lines products (like homeowners and auto), but it does not always solve all problems as there are new problems with contract interpretation that are costly to resolve. The Katrina wind/water litigation is just an example of this problem.

approaches and different levels of capital backing, shopping for the right policy is costly to consumers because they do not have the information to make accurate judgments about the services and the quality of services provided by insurers. Arguably, the government could guarantee a level of service after a claim or set prices so that a consumer would know that the contract is priced fairly. In addition, prices could be set to keep insurers from using their market power to exploit consumers through higher prices. This last rationale is often provided for price regulation of insurance, even though most personal lines insurance markets (which are the most likely to be regulated) are competitive markets. There are many competitors in these markets which reduces the likelihood of any one of firms being able to influence prices (Tennyson, 2007).

These arguments form the standard historical rationales for insurance regulation. A further rationale, with a more immediate application in banking regulation, is that regulators should prevent market failure caused by the externality of one bank failure leading to a loss of consumer confidence in the financial system and other bank failures should be prevented. Banks have solvency regulation to protect depositors and to defend the banking system from contagion risk. Historically, insurers did not present a real contagion risk to the financial system, but this may no longer be true. Financial companies are now interconnected in ways that are without historical precedent. Holding companies have evolved which contain many different types of regulated and unregulated firms. A bank with an insurer as part of its operations can extend the contagion risk to its insurance operations. Alternatively, an insurer with a large and unregulated derivative trading business which suffers large losses can trigger questions about the overall soundness of the insurance operations. Counter parties to trades by such an unregulated entity can cause significant harm and potentially disrupt the banking system. In insurance, the focus of regulation has been on the individual company and not on the group or holding company. This needs to change, at some level, to allow for the proper accounting of systemic risk.[3] A state regulator cannot realistically regulate an insurer for its possible systemic affects on national and international markets especially in situations where the insurer within the state is a separately organized corporation from the corporation which might induce a systemic risk issue.

The Level at Which Regulation Should Be Applied

Ideally regulation should be applied at the level where the greatest costs and benefits due to the regulation arise. A simple example would be the proper placement for restaurant safety inspections versus airplane safety inspections. Local governments would be the obvious choice for restaurant cleanliness because local patrons would obtain the benefits and bear the costs of the safety inspections. In contrast, airplane safety inspections costs and benefits are national in scope and air travel is conducted nationwide. Thus it makes sense for air safety to be regulated at the national level.

A large percentage of insurance premiums are written interstate. If there are interstate externalities to insurance regulation, then it makes sense for the federal government to regulate it. Phillips and Grace, in a 2007 paper, document some of these interstate externalities in terms of how states can export the costs of regulation to other states. The authors were not able to measure the benefits of regulation, so it is not possible to provide a conclusion about the role of federal versus state regulation.

[3] Prior to the introduction of the National Insurance Consumer Protection Act and the creation of a systemic risk regulator, I thought legislation that granted the Federal Reserve the right to assess systemic risk through the use of normal administrative agency powers of investigation would be sufficient for any firm that might create systemic risk. New legislation which sets up a formal systemic risk regulator will likely spell out these powers and their scope in more detail.

Some of the benefits of state regulation are that local tastes and preferences are best met by state legislatures responding to local voters' concerns about the insurance industry. This is often touted as a rational for federalism. Yet, I suspect that with some exceptions (price regulation, for example) a few voters could discuss their state's insurance regulations. Due to diverse state regulations, nationwide companies often have significant compliance costs which increase the price of insurance without providing any benefits provided by a federalist laboratory. States do not look to see if there is a better way to regulate insurance. So, there is tremendous inertia in state's regulatory processes and it is a rare event that causes all states to act together.

If the criterion for a state-based insurance regulatory system to be successful is that states must regulate to minimize compliance costs, then the current state regulation of insurance is doomed to failure. One of the major rationales for federal regulation is reduction of nationwide insurer costs of trying to satisfy multiple states' regulators. The NAIC has stated that it is trying to reduce these types of costs through model legislation and interstate compacts. Its good intentions notwithstanding, it is not capable of getting the states to operate quickly and efficiently together. Even Congress cannot obtain quick compliance from the states. In the Gramm-Leach Bliley Act of 1999, Congress mandated that the states set up a nationwide licensing system for agents. After ten years, not all of the states participate in this system to reduce multistate licensing costs.[4]

In 2007, for example, the NAIC proposed the Military Sales Model Practices Regulation as a result of a law enacted by Congress in 2006. This regulation is designed to protect young

[4] A recent report (NAIC, 2008) states that 43 states are in compliance. What is important is that three important states (FL, NY and CA) are not in compliance some nine years after enactment of the Gramm-Leach-Bliley Act. Without the large states participation, compliance costs are not reduced and the supposed benefits of increased state cooperation as a reason for avoiding an OFC bill are illusory.

soldiers, sailors, marines, and airmen from aggressive sales tactics directed at military personnel. As of late last year, only 18 states have enacted it. Presumably, this was an important issue for Congress, yet it has not been adopted by a majority of states in its first two years. Depending on universal action among the states to enact laws that prompt action is just not feasible. Grace and Scott (2009) document a number of other examples which suggest that joint actions by the states are never going to be able to solve national problems regarding compliance costs and uniformity quickly and efficiently.

The Potential Federal Role and Regulatory Modernization

There is a role for the federal government in insurance regulation. Where it can succeed and be economically valuable is in the area of removing the costs of conflicting state laws and reducing the effect of systemic risk on all financial markets. Reduction of compliance costs is the rationale behind the 2009 OFC proposal introduced by Reps. Bean and Royce called the National Insurance Consumer Protection Act. The new proposal includes the role of a systemic risk regulator who will have the authority to mandate that certain insurers be federally chartered companies.[5] With the exception of this concept, there is little modern thinking in the NICPA about how insurance regulation should work.

The authority of the systemic risk regulator is very important. It is only know being discussed. However, how this is undertaken can cause significant disruptions in markets. If the risk regulator's authority is associated with a "too big to fail" certification, then the underlying competitive insurance market might be at risk. Firms designated as "too big to fail" will have an

[5] Essentially, there is a double option on the table now. From the description in the press, insurers could opt to become federally chartered, but the Federal government could opt to regulate a state chartered company if part of a holding company that might create a systemic risk.

implicit incentive to take on more risk (sell more insurance and other risky products) knowing the government will provide assistance. A rational firm may decide not to compete in that market. Thus underlying insurance markets are likely to wither away leaving only those firms that are “too big to fail”.

If all insurers are subject to the systemic risk regulator's jurisdiction, there is no signal that every firm is "too big to fail". However, most insurers will never be systematically important but will be subject to another layer of regulation that does little for its customers, its shareholders, or society in general. Even large, significant insures operating nationwide are not necessarily important from a systemic risk perspective. So the question becomes how does one determine whether a firm should be subject to risk regulation? Ideally, one would want firms undertaking risk outside of insurance risks to fall under the authority of the risk regulator. For example, suppose a future AIG-like company petitions its primary regulator to exempt its “Financial Products” subsidiary from insurance regulation. Because of that exemption, the firm should fall under the jurisdiction of the risk regulator. The risk regulator can examine the risk and require appropriate reserving techniques if needed.[6] By having to show the risk regulator the insurer’s underlying business model a specific finding can be made if a systemic risk is possible and remedies to mitigate the systemic risk can be implemented. Ideally what the risk regulator’s job would be is to prevent possible systemic risks through evaluation by a competent regulator.

One of the dangers of merely just prohibiting financial innovation is that economically valuable innovations would never evolve. However, permitting financial innovation without

[6] Note, though, that if New York did not exempt the AIG Financial Products subsidiary and treated it like a bond insurer it would have had some level of reserves. Further, because it would have to place reserves for each new bond insured it would have also limited the scope of the sale of CDSs as well as the scope of the eventual losses.

proper reserving is also harmful to society. Thus, the risk regulator must be more sophisticated about these products than a typical state insurance department in two ways. First, it must be able to understand the product and its risks. Second, it must appreciate the rewards of such innovation.

Problems with Current Federal OFC Proposals

As mentioned above, the OFC proposal is cobbled together from banking and insurance law. There has been little discussion of the structure of a regulatory body from a fresh perspective. A recent paper by Grace and Scott (2009) examined a portion of the issue from an administrative law viewpoint and showed how little discussion there was of how a federal insurance regulator should be organized. There are a number of regulatory models available in the United States. For example, there is the multi-commissioner, administrative body like the SEC. This is in direct contrast to the single administrator overseeing the Office of the Comptroller of the Currency. There is also an independent (from the executive branch) administrative agency like the Federal Reserve Board of Governors. Again, this contrasts directly with the administrator of the Office of the Comptroller of the Currency. The fact that the 2009 OFC proposal merely copies the structure of the banking system and begs the question why is the national banking system structured this way? The Treasury *Blueprint* as well as others (see e.g. Brown (2008)) discuss other options. What is noteworthy is that these options were not conditioned on the current financial crisis. The *Blueprint's* proposal is to use a three-pronged regulatory approach with a systemic risk regulator, a solvency regulator, and a market conduct regulator that would oversee *all* financial services including securities and commodities trading. This would be a major innovation in financial regulation in the United States. The OFC bills, in contrast, are not innovative from the perspective of what is regulated or how the regulation is accomplished as the approach in both bills (with the exception of a systemic risk regulator) is to shift traditional regulatory powers from the states to the federal government.

Other methods of regulation of the insurance industry are also possible. Some insurers have joined unofficial self-regulatory organizations like the Insurance Marketplace Standards Association (IMSA) to increase their ability to understand their customers and to increase the likelihood that their policies will more closely meet the needs of those customers. These types of standards are different from state-based rules which are often decades old and have not suffered an across-the-board reexamination, except after a regulatory failure. From a practical point of view, Congress is not likely to delegate monitoring powers to private entities for some time. The approach of organizations like IMSA, can assist in the development of modern approaches to market conduct regulation.

In sum, there has been no real systematic discussion of modernization of the regulatory approach over the last decade outside of allowing for greater integration of financial services through enactment of the Gramm-Leach-Bliley Act of 1999 (GLB). Other than allowing banks and insurers to be owned by a common parent, GLB did not change the content of insurance regulation beyond mandating that states attempt to resolve interstate differences in agency licensing. Other important substantive aspects of insurance regulation have not been reexamined. For example, there has been little, until recently, discussion of the proper and economically efficient regulation of risk.

In addition, solvency regulation has not been scrutinized since Congress made states and the NAIC do so in the late 1980s and early 1990s. Bank regulators have adopted aspects of the Basel accords, but insurance regulators have not. Many insurers are complying with Basel II by developing their own capital models and the tests which support the models. They are not required to do so by law but are doing it to be responsible stewards of capital. To be fair, there has been an attempt to standardize certain product approval processes through the use of the new Interstate Insurance Product Regulation Commission. However, the Commission has taken time to get started and was created, at least in part, to stave off any OFC type of regulation. This history of insurance regulation suggests that state regulation in this area is reactive. Regulation only changes because of a crisis or Congressional pressure. It is interesting that Congress (and not the states) also proposed the SMART Act that would have pre-empted the states' ability to regulate and transferred that authority to the Federal government. This proposed Act started a conversation about regulation, but it did not address the fundamentals - just what level of regulation is appropriate for insurance. The OFC bills have structured this debate in such as way as to eliminate discussion of reform. Given that many aspects of regulation are important, more reform ideas should be on the table.

The Role of the State and Federal Governments in the Future of Insurance Regulation.

The future role of states in the insurance regulatory arena is in question. There are serious barriers to coordination among the states which prohibit them from being effective regulators on certain issues. In addition, because of the predominance of nationwide operations, there are potential externalities that can be remedied by a federal approach to regulation. To be fair, there are also potential problems with federal regulation that need to be addressed. State regulation does protect the industry from bad regulation in the sense that if a state were to make a serious error regarding regulation, the negative effects of the error will likely be most felt in the state with the "bad" regulation. In contrast, a mistake at the federal level hurts the entire industry nationwide. Further, merely copying state regulation without thinking about the merits of the regulation is also inefficient. A third and final problem with federal regulation is the possibility that risks that previously were insured in private markets may become more socialized in the sense that federal regulations may reduce the ability of private insurers to set risk based prices.

Conclusion

The policy debate regarding the regulation of insurance concerns the appropriate level of regulation for the industry. Ideally, the appropriate level of government would be the one that would be able to contain all of the benefits and costs of regulation within the state (or federal level) borders. Further, it is possible solvency and market regulation conduct arguably can be conducted at the federal level at lower cost to society than separate state regulation of these same activities. Evidence suggests there are some economies of scale in these activities and the costs of regulation are spread beyond the borders of a single state.

Insurance regulation needs to move beyond this level of discussion. It is important, but the other aspects of regulatory improvements must not be forgotten. The proposed 2009 version of the OFC bill does address the issue of systemic risk. While this is important to prevent future events like AIG, it is not clear how relevant it is for a supermajority of other insurers. However, if a risk regulator law is passed, one could predict we would have a better understanding of the relationships between various aspects of the financial service industries. This is a beneficial aspect of the law, but there is still avoidance of real subject matter regulatory reform.

Finally, I am pessimistic about the role for the state in the future of insurance regulation. States have absolutely no ability or incentive to be proactive. At best they are reactive and cannot reach anything like a consensus when one is needed. The perfect example is the inability for every state to integrate its agency licensing system or join an interstate product licensing commission, even in the face of federal preemption of a significant part of regulatory authority. Thus, a uniform understanding and appreciation of systemic risk and how it should be treated in a holding company structure is not likely to be implemented on a relatively uniform base any time soon.

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Resume

MARTIN F. GRACE
James S. Kemper Professor of Risk Management
ROBINSON COLLEGE OF BUSINESS
GEORGIA STATE UNIVERSITY
PO BOX 4032
ATLANTA, GEORGIA 30302-4032
PHONE 404-413-7469 (O)
E-MAIL: MGRACE@GSU.EDU

Education

B.A. with honors, The University of New Hampshire (Political Science),1980.

M.A. The University of Florida (Economics), 1981.

J.D. *cum laude*, The University of Florida (Law), 1986.

Ph.D. The University of Florida (Economics), 1986.

Fellowships and Awards

- Inducted into Beta Gamma Sigma, 1985.
- Public Utility Research Center Research Graduate Fellowship, 1981, 1984.
- Invited to be a member of the *Risk Theory Seminar*, 1992.
- *Journal of Insurance Regulation*, Best Paper Award 1999.
- CAS Best Paper Award 2000 in an RMI Journal
- Kemper Award for Best Paper in *Risk Management and Insurance Review*, 2003
- CAS Best Paper Award, World Risk and Insurance Economics Congress 2005
- Robison College of Business, Faculty Research Award, 2006

Work Experience

Academic

September 1980-December 1985	Instructor and Graduate Research Assistant, College of Business Administration, University of Florida.
January 1986-August 1987	Visiting Assistant Professor, Department of Management, and Research Associate, Public Utility Research Center (PURC), College of Business Administration, University of Florida.
September 1987-June 1993	Assistant Professor of Legal Studies, Department of Risk Management and Insurance, Georgia State University.
June 1990-September 1991	Visiting Senior Associate, Policy Research Center, College of Business Administration, Georgia State

	University.
September 1990-December 1992	Research Associate, Center for Risk Management and Insurance Research, College of Business Administration, Georgia State University.
January 1993 - Present	Associate Director, Center for Risk Management and Insurance Research.
January 1993-Present	Senior Associate, Policy Research Center, School of Policy Studies
July 1993 – June 1998	Associate Professor of Risk Management and Insurance and Associate Professor of Legal Studies. Department of Risk Management and Insurance.
July 1998-Present	Professor of Risk Management and Insurance and Professor of Legal Studies. Department of Risk Management and Insurance.
September 2001 –Present	James S. Kemper Professor of Risk Management and Insurance

<u>Non-academic</u>

Summer 1984	Law Clerk to the Hon. Mimi W. Dawson, Commissioner, Federal Communications Commission, and Law Clerk to Bruce E. Fein, General Counsel, Federal Communications Commission.
Fall 1988-Spring 1989	Consultant, Metropolitan Life Insurance Company regarding Illinois discriminatory premium tax litigation.
Summer 1990	Consultant, Metropolitan Life regarding premium tax legislation in Florida.
Summer 1991	Consultant, Metropolitan Life regarding Alabama premium tax legislation.
Fall 1991	Visiting Industry Economist, Commodity Futures Trading Commission, November-December, 1991.
Fall 1995	Consultant, World Bank and Commision Nacional de Seguros y Fianza (Mexican National Insurance Commission).
Summer 1997	Consultant, World Bank regarding Caribbean Catastrophe Risk Management and Mitigation.

Non-academic (con’t)

Spring 1997	Consultant, Metropolitan Life regarding Kansas Premium Tax Proposals.
Fall 1998	Consultant, Georgia Legislature, Georgia’s Premium Tax.
Fall 2001-Fall 2003	Consultant, Premium Tax Working Group.
Fall 2004	Governor’s Office (unpaid), Corporate Income Tax Study Committee
Summer 2005	Governors Office (unpaid), Tax Structure Committee
June 2005-	Contributor at the Manhattan Institute’s Web Magazine, Point of Law Forum, www.pointoflaw.com
Fall 2005	Consultant (unpaid), Governors Office and State Insurance Commissioner on Insurance Premium Taxes.

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15. Household Life Cycle Protection: Life Insurance Holdings, Financial Vulnerability and Portfolio Implications, with Yijia Lin 74 *The Journal of Risk and Insurance*. 141-173 (2007).

16. The Allocation of Governmental Regulatory Authority: Federalism and the Case of Insurance Regulation, with Richard D. Phillips 74 *The Journal of Risk and Insurance* 207-238 (2007).

17. Experimental Evidence on Coverage Choices and Contract Prices in the Market for Corporate Insurance, with Michael Rebello and Gautam Gotswami, 11 *Journal of Experimental Economics* 67-95 (2008).

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20. *The Effect of Insurance Premium Taxes on Employment* with David Sjoquist and Laura Wheeler forthcoming in the *Proceedings of the National Tax Association.* (2008).

21. The Perfect Storm: Hurricanes, Insurance and Regulation with Robert W. Klein, forthcoming, *Risk Management & Insurance Review*.

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2. *The Economic Consequences of Voluntary Quality Certification Programs: The Case of the Insurance Marketplace Standards Association*, with Robert W. Klein, Center for RMI Research Report 06-01. Revise and resubmit at the *Journal of Risk and Insurance.*

3. *Issues in Measuring the Efficiency of Property-Liability Insurers,* with J. Tyler Leverty, under second review at the *Journal of Banking and Finance.* ***Conditionally Accepted.***

4. *Political Cost Incentives for Managing the Property-Liability Loss Reserve Accrual.* with J. Tyler Leverty revise and resubmit to the *Journal of Accounting Research*.

5. *How Tort Reform Affects Insurance Markets* with J. Tyler Leverty revise and resubmit to the *Journal of Law and Economics.*

6. *The Effect of Insurance Premium Taxes on Employment* with David Sjoquist and Laura Wheeler under review at *the National Tax Journal.*

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1. Access and the Demise of Settlements and Separations, 112 *Public Utilities Fortnightly* 17-22 (September 1, 1983).

2. The Impact of Medicare's Prospective Payment System on Hospital Behavior, with Jean Mitchell, 2 *Florida Journal of Law and Public Policy* 125-135 (1989).

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6. Alternative Approaches to Insurance Regulation: An International Comparison, (Invited Article) with Harold D. Skipper and Robert W. Klein, 6 *Insurance Development and Research* [Publication of the Korean Insurance Development Institute] 73-149 (1997).

7. Insurance Regulation in the United States: Possible Implications for Korea (Invited Article) with Harold D. Skipper and Robert W. Klein, 6 *Insurance Development and Research* [Publication of the Korean Insurance Development Institute], 217-294 (1997).

8. Identifying Troubled Life Insures: An Analysis of the NAIC FAST System, with Scott Harrington and Robert Klein, 16 *Journal of Insurance Regulation* 249-290 (1998). *Winner of Best Paper Award in the JIR for 1998.*

9. Regulating On-shore Special Purpose Reinsurance Vehicles, with Robert W. Klein and Richard Phillips, 19 *Journal of Insurance Regulation* 551-590 (2001).

10. Regulating On-shore Special Purpose Reinsurance Vehicles: A Reply Note, with Robert W. Klein and Richard Phillips, 19 *Journal of Insurance Regulation* 665-670 (2001).

11. Increased Hurricane Risk and Insurance Market Responses with Robert W. Klein and Zhiyong Liu, 24 *Journal of Insurance Regulation* 3-32 (2006).

Monographs

1. Grace, Martin F., Klein, Robert W., Kleindorfer, Paul R. and Michael R. Murray, *Regulation, Pricing and Demand in Catastrophe Insurance Markets,* (Kluwer Academic Press: Boston) 2003.

2. Doherty, Neil *et al. Managing Large Scale Catastrophic Risks*, (Wharton Risk Management and Decision Processes Center: Philadelphia). 2009.

3. Grace, Martin F and Robert W. Klein (eds.) *The Future of Insurance Regulation forthcoming* (Brookings Institution Press: Washington) 2009.

Chapters in Books

1. Neutrality Issues in State Insurance Taxation, with Harold D. Skipper, Jr., *State Taxation of Business* (T. Pogue ed.) Praeger Publishers, pp. 243-256, (1992).

2. Ohio's Corporate Income Tax, with Jorge Martinez, in *Ohio Tax Study*, (Roy Bahl ed), Batelle Press, pp. 511 – 578 (1996).

3. Ohio's Financial Services Taxes, with Jorge Martinez, in *Ohio Tax Study*, (Roy Bahl ed), Batelle Press, pp. 579- 590 (1996).

4. Ohio's Insurance Taxes, with Jorge Martinez, in *Ohio Tax Study*, (Roy Bahl ed), Batelle Press, pp. 591-626 (1996).

5. International Trade in Insurance, with Harold D. Skipper, in *International Insurance* (Harold Skipper, ed.*)* Richard D. Irwin (1997).

6. Efficiency Implications of Alternative Regulatory Structures for Insurance, with Robert W. Klein in *Optional Federal Chartering of Insurance Companies* (ed. by P. J. Wallison) (Washington: American Enterprise Institute) (2000)

7. Auto Insurance Reform: Salvation in South Carolina, in a Joint American Enterprise Institute-Brookings Institution monograph on insurance regulation reform (2001) (ed. by J.D. Cummins).

8. Optional Federal Chartering of Insurance: Rationale and Design of a Regulatory Structure" with Hal Scott in *The Future of Insurance Regulation forthcomin*g Brookings Institution Press. 2009 (ed. by Martin Grace and Robert W. Klein),

9. Insurance Regulation: The Need for Policy Reform with Robert W. Klein in *The Future of Insurance Regulation forthcoming* Brookings Institution Press. 2009 (ed. by Martin Grace and Robert W. Klein),

10. Demand and Supply of Homeowners Insurance: A Multi-state Analysis with Neil Doherty *in At War with the Weather: Managing Large-Scale Risks in a New Era of Catastrophes forthcoming MIT Press, 2009* (ed. by Howard Kunreuther and Erwann Michel-Kerjan).

11. Risk Management in Non-profits in *Nonprofit Economics and Management: The State of Research forthcoming Edward Elgar Publishing 2009*. (ed by Bruce Seaman and Dennis Young).

Non-refereed Scholarly

1. Common Carriers: An Analysis of the Common Law and Modern Applications, in the *Proceedings of the American Business Law Association* 986-1005 (1986).

2. Cycles and Volatility: A Cross-Country Analysis Examining Differences in Regulatory Requirements," *Proceedings of the International Insurance Society* 157-170 (1990).

3. *The Regulation and Structure of Non-Life Insurance in the United States,* with Michael Barth, Policy Research Working Paper (WPS 1155) Financial Sector Development Department, The World Bank, (1993).

4. Restructuring Regulation for Developing Insurance Markets, with Harold D. Skipper and Robert W. Klein, *Proceedings of the International Insurance Society* 235-256 (1997).

5. Excessive State Taxation of the Life Insurance Industry: A Case for Reform, 31 State Tax Notes 31 January 5, 2004). (Reprinted in the *Insurance Tax Review 561-568* (April 2004).

6. Does Georgia Need a Unitary Tax? 31 *State Tax Notes* 361-375 (May 3, 2004).

7. An Examination of Georgia's Premium Tax 29 *State Tax Notes* 815-818, (March 13, 2006)

8. Facing Mother Nature, with Robert W. Klein 30 *Regulation* 28-34 (2007).

Working Papers in Progress

1. The Missing Link: Is Book Value Efficiency Recognized By the Market with J. David Cummins and Richard D. Phillips.

2. Tort Reform: Are There Real Benefits?

3. Dupes or Incompetents? An Examination of Management's Impact on Property-Liability Insurer Distress with James "Ty" Leverty. Center for RMI Research Working Paper 4-09.

4. The Effect of Insurance Premium Taxes on Employment, with David Sjoquist and Laura Wheeler,

Externally Funded Research Projects

1. The Regulation and Industrial Organization of the U.S. Non-Life Insurance Industry, January 1, 1992-June 31, 1992 from the World Bank, $7,500. Project Director and Principal Investigator.

2. NAIC Solvency Project, August 1, 1992-July 31, 1995 from the National Association of Insurance Commissioners, $120,000. Project Director and Principal Investigator (with Scott Harrington, University of South Carolina).

3. Georgia Tax Reform Project, August 1, 1993 - March 31, 1994. Co-Investigator and Senior Research Associate $100,000.

4. Ohio Tax Reform Project, June 1, 1994- December 1995, Co-Investigator and Senior Research Associate, $600,000

5. GSU Electronic Commerce Study, June 1997, Co-Principal Investigator (with Detmar Straub and Robert Klein), $40,000.

6. Urban Insurance Project, January 1999, Co-Principal Investigator (with Robert W. Klein), $20,000.

7. Insurance Receivership project. September 1999. Co-principal Investigator (with Robert Kelin and Richard Phillips), $75,000 from PriceWaterhouseCooper.

8. Special Purpose Reinsurance Vehicles: Economic and Regulatory Analysis, March 1999, Co-principal Investigator (with Robert Klein and Richard Phillips), $50,000 from the Reinsurance Association of America.

9. Housing Insurance Markets, June-August 2003, Co-principal Investigator, (with Robert Klein) $60,000 from the National Association of Realtors.

10. Crop Insurance Project, Investigator, June 2001-December 2005 $20,000 (my portion of $150,000 grant) from the US Department of Agriculture.

11. Value of Ethical Marketing Standards, Jun 2005 – August 2006, Co-principal Investigator (with Robert Klein) $70,000 from the Insurance Marketplace Standards Association.

12. Optional Federal Charters, January 2007-June 2007. Co-principal Investigator (with Robert Klein) $70,000 from the American Council of Life Insurance.

13. Optimal Insurance Regulation, August 2007-July 2008, Co-principal Investigator with Robert Klein) $90,000 from the Risk Foundation.

14. Enterprise Risk Management, August 2007-July 2008, Co-principal Investigator with Richard Phillips, $100,000 from the Risk Foundation.

15. The Economic contribution of the Life Insurance Industry, Aug-October 2008, Principal Investigator, $54,000 from the American Council on Life Insurance.

Select Papers Presented at Professional Meetings

"Common Carriers: An Analysis of the Common Law and Modern Applications," presented at the American Business Law Association Annual Meeting, Minneapolis, MN, August 1986.

"Cost Allocation Regulation," presented at the Southern Economic Association Annual Meeting, New Orleans, LA, November 1986.

"Are Warranties Truly Signals of Product Quality?" presented at the Southern Economics Association Annual Meeting, San Antonio, TX, November, 1988.

"Cost Sharing Regulation in a Multiproduct Firm: Hospital Cost Allocations under Charges and 'PPS,'" presented at the American Risk and Insurance Association Annual Meeting, Reno, NV., August 1988, and the Health Economic Research Organization Annual Meeting, New York, NY, December 1988, with Jean Mitchell.

"The Law and Economics of Defamation Waivers in an Employment Setting," presented at the Southwestern Academy of Federated Administrative Disciplines Annual Meeting, New Orleans, LA, March 1989.

"Impacts of Tort Reform on Insurance Markets," with J. Kale and T. Noe, presented at the American Risk and Insurance Association Annual Meeting, Denver, CO, August 1989.

"Illinois Discriminatory Premium Taxation: Time for Repeal?" with Harold D. Skipper, Jr., presented at the American Business Law Association Annual Meeting, Los Angeles, CA, August 1989.

"The Impact of State Policy Variables on the State's Underwriting Cycle," with Harold D. Skipper, Jr., presented at the American Risk and Insurance Annual Meeting, Denver, CO, August 1989.

"The Effect of Liability Caps and Tort Reform on the Viability of the Medical Malpractice Insurance Market," with J. Kale and T. Noe, presented at the American Risk and Insurance Annual Meeting, Denver, CO, August 1989.

"Noisy Juries and the Choice of Trial Mode in a Sequential Signaling Game: Theory and Evidence," with J. Gay, J. Kale and T. Noe., presented at the American Business Law Annual Meeting, New Orleans, LA, August 1988 and at the Econometric Society Annual Meeting, New York, NY, December 1988.

"An Examination of Cost Economies in the United States Life Insurance Industry," with Steven G. Timme, presented at the American Risk and Insurance Association Annual Meeting, Orlando, FL, August 1990.

“Neutrality Issues in State Insurance Taxation," with Harold D. Skipper, Jr., presented to the National Tax Association Seminar on State Taxation, San Antonio, TX, February 1991.

“Determinants of Interstate Differences in Insurance Tax Intensity," with Harold D. Skipper, Jr., presented at the American Risk and Insurance Association, San Diego, CA, August 1991.

“Determinants of International Supply and Demand for Non-Life Insurance," with Harold D. Skipper, Jr., presented at the Annual Meeting of the European Association of Risk and Insurance Economists, Mons, Belgium, September 1991.

“External Impacts on the Property Liability Insurance Cycle," with Julie Hotchkiss, presented at the 1992 Risk Theory Seminar, Gainesville, FL, April, 1992.

“X-Efficiencies in the U.S. Life Insurance Industry," with Lisa A. Gardener, presented at the American Risk and Insurance Association Annual Meeting, Washington DC, August 1992 and the GSU-Federal Reserve Conference, "Efficiency in the Financial Service Industries," Atlanta, GA, September 1992.

“Efficiency Comparisons Between Mutual and Stock Life Insurance Companies." with Lisa A. Gardner, Presented at the American Risk and Insurance Association Annual Meeting, San Francisco, CA, August 1993 and at the European Risk and Insurance Economists Association, Rotterdam, The Netherlands, September 1993.

“Solvency Regulatory Forbearance in the U.S. Property-Liability Insurance Industry,” presented to the American Risk and Insurance Association Annual Meeting, Toronto, ON, August 1994.

“Measuring the Relative Efficiency of the Production of Regulation by the States: An Examination of the U.S. Insurance Regulatory System” with Richard D. Phillips. Presented at the Annual Meeting of the Risk Theory Society, Madison, WI, March 1996.

“Firm Efficiency and the Likelihood of Insolvency in the U.S. Insurance Industry,” presented to the American Risk and Insurance Association Annual Meeting, Seattle, WA, August 1995.

“The Effect of Premium Taxation on State Labor Markets” with Boaz Yam, presented to the American Risk and Insurance Association Annual Meeting, Philadelphia, PA, August 1996.

“Regulatory Solvency Prediction in Property-Liability Insurance: Risk-Based Capital, Audit Ratios, And Cash Flow Simulation,” with J. David Cummins and Richard D. Phillips, presented at the 5th Insurer Insolvency and Finance Conference, London, UK, June 1997.

“A Game Theoretic Examination of Retaliatory Taxation: Evidence and Implications”, presented to the American Risk and Insurance Association Annual Meeting, San Diego, CA, August 1997.

“The Cost and Availability of Homeowners Insurance in Urban Areas: An Empirical Analysis” with Robert W. Klein, presented to the American Risk and Insurance Association Annual Meeting, Boston, MA, August 1998.

“The Profit Efficiency of Information Technology Investments – A Comparison of Alternative Distribution Mechanisms in the US Property-Liability Insurance Industry,” with James R. Garven, presented to the American Risk and Insurance Association Annual Meeting, Boston, MA, August 1998.

“The Allocation of Governmental Regulatory Authority within a Federal system of Government” with Richard D. Phillips, presented to the American Risk and Insurance Association Annual Meeting, Boston, MA, August 1998.

“Regulatory Solvency Prediction in Property-liability Insurance: Risk-based Capital, Audit Ratios, And Cash Flow Simulation" with J. David Cummins, Richard D. Phillips presented to the Actuarial Research Conference, Atlanta, GA. August 1998.

“Regulatory and Economic Issues Involving E-commerce in the Insurance Industry WP 98-2. Presented at the Competitive Enterprise Institute, Washington, DC. April, 1998 *and* at GSU’s E-Commerce Conference October 1998.

“The Cost and Availability of Homeowners Insurance in Urban Areas: An Empirical Analysis”, with Robert W. Klein presented to the Georgia State Department of Economics.

“The Industrial Organization of the U.S Life Industry” with Robert W. Klein presented at the ARIA Annual Meeting, August 1999, Vancouver. BC.

The Supply and Demand of Catastrophe Insurance presented to the Wharton/ISO Research Board, Philadelphia, PA, December 1999.

“The Missing Link: Is Book Value Efficiency Recognized By the Market” with J. David Cummins and Richard D. Phillips,” presented to the American Risk and Insurance Association Annual Meeting Montreal, PQ, August 2002.

“The Missing Link: Is Book Value Efficiency Recognized By the Market” with J. David Cummins and Richard D. Phillips,” presented to the 9th Symposium on Banking and Insurance, Karlsruhe, Germany, December 2002.

“Dupes or Incompetents? An examination of management’s impact on property-liability insurer distress” with Ty Leverty, National Bureau of Economic Research, January, 2005.

“Reserve Error Motive, Manipulation or Mistake?, with Ty Leverty, World Risk Insurance Economic Congress, August 2005. Casualty Actuarial Society, Best Paper Award for WRIEC 2005 Meeting.

“Tax-deferred Pre-event Catastrophe Loss Reserves: The Case of Florida”
with Andreas Milidonis, World Risk Insurance Economic Congress, August 2005.

Contracts under Pressure: Liability Implications After Katrina, American Enterprise Institute, October 3, 2005 (Broadcast on CSPAN).

Liability Issues after Katrina, National Ass’n of Mutual Insurers, Policy Forum, November 2005.

Medical Malpractice, American Enterprise Institute December 2005, (Broadcast on CSPAN)

“Reserve Error Motive, Manipulation or Mistake, with Ty Leverty, Risk Theory Seminar, April 2006.

“The Economic Consequences of Voluntary Quality Certification Programs: The Case of the Insurance Marketplace Standards Association,” with Robert W. Klein, American Risk and Insurance Annual Meeting, Washington DC, August 2006.

“The Supply and Demand of Catastrophe Insurance,” Wharton Cat Project, Philadelphia, PA December 2006.

“The Welfare Implications for Tax-Deductible Pre-Event Catastrophe Loss Reserves”, with Andreas Milidonis, American Risk and Insurance Annual Meeting, Quebec City, August 2007.

“The Effects of an Optional Federal Charter on Competition in Life Insurance and Annuities Markets” with Robert Klein, American Risk and Insurance Annual Meeting, Quebec City, August 2007.

"Adverse Selection in Reinsurance Markets," with James R. Garven, American Risk and Insurance Annual Meeting, Quebec City, QB August 2007.

Premium Deceit or Legislative Deceit: Does Tort Reform Cut Insurance Premiums? With James T. Leverty, American Risk and Insurance Annual Meeting, Quebec City, August 2007.

Supply and Demand Analysis of Catastrophe Insurance with Neil Doherty, presented to the Wharton Catastrophic Project Meeting, National Association for the Advancement of Science, Washington DC, October 2007.

"The Effect of Insurance Premium Taxes on Employment with David Sjoquist and Laura Wheeler, presented at the National Tax Association Annual Meetings, Columbus, OH, November 2007

How Tort Reform Affects Insurance Markets, with J. Tyler Leverty, *presented at the Searle Research Symposium on Insurance Markets and Regulation, Northwestern University Law School, Chicago, IL,. April 2008.*

The Past and Future of Insurance Regulation: The McCarran-Ferguson Act and Beyond *with Robert W. Klein presented at the Searle Research Symposium on Insurance Markets and Regulation, Northwestern University Law School, Chicago, IL,. April 2008.*

The Perfect Storm: Hurricanes, Insurance and Regulation, with Robert W. Klein presented at the NBER Insurance Project conference, Cambridge MA May 2008.

Issues in Measuring the Efficiency of Property-Liability Insurers, with J. Tyler Leverty presented at the Journal of Banking and Finance Special Issue conference, London, UK, July 2008.

How Tort Reform Affects Insurance Markets, with J. Tyler Leverty, *presented at the Florida State College of Law, September 2008.*

Federal Insurance Regulation, ACLI Annual Conference, Boston, October 2008.

A Reexamination of Federal Regulation of the Insurance Industry, presented to the 6th Annual NFI Forum, Washington, DC March 2009.

Dissertation Committee Service (Committee member unless otherwise noted)

Elizabeth Goldin, Insurance, no degree, 1988.

Kenneth Young, "Essays on Information Effects on Capital Markets," Finance Ph.D. 1989.

Yong Kil Shin, "Essays on Anticipated versus Unanticipated Security Issues: Evidence on Capital Structure and Signaling Hypothesis," Finance Ph.D. 1990.

Kwangbong Lee, "Capital Market and Risk Theory in Reinsurance Decision Making: Empirical Tests on Life Insurance Demand," Insurance Ph.D. 1991.

Imbum Cheong, "An Analysis of Financial Regulation and Insolvency in Life Insurance," Insurance Ph.D. 1991.

Sung Chang Jung, "Syndicated Underwriting of Equity Issues and Information Production: Theory and Evidence," Finance Ph.D. 1991.

Sung Min Kim, "Information Production of Underwriters and the Underwriting of Initial Public Offerings," Finance Ph.D. 1991.

Lisa A. Gardner, "An Analysis of Cost Inefficiencies in Life Insurance Companies," Insurance Ph.D. 1992.

Janet Payne, "The Information Content of Repeated Security Offerings," Finance Ph.D. 1992.

Arthur Young, "Institutional Investors, Monitoring, and Firm Performance," Finance Ph.D. 1994.

Sharon Taylor, "Cycles in the Health Insurance Industry," Insurance Ph.D. 1994.

Don Yolun-Mathews, "An Economic Theory of the State," Economics Ph.D.1993.

Loren Williams, "The Economics of State Mandates," Economics, Ph.D., 1993.

Loriliee Medders, "Workers Compensation under Single Moral Hazard,", Insurance Ph.D., 1995, Chairman.

Jean Kwon, "Workers Compensation and Cross-Subsidization," Insurance Ph.D. 1995, Chairman.

Hun Soo Kim, "The Efficiency of Mergers in the U.S. Life Insurance Industry," Insurance Ph.D. 1995, Chairman.

Michael Jordan, "A Computable General Equilibrium Model for the Individual Life Insurance Business in the United States, " Economics, Ph.D. 1997, member.

Fitzroy Lee, "Optimal Taxation of the Telecommunications Industry," Economics Ph.D. , 1997

Susan R. Snyder, 2000, "The Effect of Physician Compensation on Health Care Provision," Economics Ph.D, member.

Sal Saheli, "A Computable General Equilibrium Model of the State of Georgia," Economics Ph.D. 1997, member.

Tsai, Chenshein, A new rationale for the existence of random-premium policies : theory and empirical tests, member 1998.

Pam Boonyasai, 1999, The Effect of Liberalization and Deregulation on Life Insurance, Ph.D., member.

Patrica Ketche, Marginal Effective Tax Rates and the Demand for Health Insurance, Ph.D. 2000, member

Ian Webb, The Effect of Financial Intermediation on Economic Growth, member. Ph.D. 2000.

Minglai Zhu, The effect of income taxation on life insurance purchases and private pension contributions, Ph.D. Chair 2003.

Shahur, Husayn, Industry structure and horizontal takeovers : analysis of wealth effects on rivals, suppliers, and corporate customers, member 2003.

James Leverty, Methodological Issues in Efficiency Analysis, Chair, Ph.D. 2005.

Paul Kagunda, Member, Ph,D Economics, 2006.

Artidiantun Adji Member, PhD. Economics 2007

College Committee Assignments

Faculty Development Committee, 1996-1999

Research Program Council, 1993-present

Digital Commerce Curriculum Committee, 1997-1998

Promotion and Tenure Committee, 1999-2001, 2006-

Digital Commerce Director Search Committee, 1999

Economics Department Chair Search Committee, 2000

Doctoral Committee 1993-2001, 2003-2006

University Committee Assignments

Member, Ad Hoc University Committee on Information Infrastructure, 1995.

Member, University Senate, 2000-2002

Member, Andrew Young School Evaluation Committee, 2002

Significant Service Activities within the Academic Unit during the Past Five Years

Member, Department Scholarship and Fellowship Committee, 1987-present.

Member, Department Faculty Recruitment Search Committee, 1993-present.

Member, Department Curriculum Committee, 1995-present.

Center for Risk Management and Insurance Research, Associate Director, 1993-present.

Ph.D. Coordinator, 1993-2001, 2003-2006.

Chair, Faculty Search Committee, 2004-2007.

Chair, Departmental P&T Committee, 2003, 2005, 2007

Member, RMI-CIS Working Group, 2005-2007

Service Activities in Academic and Professional Organizations

Governor's Office, Corporate Income Tax Study Committee, 2004 -2005.

Risk Theory Seminar Organizer, Atlanta, 2003

Associate Editor, *The Journal of Risk and Insurance*, 1994-present.

Staff Editor, *American Business Law Journal*, 1987-1994.

Reviewer, Journal *of Risk and Insurance*.

Reviewer, *Southern Economic Journal*.

Reviewer, *Journal of Economics and Business*

Reviewer, *Geneva Papers on Risk and Insurance Theory*

Reviewer, *CPCU Journal*.

Reviewer, *Journal of Banking and Finance*

Reviewer, Journal of Financial Intermediation

Member, Shadow Insurance Regulatory Committee, 1999-2001.

Member of the Board, Southern Risk and Insurance Association, 1993 - 1997

Member, American Business Law Association Research Committee, 1988.

Co-organizer, GSU/Atlanta Federal Reserve Bank, *Conference on Financial Service Industry Efficiency*, 1992.

Member, American Risk and Insurance Association, Kulp Wright Book Award Committee, 1989-1991, 1993, 1994, 2001.

Member, American Risk and Insurance Association, Conference Organizing Committee, 1991, 1993, 1995.

Member, American Risk and Insurance Association, Nominations Committee, 1991, 1993.

Member, Florida Bar, 1987-.

Placement Coordinator, American Risk and Insurance Association, 1994 –2000.

Member, Risk Theory Society, 1992 -

Organizer of 1994 Risk Theory Society Meeting in Atlanta, GA.

Secretary, Risk Theory Society, 1995-1996.

President, Risk Theory Society, 1996-1997.

Co-organizer of Future of Insurance Regulation conference held at the American Enterprise Institute, July 2008.

Instruction in Continuing Education Activities

International Visiting Fellows Program, 1993- 2007.

Legal Risk Management, CERMAS Certificate Program, 2005, 2006.

Electronic Commerce, International Visiting Fellows Program, 1998-2006.

Russian Tax Training Seminar, Corporate Income Taxation, Insurance Taxation, 1994-1995.

Chinese Tax Training Seminar, Corporate Income Taxation, Insurance Taxation, 1994.

Russian Business Development Training Seminar, Corporate Income Taxation, Insurance Taxation 1995.

Kazakistan Tax Training Seminar, Corporate Income Taxation, Insurance Taxation, 1996.

Sri Lanka Tax Training Program, Financial Institution Taxation, 1999.

Texas Farm Bureau Executive Education Program. 2008

Statement Regarding Federal Grants or Contracts

I receive no funds from any current federal grants or contracts. Further, I have not received such grants are contracts in the past two years. My employer, Georgia State University, has received and continues to receive grants and contracts from the U.S. Government typical of a research university, but I receive no direct benefit from these grants or contracts. Further any grants and contracts received by the University are not relevant to the subject matter of my testimony.