

**The University of Texas at Austin**  
**McCombs School of Business**  
**Introduction to Risk Management**  
RM 357E, unique # [04280](#)

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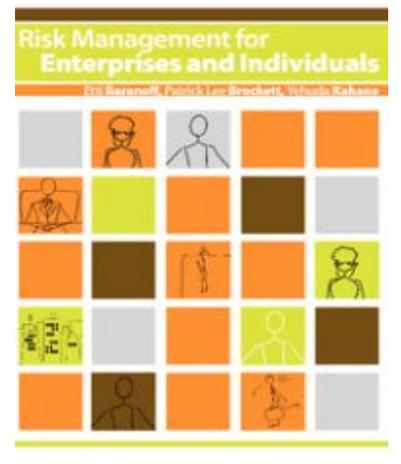
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Please copy him on all correspondence. He will record all scores so if an assignment does not get to him you do not get credit.

### Text

	<p><b>Book:</b> Risk Management for Enterprises and Individuals, v1.0</p> <p><b>Authors:</b> Etti Baranoff, Patrick Lee Brockett, and Yehuda Kahane</p> <p><b>ISBN:</b> 978-0-9823618-0-1 Flatworld Publishers</p> <p><b>You may read the book for free online</b> at the following link: <a href="http://students.flatworldknowledge.com/course/1112649">http://students.flatworldknowledge.com/course/1112649</a></p> <p>Alternatively, you can search for your course right from <a href="http://students.flatworldknowledge.com">http://students.flatworldknowledge.com</a>. You can find your class using your name, your course name or Institution, and you can also order a printed or electronic copy here.</p> <p>You can also get your book in the bookstore if you want</p> <p>This following URL is unique for the class: <a href="http://www.flatworldstudents.com/course?cid=340209&amp;bid=29698">http://www.flatworldstudents.com/course?cid=340209&amp;bid=29698</a></p>
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### Subject Matter Importance and Content Overview

We live in increasingly interesting and risky times and it is only going to become more complex and risky in the future. Corporations (and you as leaders or managers) must adapt to this increasingly hazardous environment to survive potentially large risks. When people think of large risks confronting corporations they are used to thinking in terms of natural hazards such as hurricanes, earthquakes or tornados, or even man-made disaster such as the terrorists attacks on September 11, the BP gulf oil spill, internet security breaches causing huge financial losses, the Tokyo earthquake (natural) and resulting nuclear disaster (man-made), or sometimes products liability lawsuits with attached punitive damages. People often overlook man made financial disasters which could be even more devastating globally, such as the credit crisis of 2008-2009.

This disaster is already considered the worst global financial calamity ever with unprecedented world-wide consequences that have hit country after country and company after company. Losses are already computed to be in multiple trillions of dollars with much more in human suffering and insecurity. Also often overlooked risks involve disruption of the supply chain of corporations which can be equally devastating and need constant monitoring and management. Often adequate risk management steps are not taken to mitigate the impact of such risks. Here we shall show methods for developing such risk mitigation and management techniques.

With the world so fundamentally connected, the consequences of past regional disasters, physical, manmade, or financial, can no longer be contained locally. An explosion March 31, 2012 at a plant in Germany came very close to creating a worldwide shortage of a crucial plastic resin used in automobile manufacturing, and threatened to shut down US car makers (the plant made at least one-fourth of the world's supply of PA12, a key component in plastic fuel lines and other connections. The ingredient is crucial because it helps the tubes resist deterioration from carrying fuel. It is also used in seats and in products for other industries). As another example, bad mortgage lending and poor risk management in the financial industries precipitated the collapse of credit markets that were leveraged and interconnected. The risky financial behavior created a global impact of a magnitude never experienced before. Even the Black Plague of the Middle Ages and the Flu Pandemic of 1918 pale in comparison to the global impact of this risky gamble. Simplistically, a house of financial cards with a faulty foundation was developed by the poor risk management behavior in the financial markets, and governments had to get into the action and bail many of institutions as a last resort to restore the credit mechanism that propels economic activities and to try to unfreeze the credit markets and get lenders to lend again. Success still remains to be seen four years later as countries themselves (Portugal, Ireland, Greece and Spain, for example) are now in danger of defaulting on commitments.

As the student can see, a basic lack of corporate and governmental risk management (with no actions or prudence by regulators to control these overt failures) were at the heart of the global credit crisis. Probably no other risk-related event has had, and will continue to have, as profound an impact world wide as this risk management failure (and this includes the terrorist attacks of 9/11/2001, hurricane Katrina and the BP oil spill). The ramifications of risk management failures can potentially change the very structure of American government, and possibly governments and corporations throughout the world.

It is because of the all encompassing effects of risk that this class is a must for every student regardless of their field of study or job. Not understanding risks and how to mitigate them is simply no longer an option. How was risk in this situation so badly managed? What could firms and individuals have done to protect themselves from the consequences of this risk taking? How can government measure (beforehand) such risks in order to regulate and control them? These and other questions come immediately to mind when one contemplates the fateful consequences of this failure in risk management. These will be among the topics of this class.

From a corporate perspective, one can expect the cost of risk management to rise even further with increasing corporate responsibility for products liability, employment liability, directors and officers' liability, and health care costs for their employees. The actuarial studies unit of the Health Care Financing Administration states that overall health care costs will increase at more than double the rate of inflation for the next five to seven years, so considerations of employee benefits can be expected to influence top level CEO/CFO decision making even more in the future. General Motors, for example, has an annual \$2.8 Billion

liability in health and pension benefits for their retired and active workers, which adds over \$1500 to the cost of each automobile sold. The effect of the Obama nationalized health care plan will also change corporate risk profiles and competitiveness.

Supply chain risk management is getting increasing attention as well, since companies now often don't keep big stockpiles of parts the way they did two decades ago. Instead, to hold down warehouse and inventory costs, they rely on a "just in time" system in which parts are delivered just days or hours ahead of when they are needed. This, of course, makes their financial viability vulnerable to supply chain disruptions. We shall consider issues related to supply chain risk management particularly in this class.

Increasingly there has been recognition of the enterprise wide nature of risk management and the realization that there should be a coordinated and integrated approach to handling risks of the corporation which entails a holistic view of risk and its management in a framework which views risk management as a value enhancing strategic process and goal of the corporation. It was just one division of the giant AIG Corporation (the financial products division) which brought down the entire giant company, a previously unthinkable event. Just as the Markowitz approach to portfolio theory revolutionized investment conceptualization in finance by considering the correlation of assets and the market, so too has the "portfolio" paradigm towards risk revolutionized the field of risk management for corporations. We are currently at the forefront of this revolution, but the unfolding financial crisis will hasten this process. Such an approach is currently being introduced into the corporate governance structure and is known as enterprise risk management. This enterprise risk approach is in contrast to the old (now dramatically failed) model of handling risks in a silo approach, wherein the finance department handled the financial risks, the marketing department handled the marketing risks, the insurance and risk management group handled the physical risks, the legal department handled the liability risks, etc. The global, holistic, or integrated management of risk for an enterprise will be a major focus of this class, as well as the detailed examination of the more traditional areas of corporate risk (e.g., products liability, product recalls and reputation risk, financial hedging of risk, employee liability risk, etc.). We shall apply ERM techniques to supply chain risk management as a particular example. This approach is encapsulated in the advice from Peter Cox, Chief Financial Officer of United Grain Growers (UGG) of Canada in the statement "Don't try to operate your business risk free. Just tip the scale to your advantage, so risk management becomes strategic rather than just defensive."

After a quick overview of the risk management process, this course will cover the various primary aspects of risk faced by corporations and the alternative methods (traditional and non-traditional) available to them for managing these risks. These risks will include managing the usual physical risks of property damage and loss, but also will include liability costs and management, crisis management, and communication with the public in times of crisis to mitigate risk to brand value. Each of these risks will be also considered in a supply chain context. We shall take the stance throughout of integrating risk assessment through the evolving perspective of enterprise risk management for understanding the next wave of risk management.

An important aspect of managing risk is the identification and choice of mitigation techniques to use. When possible we will try to quantify the risks and consequences. Accordingly, we shall also use extensively readings which I shall post to Blackboard in addition to the book to broaden the class.

## EVALUATION

Your final grade will be determined as follows:

<u>COMPONENT</u>	<u>PERCENT</u>
Homework and class participation	10%
Three Examinations worth 25% each	75%
Research Paper	15% .

Homework will include turning in a written one page summary of all the guest speakers' presentations as well as turning in assigned homework. The homework assignments will be will be announced in class in advance and posted to Blackboard. A detailed day-to-day itinerary for the class is given at the end of the syllabus, but is subject to change if events warrant it (e.g., available of guest speakers changes, etc.), so keep up with the schedule. A brief descriptive presentation will be given by each student on the subject of their own research paper (part of homework/class participation grade) at the end of the semester. Further information on the research paper, potential topics, and examples of previous "A" papers will be given class. **There will be no final exam.**

Actual letter grades for the course will be determined on the basis of (1) the performance of the student relative to the class, and (2) certain minimum standards.

### **My Teaching Style:**

This course is taught as a combination of lecture and discussion. Readings and PowerPoint lectures are posted to Blackboard accompany the course, and internet references will be given at still other times. I will generally be presenting material and trying to disseminate or reinforce information, especially at first as we are developing the fundamentals and gaining experience in the risk management process and learning how to identify issues. Notwithstanding, I will still encourage discussion. Additionally, much of what you learn in the course will come from the efforts you make in preparing, as well as from what I teach in class. My goal for each class is to make the material interesting enough that you actually *do* want to learn more. I do expect you to come to class with an understanding of the assigned reading that is sufficient enough to add cogent comments to anything we end up discussing. Though you may think you could save time by not reading the assignment until after we have discussed the important points in class, I encourage you to read the assignment before class so that you can contribute to a meaningful class discussion.

### **Presentation and Paper:**

At the end of the semester you will be required to submit an individual research paper (10-12 pages), which will involve analyzing a topic involving supply chain risk and its management. More specific details are given later in this syllabus and will be discussed further in class.

**An individual project will be due October 11 .** You are to find an interesting real example of a situation wherein either a very good or very bad supply chain risk management process affected (or could have affected) corporate value. A Google search can yield a multitude of examples. Make sure that the example you select involves issues of corporate supply chain risk

(not just corporate risk) management. You should analyze the case selected in terms of the corporate risk implications and lessons learned. Discuss how the risk might have been avoided or whether the risk could have been mitigated. Two to three pages should suffice.

Examples:

1. Farmers being sued because a patented gene from a genetically modified organism (GMO) has found its way into their own seed stock, even though they have never used the GMO seed.
2. GMO food producers being forced to label their food as GMO
3. Mercury amalgams in dental work
4. Companies readying themselves against disruptions by natural catastrophes

### ***Term Paper Description***

The term paper will be on a **topic of your choice** related to issues of concern in managing corporate risk management. The paper topic is not to be merely an “overview” or “encyclopedia” paper, but rather should address some **issue of current interest** or controversy (e.g. genetic testing use in employment risk management, privatization of social security, discontinuation of corporate pension plans, the role of health care costs paid by US corporations and its impact on the competitiveness of the USA industries, the impact of the Obama health care bill on corporations, the impact of Sarbanes Oxley on corporate risk, etc). I am especially interested in supply chain risk, but you are free to choose a topic of your own interest. The topic you choose must be given to me for approval. The paper is due on at the end of the semester.

The paper itself will be ten to twelve pages long with a minimum of eight references (you may be longer if you desire, and more references will increase the attractiveness of your paper). References must be primarily from either academic journals or books, or from reputable newspaper magazines (Newsweek, Time, Business Week, etc.). Internet references are acceptable (but reliable internet references and not things like Wikipedia or blogs), but cannot constitute the bulk of your references. Internet sites corresponding to reliable journals are acceptable, (e.g., economist.com, NYTimes.com, etc.).

The paper should be written as an academic research paper, with titles, section headings, appropriate paragraphing, an introduction (stating your thesis), and a conclusion section. Margins should be reasonable (1-1.25 inches). Look at articles published in a recent copy of the *Journal of Risk and Insurance* for examples of how to format and write your paper. **You will be graded down if there is inadequate sectioning and paragraphing, or if the English writing or style or referencing is inadequate.** This must be a professional paper and be reflective of what you might turn in to a corporate supervisor or Board of Directors. I strongly recommend using the University’s writing lab for assistance if there is any doubt. Don’t wait until the last minute as they do fill up.

Any borrowed ideas, quotes or figures used in the paper must be referenced by authors’ last names and year of publication. Any facts, figures or opinions which are not your own must be references (and your grade will suffer if you do not references). For example, “RIDITs represent a very old idea and are closely related to distribution free methods” (Bross 1958, p19). **You will be graded down at least 5 points if you do not adequately cite references used within the text of your paper. See published academic journal articles to get illustrative examples.**

The references in the reference section of your paper are to be listed alphabetically by the last name of the first author. Examples are given below.

- **Books**

**One author:**

Koerner, Joseph Leo. 1993. *The Moment of Self-Portraiture in German Renaissance Art*. Chicago: University of Chicago Press.

**More than one author:**

Cowlshaw, Guy, and Robin Dunbar. 2000. *Primate conservation biology*. Chicago: University of Chicago Press.

**Editor(s) or compiler(s):**

Panjer, Harry H., eds. 1998. *Financial Economics: With Applications to Investments, Insurance, and Pensions*. Schaumburg, Ill: The Actuarial Foundation.

**Company or organization as author:**

Blue Cross and Blue Shield of Michigan (BCBSM). 1987. "Participating Hospital Agreement." Detroit: BCBSM. [Citation would read: (BCBSM 1987)]

U.S. Prospective Payment Review Commission (ProPAC). 1991. *Annual Report to Congress*. Washington, DC: U.S. Government Printing Office. [Citation would read: (ProPAC 1991)]

**Parts of books (articles in an anthology, chapters, introduction, etc.):**

Twaddell, W. Freeman. 1957. A note on Old High German umlaut. In *Readings in linguistics I: The development of descriptive linguistics in America, 1925-56*. 4th ed. Edited by Martin Joos. Chicago: University of Chicago Press.

- **Journals**

Brown, Robert L., Robin Damm, and Ishmael Sharara. 2001. "A Macro-economic Indicator of Age at Retirement," *North American Actuarial Journal* 5(2): 1-10.

- **Magazines and Newspapers**

**With an author:**

Cynthia Schreiber, "Overture, EarthLink Decline in New-Stock Selloff," *The Wall Street Journal*, 11 July 2003, Money and Investing section.

**Without an author:**

*Euroweek*. 1997. "CSFB, Winterthur Storm Swiss CB Sector with First Catastrophe-Linked Bonds," (Jan. 17): 5.

- **Working Papers, Technical Reports, and Ph.D. Dissertations:**  
Amundin, M. 1991. Click repetition rate patterns in communicative sounds from the harbour porpoise, *Phocoena phocoena*. Ph.D. diss., Stockholm University.
- **Personal Communications:**  
Rich, Colonel William. Interview by author. Tape recording. Boston, Mass., 3 March 2001.
- **Online References (use date citation was found):**  
Individual Life Insurance Experience Committee (ILFEC). 2001. "Report of the ILFEC: Mortality Under Standard Individually Underwritten Life Insurance between 1990 and 1991 Anniversaries," *Transactions of the Society of Actuaries*. Online at <http://www.soa.org/research/91ilreport.html>.

*Note:* When quoting material from another publication, you must include the page number(s) of the quote in the citation (Smith 2001, p. 20).

## Introduction to Risk Management Day by Day Schedule

Dr. Patrick L Brockett

RM 357E

Fall 2012

You are to have prepared the assignment listed below for a given day prior to coming to class (except for the first day). All assignments for a given day are due at the start of class. Please read the textbook material before coming to class, so you will have a frame-of-reference for the in-class discussions and material.

NOTE: The following schedule is subject to change depending on circumstances (e.g., guest lecturer availability on certain days, important current events related to risk)

DATE	LECTURE TOPIC	ASSIGNMENT
Thursday, August 30	Introduction to the Course, Hand out the syllabus. Very short class	READ Chapter 1 of BB&K for next class period. Read Summary Overview of Basic Risk Management from Blackboard
Tuesday, September 4	The nature of risk, introduction to Risk Management techniques and practices, steps in the risk management process.- Discussion of Research Paper.	Read Chapter 2. HW: Start investigating what topic to choose for your research paper. Look over the list of potential topics posted on Blackboard
Thursday, September 6	Continued discussion of risk management methods and metrics	Read Chapter 4. HW: 1 page summary of supply chain risk hand out and its connection to Chapters 1 and 2
Tuesday, September 11	The role of multinational brokers in spreading and hedging corporate risk. Evolving risk management tools.	HW: Assigned problems on Blackboard. Look at the career fair listings regarding risk management jobs. In particular, look up Marsh USA who will be coming to class Thursday. Attend career fair if you can
Thursday , September 13	Guest lecture by Mr. Julio Bueno, Marsh USA on the opportunities in the insurance brokerage field for people knowledgeable in risk management. Additional discussion about Risk Management tools	Read Chapter 3 and handout posted to Blackboard on supply chain risk management.
Tuesday , September 18	Individual, corporate and societal risk attitudes and risk perceptions	READ Chapter 3. Select a topic for your research paper. Get together with your group to organize.
Thursday , September 20	Video on risk communication and perception.	Write up summary of video to be turned in next class period <b>TOPIC OF RESEARCH PAPER DUE IN CLASS AND BY EMAIL</b>
Tuesday , September 25	Discussion of risk perceptions and supply chain risk management impediments. Lessons from Katrina	Read handouts

Thursday , September 27	Enterprise risk management	Read Chapter 5
Tuesday , October 2	Enterprise risk management	HW: ERM in supply chain context handout
Thursday , October 4	<b>EXAM 1</b>	
Tuesday , October 9	Managing property risk	READ Chapter 11. HW identify 5 supply chain risks associated with property risk and give an actual example (with reference) of when this has mattered to a company's supply chain. Be specific with references
Thursday , October 11	Catastrophic Risk Assessment: Natural hazards	READ hand out. HW identify 5 supply chain risks associated with natural catastrophic risk and give an actual example (with reference) of when this has mattered to a company's supply chain (e.g., the volcano in Iceland). ). Be specific with references. <b>Individual supply chain risk paper due</b>
Tuesday , October 16	Catastrophic Risk Assessment: Human risks:	READ hand out. HW identify 5 supply chain risks associated with man-made catastrophic risk and give an actual example (with reference) of when this has mattered to a company's supply chain (e.g., drug violence and cross national shipping). Be specific with references
Thursday , October 18	Managing Catastrophic Risk	Study for Exam 2 (covers all material up to end of class 10/16)
Tuesday , October 23	<b>EXAM 2</b>	READ Chapter 12
Thursday , October 25	Liability and Legal Risk Management	READ handout. <b>Abstract of paper and 5 reference citations due today in class and by email.</b>
Tuesday , October 30	Liability and Legal Risk Management	HW: use the internet to give an example of liability risk affecting supply chains, and how it might be addressed.
Thursday , November 1	Multi-Risk Contracts for companies	READ Chapter 15
Tuesday , November 6	Cyber risk and m-commerce risk	READ handouts
Thursday , November 8	Cyber risk and m-commerce risk	READ handouts
Tuesday , November 13	Intellectual property and technological risk	READ handouts, Study for exam
Thursday , November 15	<b>EXAM 3</b>	
Tuesday , November 20	Work on research paper (no formal class, but I am available for questions)	
Thursday , November 22	<b>THANKSGIVING (no class)</b>	Enjoy! <i>Happy Thanksgiving</i>

Tuesday , November 27	Overview of Supply Chain Risk Management	READ Handout on supply chain risk
Thursday , November 29	Lessons from the financial crisis for corporations	READ Handout
Tuesday , December 4	paper presentations	Finish research paper
Thursday, December 6	<b>RESEARCH PAPER DUE.</b> Student Presentations of Research papers	