



The University of Texas at Austin
McCombs School of Business
Managing International Risk
RM 395.7, FALL 2012
Unique Number 04290
T Th 2-3:30 PM
GSB 3.130

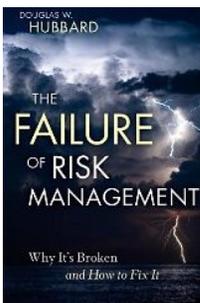
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Required Text: *Risk Management and Insurance Perspectives in a Global Economy*
by Harold Skipper and W. Jean Kwon,
Blackwell Publishing



Required Text: *The Failure of Risk Management: Why It's Broken and How to Fix It*
by Douglas W. Hubbard,
John Wiley and Sons, Publishing

Course Description

When we think of large risks faced by global companies, we often think in terms of natural hazards such as hurricanes, earthquakes, tsunamis, or tornados. Perhaps also man-made disasters come to mind—such as the terrorist attacks that occurred in the U.S. on September 11, 2001, or internet security breaches causing huge financial losses, or the BP

Gulf oil spill, or the man-enhanced damages occurring in the nuclear power plant after the 2011 Japan earthquake and tsunami. Often overlooked however, are important systemic risk such as those brought dramatically to our attention by the financial crises, precipitated by the credit crisis of 2008, the effects of which are still being felt. These types of man-made disasters have the potential to devastate the global marketplace and affect businesses worldwide. Losses in multiple trillions of dollars and much human suffering and insecurity are already tallied up. The world is now so fundamentally connected that regional disasters can no longer be contained locally. Risks are now intrinsically international. A fire in a manufacturing plant in Germany can affect the production (supply chain) of companies in the USA and worldwide. Ill designed risk management and reward structures can set off events that touch the entire global economy. As we shall discuss, a basic lack of risk management (and regulators' inattention or inability to control these overt failures) lay at the heart of the global credit crisis. Companies and regulators ignored (and thereby increased) some major risks. The investment banking industry had inadequate risk recognition and management, and the impact was international. How was risk in this situation so badly managed? What could firms and individuals have done to protect themselves? How can government measure such risks (beforehand) to regulate and control them? These and other topics related to the management of international risks will be one of the subjects of this class. A major component of our analysis of risk management failure will be encapsulated by the student led group presentations and discussions of chapters from the book *The Failure of Risk Management: Why It's Broken and How to Fix It*. Additional material and background will be obtained from the book *Risk Management and Insurance Perspectives in a Global Economy*.

This course will focus on considerations in, and influences on, international risk management. An important first step in this is the understanding of what we mean by risk and how people interpret it and make decisions in light of it. Accordingly, we will discuss basic risk and crisis management principles pertinent to multinational firms, including financial, legal and cultural cross-national differences that impact corporate risk management strategies; and specific multinational risk transfer marketplaces (e.g., reinsurance markets, captive offshore insurance companies, foreign exchange markets, derivatives markets, etc.). These strongly affect the traditional corporate structure and risk management process. Such topics as terrorism risk and cyber risk and security precautions will also be discussed from a business (as opposed to social or political) perspective. We shall consider the benefits associated with a firm having an enterprise wide approach to risk management, as opposed to managing risks solely within functional area silos.

Briefly stated, there are five broad but integrated topic areas for this course.

1. The course will first analyze the tasks, challenges, and obstacles facing the risk manager of a multinational firm or anyone else charged with obtaining a competitive "risk adjusted rate of return" on invested capital in the global economy. In this we will discuss financial risk management as well as the quantification of risk and the psychology of risk.

2. We will examine the nature of risk management in different areas of the world, and the different nature of the risks faced in different areas.
3. The course is designed to provide awareness that economic, political, cultural, legal, and social systems affect the successful management of risks facing both people and organizations. This will entail discussions of such topics as political risk, terrorism risk, expropriation risk, export credit risk, differences in conditions insurance, foreign exchange rate risk, kidnap and ransom risk and insurance, and other risks.
4. Next, attention will be given to the changing nature of risk management activities in an increasingly international arena, and the international nature of such risks as electronic security risks, financial risks, and environmental risk exposures faced by corporations. International economic concepts related to this goal will consequently be discussed. Outsourcing risk will be discussed here.
5. Financial concepts such as no arbitrage pricing and return on capital will be used to assess enterprise wide opportunities as well as enterprise wide risks. Enterprise risk management is the wave of the future, with AIG serving as the poster-child for what can happen when a company fails to implement risk management at the enterprise rather than the individual business unit level of operation (one unit of the company brought down the whole company).

Brief Summary of Lecture Topics and Order

1. A basic overview of risk management and review of the history and importance of risk management activities to the global economy and corporate financial structure (Chapter 1, handout, and possible guest lecturers).
2. How the public perceives risk and risk communication (Chapter 2, 4, and videos)
3. Discussion of the failure of risk management and how to fix it
Here the students will break into groups and make presentation from the book (PowerPoint lecturers) and lead class discussions.
5. The Structure of Risk Pooling and Insurance Internationally. The nature and determinants of demand and supply for risk transfer internationally, the role of government and society in risk management. (Chapter 4)
6. Alternative Risk Financing Methods. (From Chapters 13, 14 and handouts)
7. Governmental Intervention into Risk Transfer Markets. Rationales for intervention, regulation, intergovernmental organizations, and taxation. New regulations in the aftermath of the financial crisis.
8. Catastrophe Risk Assessment and Handling Catastrophic Risks. This will include weather risk associated with global climate change, environmental risk, geological risks, and how to manage in preparation for and respond to such risks (From Chapters 5, 6 and handouts on crisis management)
9. Supply Chain Risk
10. Enterprise Risk Management. (Chapter 12)
11. Political Risk (Chapter 17 and handouts)

Your final grade will be determined as follows:

<u>COMPONENT</u>	<u>PERCENT</u>
Homework, attendance and class participation	5%
Group Presentation of “ <i>Failure of Risk Management</i> ” chapters	20%
The group’s class presentation will count 50% of this assignment which will be a common grade for all members in the group, 25% will be a written group summary of the assigned chapters, and 25% will be intra-group anonymous participation assessment by group members of the other group members participation (so no one blows it off and is just a free rider)	
Two Examinations worth 25% each	50%
Research Paper	25%

Homework will include a written summary of all the guest speakers’ presentations as well as assigned homework and any assigned group work.

Term Paper Description

The term paper will be on a topic of your choice related to managing risk in an international setting, or a comparison of risk handling in different international cultures or areas of the globe, or a case study in the management of international risk in an actual company or industry. While the paper topic is of your choice, it should not be merely an “overview” or “encyclopedia” paper, but rather should address some issue of current interest or controversy (e.g., products liability exposure differences across the world and its impact on outsourcing viability, international supply chain risk management, comparison of privatization of social security versus governmental based pension systems in developed countries, the impact of longevity risk on the solvency of corporations and governments, ethical issues associated with international contracting, the effect of intellectual property rights differences among countries and their impact on the competitiveness of the multinational industries, environmental risk management issues, risk related implications of the coming transition to international accounting standards, etc.). I will post a list of potential topics to Blackboard, and I will distribute examples of “A” papers from previous classes later in the semester. You may (and I encourage you to), however, choose a topic of your interest if you have one (e.g., you might choose kidnapping and ransom insurance if you have a particular interest in this, or the transition to international accounting standards (and the corresponding impact of this on risk disclosure) if interested in this, or pandemic risk management, or fraud detection, or military risk analysis issues, or cyber risk in the health care industry).

The paper itself will be twelve to fifteen pages long (excluding the works cited page) with a minimum of eight references used and cited in the text. The bibliography must have majority of references which are from either academically valid journals or books, or from reputable newspaper magazines (*Newsweek, Time, Business Week, the Economist, etc.*, although these may be taken from the online versions). Unauthenticated internet sources are acceptable in some circumstances, but cannot constitute the bulk of your references,

and it is your responsibility to check the truth of the statements found if not using a reviewed web-site. Blogs are notoriously prone to errors in facts, and this is to be an “academic” research paper and not an opinion piece. **Format, grammar and structure will count.** There must be sectioning, paragraphs, etc. See a style manual such as MLA if you are uncertain as to style. The graduate writing center in Jester Hall or the undergraduate writing center in the Flawn Center will be useful to you in completing this and I strongly urge you to use this resource.

Further Specifics on the Research Paper.

The paper should be written as an academic research paper, with titles, section headings, appropriate paragraphing, an introduction (stating your thesis), and a conclusion section. Margins should be reasonable (1 inch), and a 10-12 point font used. Look to your cited references for a format template. The *Journal of Risk and Insurance* format is a very appropriate format to emulate.

Plagiarism will not be tolerated. Any borrowed ideas, quotes or figures used in the paper must be referenced by authors’ last names and year of publication. For example, “RIDITs represent a very old idea and are closely related to distribution free methods” (Bross 1958, p19). If you turn in a paper without proper referencing, you will be severely marked down (at least one letter grade e.g., an A to an A-). The references in the reference section are to be listed alphabetically by last name of the first author. Examples are given below.

- **Books**

- **One author:**

- Koerner, Joseph Leo. 1993. *The Moment of Self-Portraiture in German Renaissance Art*. Chicago: University of Chicago Press.

- **More than one author:**

- Cowlshaw, Guy, and Robin Dunbar. 2000. *Primate conservation biology*. Chicago: University of Chicago Press.

- **Editor(s) or compiler(s):**

- Panjer, Harry H., eds. 1998. *Financial Economics: With Applications to Investments, Insurance, and Pensions*. Schaumburg, Ill: The Actuarial Foundation.

- **Company or organization as author:**

- Blue Cross and Blue Shield of Michigan (BCBSM). 1987. “Participating Hospital Agreement.” Detroit: BCBSM. [Citation in text would read: (BCBSM 1987)]

- U.S. Prospective Payment Review Commission (ProPAC). 1991. *Annual Report to Congress*. Washington, DC: U.S. Government Printing Office. [Citation would read: (ProPAC 1991)]

- **Parts of books (articles in an anthology, chapters, introduction, etc.):**

- Twaddell, W. Freeman. 1957. A note on Old High German umlaut. In *Readings in linguistics I: The development of descriptive linguistics in America, 1925-56*. 4th ed. Edited by Martin Joos. Chicago: University of Chicago Press.

- **Journals**

Brown, Robert L., Robin Damm, and Ishmael Sharara. 2001. "A Macro-economic Indicator of Age at Retirement," *North American Actuarial Journal* 5(2): 1-10.

- **Magazines and Newspapers**

- **With an author:**

- Cynthia Schreiber, "Overture, EarthLink Decline in New-Stock Selloff," *The Wall Street Journal*, 11 July 2003, Money and Investing section.

- **Without an author:**

- *Euroweek*. 1997. "CSFB, Winterthur Storm Swiss CB Sector with First Catastrophe-Linked Bonds," (Jan. 17): 5.

- **Working Papers, Technical Reports, and Ph.D. Dissertations:**

- Amundin, M. 1991. Click repetition rate patterns in communicative sounds from the harbour porpoise, *Phocoena phocoena*. Ph.D. diss., Stockholm University.

- **Personal Communications:**

- Rich, Colonel William. Interview by author. Tape recording. Boston, Mass., 3 March 2001.

- **Online References (use date citation was found):**

- Individual Life Insurance Experience Committee (ILFEC). 2001. "Report of the ILFEC: Mortality Under Standard Individually Underwritten Life Insurance between 1990 and 1991 Anniversaries," *Transactions of the Society of Actuaries*. Online at <http://www.soa.org/research/91ilreport.html>.

Note: When quoting material from another publication, you must include the page number(s) of the quote in the citation (Smith 2001, p. 20). **You must have references in the body of the paper.** Every paper in the references should appear in the text, and vice versa.

I will check for plagiarism!!!

Academic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic 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 class, 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 in any way, it is your responsibility to ask me for clarification. Policy on 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. If you use words or ideas that are not your own you must cite your sources. Otherwise you will be guilty of plagiarism. Plagiarism is considered to be academic dishonesty. Examples will be given in class.

Class Web Sites and Student Privacy

In order to keep you apprised of all course information easily, and so you can monitor your test results quickly, this class will use a Blackboard Website. To access the site, go to <http://courses.utexas.edu>. The site is password-protected. You will be asked to enter your UTEID to enter. Alternatively, enter UTDirect and follow the links for Academic Services and Course Web sites. The syllabus and project information will be posted to Blackboard, <http://courses.utexas.edu/>, under “Assignments”. In addition, test grades will be posted to Blackboard so that at any point in the semester you can access your current grade status. Other site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. Class e-mails will also be sent to you through Blackboard to update any class information, including guest speakers. Therefore, it is very important that you maintain correct, current email information with the University, as it is your University information that Blackboard uses. It is your responsibility to check your e-mails in a timely manner and check Blackboard for new postings. Your professors cannot update your UT e-mail. You must do that directly with UT, and if your e-mail is not current with UT centrally, you will not get updates and certain class handouts before class since class e-mail rosters are a component of the site. Students who do not want their names included in this electronic class roster 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/> The following link provides the complete University policy on the use of e-mail. <http://www.utexas.edu/its/policies/emailnotify.html>.

Students With Disabilities

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

Cell Phones and Computers.

Cell phones must be put away during class and computers may be used only for note-taking. Students who use gizmos for non-class related activities may be marked absent and asked to leave for the remainder of that class as the class discussion is an important component of the learning experience.

Religious Holy Days

A student who will miss classes or other required activities, including examinations, for the observance of a religious holy day should inform me as far in advance of the absence as possible, so that arrangements can be made to complete any missing assignment within a reasonable time after the absence.

Managing International Risk Day by Day Schedule
 Dr. Patrick L Brockett RM 395.7

Fall 2012

You are to have prepared the assignment listed below for a given day prior to coming to class (except for the first day). You may be called on at random in class discussion and there will be occasional in-class group discussions. All assignments for a given day are due at the start of class. Please read the textbook material before coming to class, so you will have a frame-of-reference for the in-class discussions and material.

NOTE: The following schedule is subject to change depending on circumstances (e.g., guest lecturer availability on certain days)

DATE	LECTURE TOPIC	ASSIGNMENT
Thursday, August 30	Introduction to the Course, Hand out the syllabus. Very short class	READ Chapter 1 of B&S for next class period. Read Summary Overview of Basic Risk Management from Blackboard
Tuesday, September 4	The nature of risk, introduction to Risk Management techniques and practices, steps in the risk management process.- Discussion of Research Paper.	HW: Start investigating what topic to choose for your research paper. Look over the list of potential topics posted on Blackboard
Thursday, September 6	Continued discussion of risk management methods	Read Chapter 2 and Chapter 4 p. 101-108, Read p. 281-283
Tuesday, September 11	Risk Perception and Risk Communication	
Thursday, September 13	Risk Perception and Risk Communication	READ handouts on cyber risk management for enterprises and on m-commerce risk posted to BlackBoard
Tuesday, September 18	Discussion of cyber-risk for corporations, social media risk and m-commerce risk. Students will be split into 4 groups and each will be responsible for 3 chapters of "The Failure of Risk Management" presentation and discussion	READ Chapter 3. Select a topic for your research paper. Get together with your group to organize.
Thursday, September 20	Video on risk communication and perception	Write up summary of video to be turned in next class period TOPIC OF RESEARCH PAPER DUE IN CLASS AND BY EMAIL Read Chapter 1-3 of FRM
Tuesday, September 25	Group 1 presents Ch 1-3 of FRM	Read Chapter 4-6 of FRM
Thursday, September 27	Group 2 presents Ch 4-6 of FRM	Read Chapter 7-9 of FRM
Tuesday, October 2	Group 3 presents Ch 7-9 of FRM	Read Chapter 10-12 of FRM

Thursday , October 4	Group 4 presents Ch 10-12 of FRM	READ Chapter 5
Tuesday , October 9	Catastrophic Risk Assessment: Natural hazards	READ Chapter 6
Thursday , October 11	Catastrophic Risk Assessment: Human risks:	READ Chapter 15
Tuesday , October 16	Managing Catastrophic Risk	Study for Exam 1 (covers all material up to end of class 10/16)
Thursday , October 18	EXAM 1	READ Chapter 12
Tuesday , October 23	Go over exam. Introduction to Enterprise Risk Management	READ Chapter 13 Abstract of paper and 5 reference citations due in class and by email.
Thursday , October 25	Enterprise Risk Management- Internal loss financing	READ Chapter 14
Tuesday , October 30	Enterprise Risk Management- External loss financing	READ Chapter 17
Thursday , November 1	Political Risk, expropriation and nationalization risk	READ handouts on political risk and kidnapping and ransom insurance
Tuesday , November 6	More on political risk, kidnapping and ransom insurance	READ chapter 18
Thursday , November 8	Intellectual property and technological risk	READ Chapter 19, 24
Tuesday , November 13	The role of government, insurance and risk pooling in the global handling of risk	Study for exam
Thursday , November 15	EXAM 2	
Tuesday , November 20	Work on research paper	
Thursday , November 22	THANKSGIVING	Enjoy! <i>Happy Thanksgiving</i>
Tuesday , November 27	Supply Chain Risk Management	READ Handout on supply chain risk
Thursday , November 29	Financial Services Integration, the financial crisis , research paper presentations	Finish research paper
Tuesday , December 4	RESEARCH PAPER DUE. Student Presentations of Research papers	Prepare 4 minute overview of your research paper to present from your seat in class
Thursday, December 6	Student Presentations of Research papers	