Introduction to Risk Management & Insurance
R M 357e

Professor: Christopher McClellan
Office: GSB 5.126A, hrs: 2 - 3 PM T & Th
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e-mail address: mcctexas6@gmail.com

Course time, dates: T & Th 12:30-2 PM
Classroom: UTC 4.102
Teaching Assistant: Olga Trofimova
Olga.trofimova@utexas.edu

Syllabus – spring 2012

Textbook


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, articles and slideshows, as well as dates for 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.

- 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 materials may be discussed during class and to that extent included on exams.

**Grading**

Student grades will be determined as follows

a. **In-Class Exams** - three exams (33.3% each)
   - Closed book, true/false, multiple choice, not cumulative. No make-ups.
   - 50% from chapter readings and 50% from class discussions and other readings discussed in class.

b. **Optional Final Exam**
   - Closed book, true/false, multiple choice, cumulative.

c. **Extra Credit**
   - An extra credit project will be offered. Specific information regarding that offering will be provided within the first three (3) weeks.

**Calculation of Course Grades**

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<tr>
<th>Grade</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>A</td>
<td>93-100</td>
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<tr>
<td>A-</td>
<td>90-92</td>
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<tr>
<td>B+</td>
<td>87-89</td>
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<tr>
<td>B</td>
<td>83-86</td>
</tr>
</tbody>
</table>
B-  80-82
C+  77-79
C   73-76
C-  70-72
D+  67-69
D   63-66
D-  60-62
F   0-59%

**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/](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](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](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.

**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](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 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 [http://deanofstudents.utexas.edu/sjs/](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

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.

Calendar

<table>
<thead>
<tr>
<th>DATE</th>
<th>TOPICS</th>
<th>TEXTBOOK</th>
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<tbody>
<tr>
<td>01 / 17</td>
<td>Overview</td>
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<tr>
<td>01 / 19</td>
<td><strong>Introduction to Risk Management Risk in Our Society</strong></td>
<td>Chapter 1</td>
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<tr>
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<td>- Property &amp; liability risks</td>
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<td>- Perils, hazards</td>
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<td>- Direct and indirect loss</td>
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<td>- Pre and post-loss risk management</td>
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<td>- Risk management process basics</td>
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<td>- Law of large numbers introduced</td>
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<tr>
<td>01 / 23</td>
<td><strong>Introduction to Risk Mgmt</strong></td>
<td>Chapter 3</td>
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<td>Client Side: Components of the cost of risk</td>
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<td>- Risk management process and analysis: identification of exposures, hazards; assessment of alternatives, use of forecasting and modeling, spread of risk, diversification</td>
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<td>- Valuing losses to property, legal risk</td>
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<td>- Use of contracts, variety of insurance products</td>
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<td>- Evaluating the costs of a loss and who impacted</td>
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<td>- PML and Retaining risk - client side &amp; insurer side</td>
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<td>- Partnership between parties in commerce, in Insurance</td>
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<tr>
<td>01 / 25</td>
<td><strong>Advanced Topics in Risk Mgmt</strong></td>
<td>Chapter 4</td>
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<tr>
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<td>- Analysis of Strategies for client v. guarantor / insurer Management of physical risk, contract risk</td>
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<td>- Cost of risk, resources - drivers, strategic decision making, ERM</td>
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<td>- Basics of financial side for insurers: Underwriting cycle, Solvency II Capacity, PHS,</td>
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securnization
• Ins regulators: 2 to 1;
• Client & cost of risk: 7:1
• Reserving for losses, loss adjustment expenses (LAE), and unearned premium

01/31

Insurance and Risk

Risk pooling, insurable risks v. hedging Chapter 2
• 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

02/02

Types of Insurers & Marketing Systems

• Distribution systems, supply/demand dynamics Broker, Chapter 5
  agent (independent, exclusive, direct) Stock, mutual,
  reciprocal exchange, Texas Lloyds,
  Lloyds of London
• Admitted, non-admitted
• Excess & Surplus, Umbrella markets
• Captives, Risk Retention Groups

02/07 - 02/09

Insurance Company Operations Chapter 6

• 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

02/14

Exam #1

02/16

Financial Operations of Insurers Chapter 7

• 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

02/21

**Government Regulation of Insurance**

• History of regulation - federal, state - of the “business of
  insurance”
• 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
• Current dynamics - courts, client exposures, regulatory,
  political Reinsurance and Excess & Surplus Lines

02/23 - 02/28

**Fundamental Legal Principles**

• 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

03/01

**Analysis of Insurance Contracts**

• C.O.P.E. and building code / location /
• jurisdiction
• Other Insurance
• Deductibles
• Transfer of Rights of Recovery (Subrogation)

03/06 - 03/08

**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
• Contractual ("assumed") liability
• Diff methods/remedies to resolve disputes
• Tort versus contract - remedies?

03/13 - 03/15

03/15

03/20

Automobile Insurance
• 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
• Etc.....

03/22 - Exam # 2 (will not include Automobile Insurance)

03/27 – 03/29

Automobile Insurance
Con’t. Chapters 22 & 23

04/03 - 04/05

Homeowners Insurance
• Homeowners Policy Form
• Valuation in risk mgmt process Endorsements: RCOC, increased cost Schedule vs. blanket
• Deductible
• Negligence
• Limited exclusions
• Personal vs. Business liability Endorsement for Personal Injury Additional Insured

04/10 - 04/19

Commercial Property Insurance
• 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
• 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)

04/24 - 05/01  **Other Risk Management Stuff As Time Permits**

05/04  **Exam # 3**

05/09 - 05/15  **Final Exams** (exact schedule for this course to be announced)