

# Introduction to Risk Management & Insurance R M 357e

Professor: Patricia M. Arnold, CPCU, ALCM Office: GSB 5.126A, hrs: 11-12 M & W

Phone: 475-6728

Course time, dates: M-W-F 8-9 and 9-10 AM

Classroom: GSB 4.328

,

<u>calendar</u>

syllabus

e-mail address: <a href="mailto:pat.arnold@mccombs.utexas.edu">pat.arnold@mccombs.utexas.edu</a> OR

pma55@austin.rr.com

Teaching Ass't:

# Textbook & Assignments:

Syllabus - fall 2010

Principles of Risk Management and Insurance (10th Ed.), Rejda, George E., Addison Wesley publishers, Boston, Mass. (required). An online version is available for semester-long "rental" at <a href="http://www.coursesmart.com/9780136117919">http://www.coursesmart.com/9780136117919</a>

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### Risk Management: 357E. Introduction to Risk Management - Upper-Division Course

Principles of risk management for individuals and organizations, financial aspects of insurance companies and markets, industry structure, managerial aspects of underwriting and pricing, and public policy issues.

# **Course Objectives**

This course will examine the way in which business and society make an assessment of, control and transfer risk. It is designed for the student with no previous knowledge of risk management.

The goal of this course is to engage students in active discovery of risk management principles. Students will be prepared to function in a business environment, developing an awareness of the challenges, the tools, and the process of designing and implementing a risk management program.

This course focuses on the ways in which businesses and society assess, control, and transfer risk. This process, known as the risk management process, is becoming an increasingly important tool in the management of business and personal financial health. An effective and efficient corporate risk management program leads to knowledge and control of costs and an improved bottom line.

The risk management process involves identification of risks and associated potential costs, analysis of the causes of risk of financial loss, determination of various strategies to treat risk, selection of strategies appropriate to the goals and objectives of the business, implementation of the selected strategies, management and monitoring of results. Making adjustments, adapting to external and internal forces, and crisis or disaster management are incorporated in the corporate risk management process. An effective risk management program will reduce losses, and improve financial performance and employee morale.

### Assigned "Reading" and preparation materials:

- Our Course "Calendar" provides assignment and preparation materials (such as chapter readings, outlines, and slideshows, as well as dates for quizzes and exams): The readings bring a balance of theoretical concepts with practical application. The chapter assignments form the basis for an understanding of the concepts. Read and prepare before each class. Some practice quizzes and crossword puzzles are included, to enhance learning.
- Blackboard "Course Documents" provides additional resources: these are provided in order to broaden the student's understanding of the concepts covered in the textbook, and to highlight current dynamics in the industry and in risk management strategies. These may be included on quizzes, in homework, as discussed during class.

- Quizzes and homework assignments will be due during the session, based on the textbook readings, assigned websites, and
  in-class instructor-led discussions. Pop-quizzes or homework may be handed out in class, and will be due the following
  class session.
- Extra credit may be awarded. Only VIP sessions will be considered.

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Grading - Student grades will be determined as follows

a.60% - Exams - three exams (20% each)

- Closed book, true/false, multiple choice, not cumulative. No make-ups.
- 50% from chapters readings and 50% from class discussions and other assigned readings.
- · There is no final exam.

### b. 40% - Quizzes, workshops and homework (30%), attendance (10%), extra credit (incl. in average)

- Quizzes, workshops and homework assignments will be due during the session, based on the textbook readings, assigned websites, and in-class instructor-led discussions. Pop-quizzes or homework may be handed out in class, and will be due the following class session.
- Participation: attendance will be taken at random at least six (6) times during the semester. You will receive full credit if you attend 90% of these full class sessions or workshops. 80% if you attend 80%. No credit will be given if you attend fewer than 60%. Prior to an event for which you wish to request excused absence/credit: make a request in writing, to the professor.
- Extra credit may be awarded, up to 3 points out of the available 40% indicated above. Only <u>VIP sessions</u> will be
  considered. The school provides documentation to me at the end of the semester, so make sure your UT EID is
  scanned properly. Lateness is not accepted. Courtesy for speakers and hosts is the usual, and is expected of all
  students.

### **Calculation of Course Grades:**

Grade	Percentage
Α	93-100
Α-	90-92
B+	87-89
В	83-86
B-	80-82
C+	77-79
С	73-76
C-	70-72
D+	67-69
D	63-66
D-	60-62
F	0-59%

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# Class Web Sites and Student Privacy:

Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging email, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on FERPA related issues see <a href="http://registrar.utexas.edu/students/records/ferpa/">http://registrar.utexas.edu/students/records/ferpa/</a>

# University Electronic Mail Notification Policy (Use of E-mail for Official Correspondence to Students):

All students should become familiar with the University's official e-mail student notification policy. It is the student's responsibility to keep the University informed as to changes in his or her e-mail address.

Students are expected to check e-mail on a frequent and regular basis in order to stay current with University-related communications, recognizing that certain communications may be time-critical. It is recommended that e-mail be checked daily, but at a minimum, twice per week. The complete text of this policy and instructions for updating your e-mail address are available at <a href="http://www.utexas.edu/its/policies/emailnotify.html">http://www.utexas.edu/its/policies/emailnotify.html</a>.

In this course e-mail will be used as a means of communication with students. You will be responsible for checking your e-mail regularly for class work and announcements. Note: if you are an employee of the University, your e-mail address in Blackboard is

your employee address.

#### Use of Blackboard in Classes:

This course uses Blackboard, a Web-based course management system in which a password-protected site is created for each course. Student enrollments in each course are updated each evening. Blackboard can be used to distribute course materials, to communicate and collaborate online, to post grades, to submit assignments, and to take online quizzes and surveys.

You will be responsible for checking the Blackboard course site regularly for class work and announcements. As with all computer systems, there are occasional scheduled downtimes as well as unanticipated disruptions. Notification of these disruptions will be posted on the Blackboard login page. Scheduled downtimes are not an excuse for late work. However, if there is an unscheduled downtime for a significant period of time, I will make an adjustment if it occurs close to the due date.

Blackboard is available at <a href="http://courses.utexas.edu">http://courses.utexas.edu</a>. Support is provided by the ITS Help Desk at 475-9400 Monday through Friday 8 am to 6 pm, so plan accordingly.

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### **Special Accommodations:**

Students with disabilities who require special accommodations need to get a letter that documents the disability from the Services for Students with Disabilities area of the Office of the Dean of Students (471-6259 voice or 471-4641 TTY for users who are deaf or hard of hearing). This letter should be presented to the instructor in each course at the beginning of the semester and accommodations needed should be discussed at that time.

Five business days before an exam the student should remind the instructor of any testing accommodations that will be needed. See following website for more information: <a href="http://deanofstudents.utexas.edu/ssd/providing.php">http://deanofstudents.utexas.edu/ssd/providing.php</a>

#### **Drop Policy:**

If the University policies permit, a student may withdraw or drop this class with approval by the withdraw/drop deadlines set by the University. After the deadline, students who withdraw/drop the course receive a grade based on what they have earned in the course at that point in time.

### **Scholastic Dishonesty Policy:**

The University defines academic dishonesty as cheating, plagiarism, unauthorized collaboration, falsifying academic records, and any act designed to avoid participating honestly in the learning process. Scholastic dishonesty also includes, but is not limited to, providing false or misleading information to receive a postponement or an extension on an exam or other assignment, and submission of essentially the same written assignment for two different courses without permission of faculty members. The McCombs School of Business has no tolerance for acts of academic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business. By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this course, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear, it is your responsibility to ask me for clarification.

Scholastic Dishonesty: Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course an/or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <a href="http://deanofstudents.utexas.edu/sjs/">http://deanofstudents.utexas.edu/sjs/</a> or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

### **Religious Holidays:**

Religious holy days sometimes conflict with class and examination schedules. If you miss an examination, work assignment, or other project due to the observance of a religious holy day you will be given an opportunity to complete the work missed within a reasonable time after the absence. It is the policy of The University of Texas at Austin that you must notify each of your instructors at least fourteen days prior to the classes scheduled on dates you will be absent to observe a religious holy day.

### Feedback:

Feedback is an important part of any kind of learning. Without feedback on how well you understand the material, it is more difficult for you to make significant progress. During this course you will give me feedback on your learning in informal and formal ways, such as assignments or exams.

I want you to let me know when something we discuss is not clear. This kind of communication will enable me to provide additional information when needed or to explain a concept in different terms.

In addition to feedback on your learning, I will ask for feedback from you about how my teaching strategies are helping or hindering your learning. This kind of feedback is very important to me as I continually strive to be the best teacher I can be. Some of this feedback will be gathered from online anonymous surveys. I encourage you to respond to these surveys so that together we can create an effective teaching and learning environment.

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DATE	TOPICS and links to OUTLINES	<b>ASSIGNMENTS</b> : reading assignments, resources and learning materials
August 25	Syllabus Overview	Slideshow: Intro slideshow Rejda public website; Safety; review key concepts and Blackboard resources
Part One: Inti	roduction to Risk Management	<u> </u>
	Risk in Our Society	Reading: Chapter 1
	<ul> <li>Perils, hazards</li> <li>Direct and indirect loss</li> <li>Pre and post-loss risk management</li> </ul>	Fire Slideshow     Rejda Chapter 1; slideshow PA     Other Resources: Online quiz     Thermographic survey (HSB 2009)  Reading: Chapter 2
	<ul> <li>Insurer side: public policy and affordability/availability, indemnification, insurance product overview</li> <li>Undercurrents in pricing, markets in risk management</li> </ul>	Chapter Two     Risk Management and the CRO     Hartford: Managing Your Risk     Loss of Value Review Blackboard "Assignments" and "Course Documents"
	Retaining risk     Solvency II	
	<ul> <li>Client Side: Components of the cost of risk</li> <li>Use of contracts, variety of insurance products</li> <li>Evaluating the costs of a loss and who impacted</li> <li>PML and Retaining risk - client side &amp; insurer side</li> </ul>	Crossword: Chapters One and Two; Clue List     Chapter Three and Rejda slideshow     Traveler's Settles Asbestos-related Claims;     The Hartford - Calculate Your Total Cost of Risk Worksheet and Prioritizing Losses (Frequency and Severity)     Gulf Recovery: Writers for World Watch say clean energy important to minimizing hurricanes (13 minute video)     Interactive catastrophe "risk map" of US
	Advanced Topics in Risk Mgmt  Valuing losses to property, legal risk Strategies for client v. insurer  Management of physical risk, contract risk  Cost of risk, resources - drivers, strategic decision making, ERM	Reading: Chapter 4  • Chapter Four (PA); Rejda • Quiz ~ T/F • State of ERM - 2006 (Willis)(skim) • Running with Risk heat map • Corporate Risk Management (skim) • SwissRe's Sigma's • Overview for 2006 (skim) • chemsafety.gov video of 11/10/2005 - Explosion at BP
Part Two: The	Privato Incuranco Industry	Refinery(6 min.)
September 15	e Private Insurance Industry	Chapters One thru Four
populari la	Types of Insurers & Marketing Systems  • Distribution systems, supply/demand dynamics  • Roles in production, underwriting, claims	Reading: Chapters 5  • Ch 5 (PA); Rejda • Marsh update incl. OIL (07/06) • Glossary of insurance terms (III)
	Insurance Company Operations	Reading: Chapter 6  • Chapter 6; Rejda • The New Normal of Business and Insurance (Hartwig, III) • Commentary on First Quarter 2009 Results (Hartwig, III) • Catastrophe Insurance Issues (9/2008-III) • FM Global Nat Cat Study • SwissRe: US Property & Casualty Quarterly (July '09) • Natural Catastrophe Stress Test methodology

		(Blackboard)
September 29	Exam #1 - Parts One & Two	chapters 1 - 6
	Financial Operations of Insurers (pricing and ratemaking)	Reading: Chapter 7
	<ul> <li>Convergence of financial services – insurance and banking, securities</li> <li>Rating and classification systems</li> <li>FACTS book: stats, lines of coverage, where premium dollar goes, who writes what</li> <li>NAIC and TDI, A M Best, OPIC</li> </ul>	<ul> <li>Chapter 7</li> <li>Convergence of Insurance and Capital Markets (World Economic Forum (2008)</li> <li>Rate filing when using modeling</li> <li>Setting Realistic Reserves Projecting the Company's Future Obligations</li> <li>Loss Reserving (KPMG, p. 46+)</li> </ul>
	Government Regulation of Insurance	Reading: Chapter 8
back to top	<ul> <li>History of regulation - federal, state - of the "business of insurance"</li> <li>Advisory organizations</li> <li>Reinsurance         <ul> <li>Current dynamics - courts, client exposures, regulatory, political</li> <li>Reinsurance and Excess &amp; Surplus Lines</li></ul></li></ul>	<ul> <li>slideshow PA, Rejda Chapter 8</li> <li>A Brief History (III)</li> <li>crossword</li> <li>Surplus lines and non-admitted markets</li> <li>P &amp; C Market Overview SwissRe (12/2005)</li> </ul>
•	al Principles in Risk & Insurance	
. art mice. Leg	Fundamental Legal Principles	Reading: Chapter 9
	<ul> <li>Unfair claims practices, market conduct and compliance (Texas Ins. Code)</li> <li>Analytical approach</li> <li>Insurable interest &amp; valuation (ACV, RCV, functional RC, vacancy, lienholders, vendors, subrogation</li> <li>First party v. third party analysis</li> </ul>	<ul> <li>Slideshow PA; Rejda Chapter 9</li> <li>Waiver &amp; sample Assumption of Risk- Sierra Club</li> <li>"The Loss of the Certainty Effect"</li> </ul>
	Analysis of Insurance Contracts	Reading: Chapter 10
back to top	<ul> <li>C.O.P.E. and building code / location / jurisdiction</li> <li>Waiver &amp; estoppel</li> <li>Other Insurance</li> <li>Deductibles</li> <li>Transfer of Rights of Recovery</li> </ul>	<ul> <li>Slideshow: Rejda Chapter 10</li> <li>COPE (see Safety)</li> </ul>
October 15	Quiz 2	Chapters 7-10
	onal Property and Liability Risks	H
rait rive. Perso	The Liability Risk  • Personal "legal liability" based on "tort"/negligence allegations, also business legal liability based on same – NOT breach of contract, breach of warranty, failure to perform/complete/fiduciary failure  • Dispute resolution  • Appraisal clause	Reading: Chapter 19  • Slideshow PA; Rejda Chapter 19  • Sample event agreement (Westin Bonaventure)  • Auditors and privilege  • Tort Excess  • AAIS Update  Reading: Alternative Dispute Resolution (RIMS mag. 10/06)  • Diff methods/remedies to resolve disputes  • Tort versus contract - remedies?
	Homeowners Insurance, Sec. I  Homeowners Form 3 Valuation in risk mgmt process Endorsements: RCOC, increased cost	Reading: Chapter 20  • Rejda Chapter 20  • HO cookie slideshow  • Sustainability and Disaster Risk Financing: Swiss Re

lı .	II	II I
	Schedule vs. blanket	
	Deductible	
	Homeowners Insurance, Sec. II	
		Reading: Chapter 21
	Negligence	
	Limited exclusions	Rejda Chapter 21
	Personal vs. Business liability	HO <u>quiz slideshow</u>
	Endorsement for Personal Injury	<ul> <li><u>Crossword clues</u>, <u>solution</u>, &amp; <u>puzzle</u></li> </ul>
	Additional Insured	
	Automobile Insurance	Reading: Chapter 22
	<ul> <li>Exclusions, extensions, non-ownership (and DOC endorsement), other insurance, limits</li> <li>Underwriting and rating criteria</li> <li>Temporary substitute, newly acquired/replacement</li> <li>Def'n of insured, vicarious liab., permissive user</li> <li>Territory</li> </ul>	Chapter 22     How can I build and maintain a good credit history?     (iii)     practice exam , and True/False
	Material misrepresentation	
back to top	Exam prep	
October 29	Exam #2	Chapters 7-10, 19-21
Part Six: Comm	ercial Property and Liability Risks	
	Automobile Insurance and Society	Reading: Chapter 23 (except sections on no-fault)
	nationionic matrice and society	reading. Chapter 23 (except sections of no-radit)
	Valuation and autos	Rejda Chapter 23
	Primary/excess-umbrella	• Consumer survey (J D Powers);
	Transportation/delivery & mobile	Online Defensive Driving Course listing (TDI)
	equipment	Crossword
	Other Property and Liability Insurance	Reading: Chapter 24 (not sections on life/health, title, mobile
	Coverages	home, boat, aviation)
		morno, boat, aviation,
	<ul> <li>Dwelling Policy Special Form 3</li> <li>Inland Marine (floaters)</li> <li>Umbrellas</li> <li>Flood</li> <li>FAIR Plan, MAP, JUA, residual and underserved markets</li> </ul>	<ul> <li>Rejda Chapter 24</li> <li>FAIR Plan, MAP, JUA's</li> </ul>
	Commercial Property Insurance	Reading: Chapter 25
	Coinsurance Limitations, extensions, conditions, valuation, agreed value, seasonal fluctuations Tenant's improvements & betterments Warranty and vacancy clause Lease of equipment & premises, contractual and statutory obligations, responsibilities Interdependencies	<ul> <li>Commercial risk management strategies</li> <li>Rejda Chapter 25, advanced slideshow</li> <li>Quiz</li> <li>Sample equipment lease</li> <li>Sample lease of premises agreement</li> <li>FM Global Business Continuity puzzle</li> </ul>
November 17	Quiz 3	chapters 22-25
	Commercial Liability Insurance	Reading: Chapter 26
	<ul> <li>Certificate of insurance</li> <li>Premises/Operations and Products/Completed Operations</li> <li>Definitions, conditions, insuring agreement, who is an insured</li> </ul>	<ul> <li>Slideshow; Rejda Chapter 26</li> <li>Crossword, clues</li> <li>Multiple choice quiz, (quiz with answers)</li> <li>Completed crossword</li> <li>Katrina &amp; Rita</li> </ul>

December 3		Chapter 24-27, 18 (portion), and Alternative Disp. Resolution article (above)
	Exam prep	
	Crime Insurance & Surety Bonds  • Request for Proposals (Maryland)  • Crime insurance in CL	<ul> <li>Chapter 27</li> <li>slideshow; Rejda Chapter 27</li> <li>crossword for chapters 26 and 27; wordlist, printable grid with clues</li> </ul>
	Exclusive remedy     Structure of coverage     Employment dynamics     Dual capacity     Third-Party Over     Positional Risk	workers' compensation sections only)  • Rejda Chapter 18; Top Four WC  • Puzzle  • Guide to W. Comp (for employee)  • AIS Research (video)  • Alternative Dispute Resolution (RIMS mag. 10/06)  • W/Comp fraud (Blackboard)
	Excess/umbrella     Contractual, ENOL / Hired auto     Mobile Equipment     Exclusions, endorsements     Environmental impairment, liquor, auto     PD to own work/product (recall, impaired property/failure to perform, faulty workmanship)	Umbrella     Law, Insurance and the Internet, BuySafe  Reading: Chapter 18 (social insurance background and

Updated 8/8/2010