



Professor: Christopher McClellan
Office: CBA 3.412
Office Hours: M 9:30 – 11:00 AM
Phone: 512.475.6728 / 512.472.4161
E-mail address: utmcclellan@gmail.com

Course days, time: M & W 8:00 – 9:30 AM
Classroom: UTC 3.102
Teaching Assistant: Thomas Jacob
thomaspjacob@utexas.edu

Syllabus – spring 2013

Textbook

Risk Management for Enterprises and Individuals, v.1.0, Baranoff, Etti; Brockett, Patrick Lee; and Kahane, Yehuda -- available at <http://students.flatworldknowledge.com/course/1112649>

Risk Management: 357E. 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 the topics for discussion as well as dates for exams. The textbook readings corresponding to the discussion topics will be posted in advance of class meetings on Blackboard.
- 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 (35% / 35% / 30%)
 - Closed book, true/false, multiple-choice, non-cumulative (*although concepts presented later in the course are built on concepts presented earlier*). No make-ups.
 - 100% from class discussions.
- b. Optional Final Exam
 - Closed book, true/false, multiple-choice, cumulative – replaces the lowest In-class Exam grade.
- c. Extra Credit
 - An extra credit project that can add up to five (5) points to your final grade will be offered. Specific information regarding that offering will be provided within the first several weeks of class.

Calculation Course Grade

| 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% |

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://www.registar.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://www.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.

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.

Policy on Scholastic Dishonesty

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 BBA Program's Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.appx>. 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 the Statement on Scholastic Dishonesty to this class and its assignments is unclear, it is your responsibility to ask me for clarification.

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://www.deanofstudents.utexas.edu/sjs/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the observance of a religious holy day. If you miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the work missed within a reasonable time after the absence.

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

Campus Safety

Please note the following recommendations regarding emergency evacuations from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety>.

- Occupants of buildings on the University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.

- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050.
- Further information regarding evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

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.

[The rest of this page has been intentionally left blank]

CALENDAR

| <u>DATE</u> | <u>TOPICS</u> |
|-----------------------|--|
| 01 / 14 -- 01 / 16 | <u>Overview – What is Risk? / Risk in Our Society</u> <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 |
| 01 / 21 | <u>MLK Holiday</u> – No Class |
| 01 / 23 | <u>Introduction to Risk Management</u> <ul style="list-style-type: none"> • Risk management process and analysis: identification of exposures, hazards; 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 |
| 01 / 28 | <u>Advanced Topics in Risk Management</u> <ul style="list-style-type: none"> • Analysis of Strategies for client v. guarantor / insurer • Management of physical risk, contract risk • Cost of risk, resources - drivers, strategic decision making, ERM • Basics of financial side for insurers: Underwriting cycle, Solvency II Capacity, PHS, securitization • Reserving for losses, loss adjustment expenses (LAE), and unearned premium |
| 01 / 30 -- 02 / 04 | <u>Fundamental Legal Principals</u> <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, lien holders, vendors)
- First party v. third party analysis, waiver & estoppel
- Legal liability: defense expense, economic and non-economic
- damages, exemplary/punitive damages

02 / 06 --
02 / 11

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?

02 / 13

Review

02 / 18

Exam #1 (35%)

02 / 20

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 and 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 / 25

Risk Takers – Financial Service Companies / Insurers / Guarantors

- 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
- 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, AM Best, OPIC
- Loss ratio, rating schemes & classifications, underwriting, exposure units, self-insured retentions

02 / 27 -- **Government Regulation of Risk Takers – Financial Service Companies / Insurers / Guarantors**

03 / 04

- 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,

03 / 06 **Automobile Insurance**

- Exclusions, extensions, non-ownership (and DOC endorsement), other insurance, limits underwriting and rating criteria
- Temporary substitute, newly acquired/replacement
- Definition of insured, vicarious liability, permissive user
- Territory
- Material misrepresentation

03 / 11 **Spring Break**

03 / 13 **Spring Break**

03 / 18 **Automobile Insurance con’t.**

03 / 20 **Real Property / Homeowners Insurance**

- Policy Form
- Valuation in risk mgmt process Endorsements: RCOC, increased cost Schedule vs. blanket
- Deductible
- Negligence
- Limited exclusions

03 / 25 **Review**

03 / 27 **Exam #2 (35%)**

04 / 01 -- **Supply Chain Risk Management**
04 / 03

04 / 08 -- **Enterprise Risk Management**
04 / 10

04 / 15 -- **Case Study – Manufacturing Company**
04 / 17

04 / 22 **Case Study – Financial Services Company**

04 / 24 **Review**

04 / 29 **Exam #3 (30%)**

05 / 01 **Review**

05/08 - **Final Exam (exact schedule for this course to be announced)**
05/14