



Introduction to Risk Management & Insurance R M 357e

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Office: GSB 5.126A, hrs: 2 - 3 PM T & Th

Phone: 475-6728

Course time, dates: T & Th 11-12:30, 12:30-2 PM

Classroom: GSB 2.126

[calendar](#)

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Syllabus - fall 2011

Textbook & Assignments:

Principles of Risk Management and Insurance (11th Ed.), Rejda, George E., Addison Wesley publishers, Boston, Mass. (required). An online version is available for semester-long "rental" at <http://www.coursesmart.com/9780136117919>

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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](#) and Faculty Research Presentations 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. Each event: 1/2 point. Only VIP sessions and Faculty Research Presentation Series events 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
A	93-100
A-	90-92
B+	87-89
B	83-86
B-	80-82
C+	77-79
C	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 e-mail, 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 <http://registrar.utexas.edu/students/records/ferpa/>

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 <http://www.utexas.edu/its/policies/emailnotify.html>.

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 <http://courses.utexas.edu>. 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: <http://deanofstudents.utexas.edu/ssd/providing.php>

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 and/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 <http://deanofstudents.utexas.edu/sjs/> 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	ASSIGNMENTS: reading assignments, resources and learning materials
	Syllabus Overview	Slideshow: Intro slideshow , Rejda public website , Safety ; review textbook format/content, Blackboard resources <ul style="list-style-type: none"> • Workshop: Food Safety (2 articles) - handouts
Part One: Introduction to Risk Management		
	Risk in Our Society <ul style="list-style-type: none"> • Property & liability risks • Perils, hazards • Direct and indirect loss • Pre and post-loss risk management • Risk management process basics • Law of large numbers introduced 	Reading: Chapter 1 <ul style="list-style-type: none"> • Workshops <ul style="list-style-type: none"> ◦ Fire Slideshow ◦ Austin City Limits Festival - handout ◦ Software 'rust' risk to shareholder value (FT 12 10 2010) • Other Resources: Online quiz • Thermographic survey (HSB 2009)
	Insurance and Risk <ul style="list-style-type: none"> • Risk pooling, insurable risks v. hedging • Accidental v. intentional, criminal • Types or lines of insurance • Value of insurance, bonding • Insurer side: public policy and affordability/availability, indemnification, insurance product overview Undercurrents in pricing, markets in risk management Retaining risk, value of loss control • Loss of value, economic v. non-economic losses 	Reading: Chapter 2 <ul style="list-style-type: none"> • Financials, underwriting /pricing results, capacity and surplus • Risk Management and the CRO • Managing Your Risk (The Hartford) • Risk Management Resources (Travelers) • Construction Risk Management (checklist - AGC of America) (pdf)
	Introduction to Risk Mgmt <ul style="list-style-type: none"> • Client Side: Components of the cost of risk • Risk management process and analysis: <ol style="list-style-type: none"> (1) identification of exposures, hazards; (2) assessment of alternatives, use of forecasting and modeling, spread of risk, diversification • Valuing losses to property, legal risk • Use of contracts, variety of insurance products • Evaluating the costs of a loss and who impacted • PML and Retaining risk - client side & insurer side • Partnership between parties in commerce, in 	Reading: Chapter 3 <ul style="list-style-type: none"> • Crossword: Chapters One and Two; Clue List • Chapter Three • Gulf Recovery: Writers for World Watch say clean energy important to minimizing hurricanes (13 minute video) • Interactive catastrophe "risk map" of US • ISO's Natural Disaster Map: The Financial Effects of Natural Disasters (by decade) • Zurich's approach to Enterprise Risk Management • Establishing a Pro-Active Risk Management Culture (SwissRe - 2010)

	<p>insurance</p> <ul style="list-style-type: none"> • Outline 	
	<p>Advanced Topics in Risk Mgmt</p> <ul style="list-style-type: none"> • Analysis of Strategies for client v. insurer <ul style="list-style-type: none"> ◦ Management of physical risk, contract risk ◦ Cost of risk, resources - drivers, strategic decision making, ERM • Basics of financial side for insurers: <ul style="list-style-type: none"> ◦ Underwriting cycle, Solvency II ◦ Capacity, p/h surplus, securitization ◦ Ins regulators: 2 to 1; ◦ Client & cost of risk: 7:1 ◦ Reserving for losses, loss adjustment expenses (LAE), and unearned premium 	<p>Reading: Chapter 4</p> <ul style="list-style-type: none"> • Chapters 3 and 4 - industry financial concepts • 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) • British Petroleum, Texas City, 2005 and • Texas City 2005 – Chemical Safety Board review(key lessons: 55 min)
<p>Part Two: The Private Insurance Industry</p>		
	<p>Types of Insurers & Marketing Systems</p> <ul style="list-style-type: none"> • Distribution systems, supply/demand dynamics • Broker, agent (independent, exclusive, direct) • Stock, mutual, reciprocal exchange, Texas Lloyds, Lloyds of London • Admitted, non-admitted • Excess & Surplus, Umbrella markets • Captives, Risk Retention Groups 	<p>Reading: Chapter 5</p> <ul style="list-style-type: none"> • Chapter 5 • Business of Insurance - strategic decisions chart • Marsh update incl. OIL (07/06) • Glossary of insurance terms (III) • "What is Surplus Lines Insurance?" (Swett & Crawford) • Closing the financial gap - New partnerships between the public and private sectors to finance disaster risks- SwissRe 2011 • Texas Dep't of Insurance Biennial Report...to the 82nd Legislature • Initiative Highlights Future Risk to Gulf Coast
	<p>Insurance Company Operations</p> <ul style="list-style-type: none"> • Pricing, use of application & loss history, surveys • Documents - binder, loss report, proof of loss, claim draft • Loss Control - prevention, reduction/mitigation • Reinsurance - use, cost, alternatives • Investments and capital markets • Challenges of markets, tort reform, investment income and ROI • Roles of production, underwriting, claims-handling 	<p>Reading: Chapter 6</p> <ul style="list-style-type: none"> • Chapter 6 • Claims Handling Guidelines (Texas) - (courtesy of Claims.com) • 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) • Insurance, security in place as 2010 World Cup kicks off (Business Insurance - June 2010) • "Macroeconomics and the Impact on Capital Allocation and Earnings Power" (Guy Carpenter, Monte Carlo, 9/2010) - webcast • "State of the reinsurance market and excess capital strategies" (Guy Carpenter. Monte Carlo 9/2010) • Point of View - The Dodd-Frank Act (Oliver Wyman, 9/2010) • Holes in the Net crossword (and printable file)
	<p>Financial Operations of Insurers</p> <ul style="list-style-type: none"> • Convergence of financial services – insurance and banking, securities • Rating and classification systems FACTS book: stats, lines of coverage, where premium dollar goes, who writes what NAIC and TDI, A M Best, OPIC • Loss ratio, rating schemes & classifications, underwriting, exposure units, self-insured retentions 	<p>Reading: Chapter 7</p> <ul style="list-style-type: none"> • Convergence of Insurance and Capital Markets (World Economic Forum (2008) • Rate filing when using modeling • Setting Realistic Reserves -- Projecting the Company's Future Obligations • Loss Reserving (KPMG, p. 46+) • World Catastrophe Reinsurance Market 2010
<p>back to top</p>	<p>Government Regulation of Insurance</p> <ul style="list-style-type: none"> • History of regulation - federal, state - of the "business of insurance" (defined page 20) • Advisory organizations, rating bureaus, data sharing, exchange of underwriting information • Taxation policy, licensing policy, domiciles v. off-shore • Sales and claims handling practices, Unfair claims practices, market conduct and compliance (Texas Ins. Code) • Reinsurance <ul style="list-style-type: none"> ◦ Current dynamics - courts, client exposures, regulatory, political ◦ Reinsurance and Excess & Surplus Lines 	<p>Reading: Chapter 8</p> <ul style="list-style-type: none"> • A Brief History (III) • Regulatory Burden - 2011 Property and Casualty Insurance Report Card (Heartland Institute 2011) • Crossword Surplus lines and non-admitted markets • Red Flags Rule (FTC 1 1 2011 eff date) (podcast) • Symantec GRC report - 2008 (esp. "Performance Highlights" and p. 59-68) and SEC filing (2010) • Travelers Risk Committee charter and SEC filing (2009 results) • Gov. Freudenthal says state unprepared for EPA's greenhouse gas regulation (OnPoint, 11/17/2010) • Building A Resilient Gulf Coast (America's Wetland Foundation)

	(E & S) markets	
Part Three: Legal Principles in Risk & Insurance		
	<p>Fundamental Legal Principles</p> <ul style="list-style-type: none"> Contract of insurance versus work agreements, lease agreements, waivers, warranties of fitness, quality, use, workmanship Structure of insurance contract, use of endorsements, warranties, v. bonding Insurable interest & valuation (ACV, RCV, functional RC, vacancy, lienholders, vendors) First party v. third party analysis, waiver & estoppel Legal liability: defense expense, economic and non-economic damages, exemplary/punitive damages 	<p>Reading: Chapter 9</p> <ul style="list-style-type: none"> Waiver & sample Assumption of Risk- Sierra Club "The Loss of the Certainty Effect" Litigiousness - Insurer Legal Defense Costs (III) Forensic consulting - accident reconstruction, green construction, disputes (Insurance Journal)
back to top	<p>Analysis of Insurance Contracts</p> <ul style="list-style-type: none"> C.O.P.E. and building code / location / jurisdiction Other Insurance Deductibles Transfer of Rights of Recovery (Subrogation) 	<p>Reading: Chapter 10</p> <ul style="list-style-type: none"> COPE (see Safety)
Part Five: Personal Property and Liability Risks		
	<p>The Liability Risk</p> <ul style="list-style-type: none"> 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 Contractual ("assumed") liability> Diff methods/remedies to resolve disputes Tort versus contract - remedies? 	<p>Reading: Chapter 19</p> <ul style="list-style-type: none"> Slideshow Sample event agreement (Westin Bonaventure) Auditors and privilege Tort Excess AAIS Update Cyber Liability (webcast - AMBest 1 2011)
	<p>Homeowners Insurance, Sec. I</p> <ul style="list-style-type: none"> Homeowners Form 3 Valuation in risk mgmt process Endorsements: RCOC, increased cost Schedule vs. blanket Deductible 	<p>Reading: Chapter 20</p> <ul style="list-style-type: none"> HO cookie slideshow Sustainability and Disaster Risk Financing: Swiss Re CEA: Transforming Earthquake Insurance Office of Public Insurance Counsel (w/in TDI) - coverage comparison, policyholder bill of rights
	<p>Homeowners Insurance, Sec. II</p> <ul style="list-style-type: none"> Negligence Limited exclusions Personal vs. Business liability Endorsement for Personal Injury Additional Insured 	<p>Reading: Chapter 21</p> <ul style="list-style-type: none"> HO quiz slideshow Crossword clues, solution, & puzzle
	<p>Automobile Insurance</p> <ul style="list-style-type: none"> Exclusions, extensions, non-ownership (and DOC endorsement), other insurance, limits Underwriting and rating criteria Temporary substitute, newly acquired/replacement Def'n of insured, vicarious liab., permissive user Territory Material misrepresentation 	<p>Reading: Chapter 22</p> <ul style="list-style-type: none"> How can I build and maintain a good credit history? (iii) Practice exam, and True/False
Part Six: Commercial Property and Liability Risks		
	<p>Automobile Insurance and Society</p> <ul style="list-style-type: none"> Valuation and autos Primary/excess-umbrella Transportation/delivery & mobile equipment 	<p>Reading: Chapter 23 (except sections on no-fault)</p> <ul style="list-style-type: none"> Consumer survey (J D Powers); Online Defensive Driving Course listing (TDI) Crossword
	<p>Other Property and Liability Insurance Coverages</p> <ul style="list-style-type: none"> Dwelling Policy Special Form 3 	<p>Reading: Chapter 24 (NOT sections on life/health, title, mobile home, boat, aviation)</p> <ul style="list-style-type: none"> FAIR Plan, MAP, JUA's

	<ul style="list-style-type: none"> • Inland Marine (floaters) • Umbrellas • Flood • FAIR Plan, MAP, JUA, residual and underserved markets • Certificate of Insurance, contractors, bailment statutes 	<ul style="list-style-type: none"> • National Flood Insurance Program (NFIP)
	<p>Commercial Property Insurance</p> <ul style="list-style-type: none"> • 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 	<p>Reading: Chapter 25</p> <ul style="list-style-type: none"> • Commercial risk management strategies • Slideshow • Sample equipment lease • Sample lease of premises agreement • FM Global Business Continuity puzzle • Winter Hazards Control Program (Zurich Risk Engineering - 13 min.) • ISO introduces "green" [re]building endorsement • Wyndham Worldwide case study (see Blackboard resources) • Contingent business interruption (Japanese EQ and subsequent nuclear contamination)
	<p>Commercial Liability Insurance</p> <ul style="list-style-type: none"> • Certificate of insurance • Premises/Operations and Products/Completed Operations • Definitions, conditions, insuring agreement, who is an insured • 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) 	<p>Reading: Chapter 26</p> <ul style="list-style-type: none"> • Slideshow • Katrina & Rita • Umbrella • Construction Risk Management (checklist - AGC of America) (pdf) • Workplace Safety & Health Topics (NIOSH)
	<p>Social Insurance & Workers' Compensation</p> <ul style="list-style-type: none"> • Exclusive remedy • Structure of coverage • Employment dynamics • Dual capacity • Third-Party Over • Positional Risk • Material Safety Data Sheets (example) 	<p>Reading: Chapter 18 (social insurance background and workers' compensation sections only) and Alternative Dispute Resolution (RIMS mag. 10/06)</p> <ul style="list-style-type: none"> • Top Four WC • Puzzle • Guide to W. Comp (for employee) • AIS Research (video) • W/Comp fraud (Blackboard) • Worker Health Chartbook (NIOSH/CDC - 2004) • NIOSH Pocket Guide to Chemical Hazards
	<p>Crime Insurance & Surety Bonds</p> <ul style="list-style-type: none"> • Request for Proposals (Maryland) • Crime insurance in CL 	<p>Chapter 27</p> <ul style="list-style-type: none"> • slideshow: Reida Chapter 27 • crossword for chapters 26 and 27; wordlist, printable grid with clues

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