

# Introduction to Risk Management & Insurance R M 357e

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Phone: 475-6728

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

Classroom: UTC 4.104

Syllabus - spring 2011

calendar

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## 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 <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 "<u>Calendar</u>" 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 <u>VIP sessions</u> 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
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 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 <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 guizzes 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 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 day's 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
Part One: Introdu	ction to Risk Management	
	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  • Fire Slideshow  • Austin City Limits Festival  • Other Resources: Online quiz  • Thermographic survey (HSB 2009)
	Insurance and Risk  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  • 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  Client Side: Components of the cost of risk Risk management process and analysis: (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 insurance	Reading: Chapter 3  • 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)

#### Advanced Topics in Risk Mgmt Reading: Chapter 4 Analysis of Strategies for client v. insurer Chapter Four o Management of physical risk, contract Underwriting cycle • Quiz ~ T/F o Cost of risk, resources - drivers, strategic Traveler's Settles Asbestos-related Claims; decision making, ERM • The Hartford - Calculate Your Total Cost of Risk Worksheet and · Basics of financial side for insurers: Prioritizing Losses (Frequency and Severity) Underwriting cycle, Solvency II • State of ERM - 2006 (Willis)(skim) o Capacity, p/h surplus, securitization Running with Risk heat map o Ins regulators: 2 to 1; · Corporate Risk Management (skim) o Client & cost of risk: 7:1 SwissRe's Sigma's o Reserving for losses, loss adjustment • Overview for 2006 (skim) expenses (LAE), and unearned premium • British Petroleum, Texas City, 2005 and <u>Texas City 2005 – Chemical Safety Board review</u>(key lessons: 51.37) Part Two: The Private Insurance Industry Types of Insurers & Marketing Systems Reading: Chapters 5 · Distribution systems, supply/demand dynamics Chapter 5 • Broker, agent (independent, exclusive, direct) Business of Insurance - strategic decisions chart • Stock, mutual, reciprocal exchange, Texas • Marsh update incl. OIL (07/06) Lloyds, Lloyds of London • Glossary of insurance terms (III) • Admitted, non-admitted "What is Surplus Lines Insurance?" (Swett & Crawford) Excess & Surplus, Umbrella markets · Captives, Risk Retention Groups Insurance Company Operations Reading: Chapter 6 · Pricing, use of application & loss history, Chapter 6 The New Normal of Business and Insurance (Hartwig, III) · Documents - binder, loss report, proof of loss, • Commentary on First Quarter 2009 Results (Hartwig, III) Catastrophe Insurance Issues (9/2008-III) Loss Control - prevention, reduction/mitigation FM Global Nat Cat Study Reinsurance - use, cost, alternatives SwissRe: US Property & Casualty Quarterly (July '09) · Investments and capital markets Natural Catastrophe Stress Test methodology (Blackboard) • Challenges of markets, tort reform, investment Insurance, security in place as 2010 World Cup kicks off (Business income and ROI Insurance - June 2010 · Roles of production, underwriting, claims- "Macroeconomics and the Impact on Capital Allocation and Earnings handling 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) Financial Operations of Insurers Reading: Chapter 7 · Convergence of financial services - insurance <u>Convergence of Insurance and Capital Markets</u> (World Economic and banking, securities Forum (2008) · Rating and classification systems Rate filing when using modeling · FACTS book: stats, lines of coverage, where Setting Realistic Reserves -- Projecting the Company's Future premium dollar goes, who writes what **Obligations** · NAIC and TDI, A M Best, OPIC Loss Reserving (KPMG, p. 46+) · Loss ratio, rating schemes & classifications, World Catastrophe Reinsurance Market 2010 underwriting, exposure units, self-insured retentions Government Regulation of Insurance Reading: Chapter 8 · History of regulation - federal, state - of the • Slideshow "business of insurance" (defined page 20) A Brief History (III) Advisory organizations, rating bureaus, data crossword sharing, exchange of underwriting information Surplus lines and non-admitted markets • Taxation policy, licensing policy, domiciles v. P & C Market Overview SwissRe (12/2005) off-shore • Sales and claims handling practices, Unfair claims practices, market conduct and compliance (Texas Ins. Code) Reinsurance o Current dynamics - courts, client exposures, regulatory, political o Reinsurance and Excess & Surplus Lines (E & S) markets Part Three: Legal Principles in Risk & Insurance Reading: Chapter 9 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,	Slideshow     Waiver & sample Assumption of Risk- Sierra Club     "The Loss of the Certainty Effect"
	subrogation  • First party v. third party analysis, waiver & estoppel	
	Analysis of Insurance Contracts	Reading: Chapter 10
	C.O.P.E. and building code / location / jurisdiction Other Insurance Deductibles	• COPE (see <u>Safety</u> )
Dort Five Dergers	Transfer of Rights of Recovery	
Part Five: Persona	Il Property and Liability Risks The Liability Risk	Reading: Chapter 19
	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?	Slideshow     Sample event agreement (Westin Bonaventure)     Auditors and privilege     Tort Excess     AAIS Update
	Homeowners Insurance, Sec. I	Reading: Chapter 20
	<ul> <li>Homeowners Form 3</li> <li>Valuation in risk mgmt process</li> <li>Endorsements: RCOC, increased cost</li> <li>Schedule vs. blanket</li> <li>Deductible</li> </ul>	HO cookie slideshow     Sustainability and Disaster Risk Financing: Swiss Re     CEA: Transforming Earthquake Insurance
	Homeowners Insurance, Sec. II	Reading: Chapter 21
	Negligence     Limited exclusions     Personal vs. Business liability     Endorsement for Personal Injury     Additional Insured	HO <u>quiz slideshow</u> <u>Crossword clues</u> , <u>solution</u> , & <u>puzzle</u>
	Automobile Insurance	Reading: Chapter 22
	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	How can I build and maintain a good credit history? (iii)     practice exam, and <u>True/False</u>
Part Six: Commerc	cial Property and Liability Risks	
	Automobile Insurance and Society	Reading: Chapter 23 (except sections on no-fault)
	Valuation and autos     Primary/excess-umbrella     Transportation/delivery & mobile equipment	Consumer survey (J D Powers);     Online Defensive Driving Course listing (TDI)     Crossword
	Other Property and Liability Insurance Coverages	Reading: Chapter 24 (not sections on life/health, title, mobile home, 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>	• <u>FAIR Plan</u> , MAP, JUA's

	Certificate of Insurance, contractors, bailment statutes	
	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	Reading: Chapter 25  • 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
	Commercial Liability Insurance  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)	Reading: Chapter 26  • Slideshow • Katrina & Rita • Umbrella • Construction Risk Management (checklist - AGC of America) (pdf)
Indated 1 / 11 / 201	Social Insurance & Workers' Compensation  • Exclusive remedy • Structure of coverage • Employment dynamics • Dual capacity • Third-Party Over • Positional Risk • Material Safety Data Sheets (example)	Reading: Chapter 18 (social insurance background and workers' compensation sections only) and Alternative Dispute Resolution (RIMS mag. 10/06)  • 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

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