

CALIFORNIA STATE UNIVERSITY, FULLERTON
MIHAYLO COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF FINANCE
(657) 278-2217
Fall 2011
FIN 560 Course Outline

Course: Corporate Risk Management and Insurance Seminar (FIN560)

Instructors: Dr. Xiaoying Xie

SGMH 5150

(657) 278-5389

xxie@fullerton.edu

Office Hours: T 1:30-2:30pm, or by appointment

Class Information and Final Exam Schedule

Section	Days	Class Time	Classroom	Final Exam Date	Final Exam Time	Final Exam Room
1 (16424)	M	7:00- 9:45P	SGMH2307	12/12 (M)	7:30-9:20pm	SGMH2307

Textbook

Scott E. Harrington, and Gregory R. Niehaus, *Risk Management and Insurance*, 2nd edition, 2004, published by McGraw-Hill/Irwin. ISBN: 978-0-07-233970-3

Recommended Books

Christopher L. Culp, *Structured Finance & Insurance: The Art of Managing Capital and Risk*, 2006, published by John Wiley & Sons, Inc. ISBN: 0-471-70631-0.

Peter L. Bernstein, *Against the Gods: The Remarkable Story of Risk*, 1996, published by John Wiley & Sons, Inc. ISBN 0-471-12104-5.

Robert J. Shiller, *The New Financial Order: Risk in the 21st Century*, 2003, Princeton University Press, ISBN 0-691-09172-2.

Required Readings

Please see page 9.

Course Description

The course is designed for MBA students with a focus on risk management and insurance. The course considers how risks are managed with diversification, capital structure, loss control, and corporate governance, and how they are financed with commercial insurance contracts and alternative risk management contracts such as

insurance-linked securities and weather derivatives. The intent is to analyze a specific set of market tools and instruments that have been created to enable corporations to manage pure risks, including catastrophic risk securities and other insurance-linked securitizations. Case studies that synthesize the risk management perception will be discussed.

Course Objectives

After completing this course a student will be able to:

- 1) Understand the fundamental theories of corporate risk management;
- 2) Understand how firms can use insurance and other hedging instruments to manage pure risks;
- 3) Understand the developments and trends in the insurance market that facilitate or impede risk management through traditional insurance products, as well as new instruments that are available;
- 4) Qualify for a management career in an insurance company or other corporations; and
- 5) Assist students or industry employees in obtaining CPCU or ARM certificates that are essential for an underwriter or risk manager career.

Prerequisite

Finance 517 or permission from the instructor.

Course Policy

1. Teaching Method: Lectures and Discussions

Chief risk officers of large corporations and executives of insurance companies will be invited to give presentations on their risk management strategies and product analysis. Interaction with the instructor, guest speakers, and fellow students is required.

2. Group Project:

This class requires students to conduct one major group project. The project requires students to work with a corporation to develop a risk analysis of the downside risks the firm might face. Groups will estimate the firm's demand for insurance and design an optimal risk management strategy for the firm using available tools in the market. An optional topic is also available (for details see "Group Project" on page 7).

3. Exams:

There will be three quizzes, one mid-term exam, and one final exam. **It is the responsibility of students to read the textbook and any other reading materials. The key to success in the exams will be to read the textbook and reading materials thoroughly and work on the assigned problems after each lecture.**

4. Grading:

A. Grading Weight

Group Project	30%
Three quizzes total	12% (4% each quiz)
Midterm	16%
Final	32%
Class Participation	10%
<hr/>	
	100%

The course grade will be determined mainly by the exams, quizzes, class involvement, and the effort put forth on the group project. The instructor reserves the right to normalize the course grade distribution for a reasonable distribution. The plus/minus grading scale will be used by the instructor in the final course grade. The participation grade will be based not only on in-class participation but also on the student's contribution to class discussions. Participation in CIS symposiums will be considered extra credit, with a maximum of 2 points.

B. Grading Scales

<u>Course Grade</u>	<u>GPA</u>	<u>Percentage</u>
A+	4.0	98-100
A	4.0	94-97
A-	3.7	90-93
B+	3.3	88-89
B	3.0	84-87
B-	2.7	80-83
C+	2.3	78-79
C	2.0	74-77
C-	1.7	70-73
D+	1.3	68-69
D	1.0	64-67
D-	0.7	60-63
F		less than 60%

5. **Note:** There will be **no make-up exams, and no computer or electronic equipment will be allowed in exams.**

Do remember to keep all graded assignments and exams returned to you so that any discrepancies can be easily and fairly straightened out.

6. Withdrawal policy: Conforms to the CSUF withdrawal policy

7. Academic Dishonesty: Conforms to the official CSUF policy (<http://www.fullerton.edu/senate/PDF/300/UPS300-021.pdf>)

The Department of Finance requires that students engaging in academic dishonesty receive a grade of F. In addition, Department policy requires that all individuals engaging in academic dishonesty be reported to the Vice President of Student Affairs.

Academic dishonesty takes place whenever a student attempts to take credit for work that is not his/her own or violates test-taking rules. Examples of academic dishonesty during test-taking include looking at another student's work, passing answers among students, or using unauthorized notes. When students sitting next to each other have identical answers, especially the same mistakes, this may indicate academic dishonesty. Examples of academic dishonesty on out-of-class projects include submitting the work of others or quoting directly from published material without footnoting the source. If there are any questions about the proper use of outside sources, students should consult with the professor.

8. Attendance: Attendance is vital to class participation and will be taken and used in determining the final grade. Absences for which a medical or court excuse is provided (professional letterhead required) will be recorded but not figured in the attendance grade. Likewise, **one** absence for which **advance** notice is given by phone or in person will not be figured in the attendance grade. *Any significant tardy or early departure from class will be figured as half an absence.*

Special Needs

The University requires students with disabilities to register with the Office of Disabled Student Services (DSS), located in UH-101 and at (657) 278-3117, in order to receive prescribed accommodations appropriate to their disability. Students requesting accommodations should inform the instructor during the first week of classes about any disability or special needs that may require specific arrangements/accommodations related to attending class sessions, completing course assignments, writing papers, or with quizzes/tests/examinations.

Link: <http://www.fullerton.edu/disabledservices/>

(Email: dsservices@fullerton.edu)

University Emergency Policy

Link: http://www.fullerton.edu/emergencypreparedness/ep_students.html

EMERGENCY CALLS

DIAL 9-1-1: All campus phones and cell phones on campus reach the University Police Department;

Non-emergency line: (657) 278-2515.

Mihaylo College of Business and Economics Assessment Statement

The main purpose of the degree program at the Mihaylo College of Business & Economics (College) at Cal State Fullerton is to provide you with the knowledge and skills that prepare you for a successful career in business. In order to assist us in achieving this goal, we will use a number of assessment tools to track your progress throughout the College curriculum. Please expect to participate in College assessment activities in several of your courses while at CSU, Fullerton. As you do so, you will assist us in identifying our program's strengths and weaknesses as well as areas for potential improvement. In other words, you are making an important investment in the value of your degree.

Course Schedule (tentative):

<u>Time</u>	<u>Date</u>	<u>Topic</u>	<u>Chapter</u>
Week 1	<u>8/22</u>	Overview of Risk and Risk Management	Ch. 1&2
Week 2	<u>8/29</u>	Risk Identification and Measurement	Ch. 3
		Risk Pooling and Diversification of Risk	Ch. 4
<i>Week 3</i>	<i><u>9/5</u></i>	<i>Labor Day, No Classes</i>	
Week 4	<u>9/12</u>	Quiz 1 Insurance Companies: Organization and Management Insurance Regulation Insolvencies, Solvency Ratings, and Solvency Regulation	Ch. 5 Ch. 6 Ch. 7
Week 5	<u>9/19</u>	Insurance Pricing	Ch. 8
Week 6	<u>9/26</u>	Loss Control Legal Liability for Injuries	Ch. 11 Ch. 12
Week 7	<u>10/3</u>	Risk Management and Shareholder Wealth Midterm	Ch. 20
Week 8	<u>10/10</u>	Tax and Accounting Rules Affecting Corporate Risk Management Commercial Insurance Contracts	Ch. 21 Ch. 23
Week 9	<u>10/17</u>	Employee Benefits, Retirement Plans Corporate Liabilities to Different Parties	Ch. 16,17 Ch. 28
Week 10	<u>10/24</u>	Quiz 2 Role of Limited Liability in Influencing Insurance Demand	Ch. 29

Week 11	<u>10/31</u>	Hedging with Reinsurance	Readings
Week 12	<u>11/7</u>	Alternative Risk Transfer	Ch.25 & readings
Week 13	<u>11/14</u>	Quiz 3 Introduction to Securitization Securitization of Catastrophic Risk	Readings Readings
Week 14	<u>11/21</u>	Fall Recess, No Classes	
Week 15	<u>11/28</u>	Weather Risk and Weather Derivatives Credit Risk and Credit Derivatives Group Project Presentation	Readings Readings
Week 16	<u>12/5</u>	Group Project Presentation and Review	
Final Week	<u>12/12</u>	Final Exam (7:30-9:20pm)	

Group Project

Topics

Option1

For this project, a group of students will serve as risk management and insurance consultants for a large corporation and provide the risk manager/owner of the firm with a comprehensive risk management audit. As a result of this project, the group will better understand corporate risk management techniques and gain a better understanding of what risk management is and how it can help an organization better manage its operations and be more resilient to performance and economic changes.

Option 2

Develop a merger & acquisition case in the insurance and financial services industry. The project will include business models of selected companies, motivation for the M&A, transaction details, valuation analysis, post-acquisition integration and risk management strategies, and post-M&A performance. One visit to the selected company, with the advance approval of your instructor, is required.

For details, see the **FIN560 Corporate Risk Management Project Instruction** file.

Important Dates for Group Project

- (1) 8/22-8/29: groups formed
- (2) 9/19: proposal for the group project due

Reading List

1. Gorton, G. (2010). "Questions and Answers about the Financial Crisis." Yale and NBER.
2. Cummins, J.David and M.A. Weiss (2011). "Systemic Risk and the U.S. Insurance Sector." Temple University, Working Paper, Available at SSRN: <http://ssrn.com/abstract=1725512>.
3. Acharya, Viral V., Thomas Cooley, Matthew Richardson, Richard Sylla, and Ingo Walter (2011). "The Dodd-Frank Wall Street Reform and Consumer Protection Act: Accomplishments and Limitations." Journal of Applied Corporate Finance 23 (1):43-56.

4. Stulz, R. M. (2008). "Risk Management Failures: What Are They and When Do They Happen?" Journal of Applied Corporate Finance **20**(4).
5. Smithson, C. and B. Simkins (2005). "Does Risk Management Add Value? A Survey of the Evidence." Journal of Applied Corporate Finance **17**(3).
6. Swiss Re (2002). "An Introduction to Reinsurance (Zurich)."
7. Guy Carpenter. "Reinsurance Market Review 2010."
8. World Economic Forum (2008). "Convergence of Insurance and Capital Markets."
9. Swiss Re (2003). "The picture of ART."
10. Swiss Re (2006). "Securitization – new opportunities for insurers and investors."
11. Guy Carpenter (2007). "The Catastrophe Bond Market at Year-End 2006."
12. Guy Carpenter (2008). "The Catastrophe Bond Market at Year-End 2007."
13. Cummins, J. D., presentation (2007). "Bancassurance: Mergers & Acquisitions of Insurance Agencies by Banks and Insurers."
14. Cummins, J. D. and P. Trainar (2009). "Securitization, Insurance, and Reinsurance." The Journal of Risk and Insurance **76**(3): 463-492.
15. Cummins, J. D. and M. A. Weiss (2009). "Convergence of Insurance and Financial Markets: Hybrid and Securitized Risk-Transfer Solutions." Journal of Risk and Insurance **76**(3): 493-545.
16. Muller, A. and M. Grandi (2000). "Weather Derivatives: A Risk Management Tool for Weather-Sensitive Industries." Geneva Papers on Risk & Insurance: Issues & Practice **25**: 273-287.
17. Zeng, L. (2000). "Weather derivatives and weather insurance: concept, application, and analysis." Bulletin of the American Meteorological Society **81**(9): 2075-2082.
18. Holmstrom, B. and S. N. Kaplan (2003). "The State of U.S. Corporate Governance: What's Right and What's Wrong?" Journal of Applied Corporate Finance **15**(3).
19. Bauguess, Scott, Jim Dunigan, Damien Park, Patrick McGurn, Don Chew, and Ralph Walkling (2010). "Drexel University Center for Corporate Governance Roundtable on Risk Management, Corporate Governance, and the Search for Long-Term Investors." Journal of Applied Corporate Finance **22** (4):59-74.

20. Bugalla, John, Carol Fox, Janice Hackett and Kenneth McGuinness (2011). “How a New SEC Rule Changed the Way Companies Look at Risk Management.” Risk Management, Feb., 2011.

Some Useful URLs Relating to Course Content

<http://www.insurancestock.com/>

<http://www.guycarp.com/>

<http://www.swissre.com/>

<http://www.contingencyanalysis.com/>

<http://www.ambest.com>

<http://www.guaranteedweather.com/>

<http://www.standardandpoors.com/home/en/us>

<http://www.weissratings.com>

<http://www.insure.com/>

<http://www.wrma.org/>

<http://www.rms.com/>

<http://www.erisk.com/>

<http://www.propertyandcasualty.com/>

<http://www.demutualization-claims.com/>

<http://www2.iii.org/international-insurance-fact-book/>

(<http://www2.iii.org/international/toc>)

<http://www.bis.org>

<http://www.marshmac.com/>

<http://www.reactionsnet.com>

<http://www.captiveguru.com>

<http://www.artemis.bm/artemis.htm>

<http://www.deloitte.com/gfsi>

<http://www.insurance.com>

<http://www.insurancetech.com/>

<http://www.ins.state.ny.us/>

<http://www.isda.org>

<http://www.cme.com/prd/wec/monthftr3671.html>

<http://www.derivativesstrategy.com/magazine/>

<http://www.irmi.com/>

<http://www.rims.org>

<http://www.towerswatson.com/>

<http://www.reinsurance.org/i4a/pages/index.cfm?pageid=1> (Reinsurance Association of America)