

CALIFORNIA STATE UNIVERSITY, FULLERTON
MIHAYLO COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF FINANCE
(657) 278-2217

FIN 560 Course Outline

Course: Corporate Risk Management and Insurance Seminar (FIN560)

Instructors: Dr. Weili Lu & Dr. Xiaoying Xie

Dr. Weili Lu

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SGMH 5150

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Class Information and Final Exam Schedule

Section	Days	Class Time	Classroom	Final Exam Date	Final Exam Time	Final Exam Room
1 (19265)	M	7:00- 9:45P	SGMH1307	12/14 (M)	7:30-9:20pm	SGMH1307

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 other alternative risk management contracts such as financial instruments that are used by firms in hedging downside risks such as catastrophic risks. The intent is to analyze a specific set of market 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 theory for 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 risk manager career in other corporations;
- 5) Assist students or industry employees to obtain 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:

The group project requires students to work with a corporation and perform a risk analysis on the types of property and liability risks and downside financial risks the firm might face. Groups will estimate the demand for insurance by the firm 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 two mid-term exams 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.**

4. Grading:

A. Grading Weight

Group Project	30%
Midterm I	15%
Midterm II	15%
Final	30%
Class Participation	10%
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	100%

The course grade will be determined mainly by the exams, 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. The participation in CIS symposiums will be considered as 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; no computer allowed for 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 withdrawal policy of CSUF

7. Academic Dishonesty: Conforms to the official policy of CSUF

(<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 other 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 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>8/24</u>	Overview of Risk and Risk Management	Ch. 1&2
Week 2	<u>8/31</u>	Risk Identification and Measurement Risk Pooling and Diversification of Risk Insurance Companies: Organization and Management	Ch. 3 Ch. 4 Ch. 5
Week 3	<u>9/7</u>	<i>Labor Day, No Classes</i>	
Week 4	<u>9/14</u>	Insurance Regulation Insolvencies, Solvency Ratings and Solvency Regulation Insurance Pricing	Ch. 6 Ch. 7 Ch. 8
Week 5	<u>9/21</u>	Risk Aversion and Risk Management Moral Hazard and Adverse Selection Loss Control	Ch. 9 Ch. 10 Ch. 11
Week 6	<u>9/28</u>	Legal Liability for Injuries Midterm I	Ch. 12
Week 7	<u>10/5</u>	Risk Management and Shareholder Wealth Tax and Accounting Rules Affecting Risk Management Corporate Liabilities to Different Parties	Ch. 20 Ch. 21 Ch. 28
Week 8	<u>10/12</u>	Role of Limited Liability in Influencing Insurance Demand Commercial Insurance Contracts	Ch. 29 Ch. 23

		Hedging with Reinsurance	Readings
Week 9	<u>10/19</u>	Employee Benefits, Retirement Plans, and Social Security	Ch. 16,17,19
Week 10	<u>10/26</u>	Alternative Risk Transfer Analysis Tools Used in Corporate Risk Management	Ch.25 Ch.26
Week 11	<u>11/2</u>	Enterprise Risk Management (D'Arcy Paper) Midterm II	Ch.27
Week 12	<u>11/9</u>	Introduction to Securitization Securitization of Catastrophic Risk	Readings Readings
Week 13	<u>11/16</u>	Weather Risk and Weather Derivatives Credit Risk and Credit Derivatives	Readings Readings
<i>Week 14</i>	<u>11/23</u>	<i>Fall Recess, No Classes</i>	
Week 15	<u>11/30</u>	Cost of Capital Estimation for Insurance Firms Capital Allocation of Insurance Firms Group Project Presentation	Readings Readings
Week 16	<u>12/7</u>	Group Project Presentation and Review	
Final Week	<u>12/14</u>	Final Exam (7:30-9:20pm)	

Group Project

Topics

Option1

Develop a traditional corporate risk management plan for an insurance company as a risk manager. The project report will include the company's current loss identification and insurance situation, risk analysis, risk financing strategy, and most importantly, the student's recommendations.

One visit to the risk management department of the selected company with the advance approval of your instructor is required.

Option 2

Develop a merger & acquisition case in the insurance and financial services industry. The project will include business models of selected companies, motivation of the M&A, transaction details of the deal, 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.

Expectation

During the project the students are expected to:

1. Conduct a survey or interview with a risk manager;
2. Collect information on the company's need for insurance products;
3. Apply corporate risk management principles to a real case;
4. Prepare professional reports and make a power point assisted presentation in class.

Responsibility and Assessment

Student responsibilities for the project and presentation include:

1. A 2-3 page proposal for the project due five weeks after the semester starts;
2. A 30-35 minute, Power Point assisted presentation due the last day of instruction;
3. A 35-40 page, double-spaced, final written report plus references, graph and tables due the day of final examination.

Warning

All the sources of your data, ideas or comments must be very well cited. If it is from the Internet then include the addresses and links. There will be a penalty for the whole group if there is any plagiarism in the written project.

Evaluation

The project will be evaluated according to the following standards:

1. The content of the written report;
2. The thoroughness with which students analyze the client;
3. The clarity and style of the written report;
4. The critical approach applied to the project ;
5. The Power Point assisted presentation.

Note

The overall evaluation will also be influenced by the evaluation from other groups and the optional evaluation from your group members. A group member will receive a higher or lower grade only if at least half of the group members recommend it in a written evaluation. If there is sufficient evidence that a group member made no contribution to the group project, then this person will receive zero credit for the project.

Important Dates for Group Project

- (1) 8/31: form groups in class
- (2) 9/21: proposal for the group project due

Required Reading

1. Swiss Re, 2002, **An Introduction to Reinsurance** (Zurich).
2. Culp, Christopher L., 2006, *Structured Finance & Insurance: The Art of Managing Capital and Risk*, Chapter 23, “**Captives, Protected cells, and Mutuals**”, Pp523-545.
3. D’Arcy, Steve, 2001, “**Enterprise Risk Management**”, *Journal of Risk Management of Korea*, Vol. 12 No.1.
4. RIMS Executive Report, 2009, “**The 2008 Financial Crisis: A Wake-up Call for Enterprise Risk Management**”.
5. Cummins, J. David and Mary A. Weiss, 2009, “**Convergence of Insurance and Financial Markets: Hybrid and Securitized Risk Transfer Solutions**”, *Journal of Risk and Insurance*, forthcoming.
6. Cummins, J. David and Philippe Trainar, 2009, “**Securitization, Insurance, and Reinsurance**”, *Journal of Risk and Insurance*, forthcoming.
7. Muller, Andreas, and Marcel Grandi, 2000, “**Weather Derivatives: A Risk Management Tool for Weather-Sensitive Industries**,” *Geneva Papers on Risk & Insurance: Issues & Practice* 25: 273-287.
8. Zeng, Lixin, 2000, “**Weather derivatives and weather insurance: concept, application, and analysis**,” *Bulletin of the American Meteorological Society* 81, no. 9 (September): 2075-2082.
9. Culp, Christopher L., 2006, *Structured Finance & Insurance: The Art of Managing Capital and Risk*, Chapter 12, “**Credit Derivatives and Credit-Linked Notes**”, Pp.247-265.
10. Cummins, J. David and Richard D. Phillips, 2005, “**Estimating the Cost of Equity Capital for Property-Liability Insurers**,” *Journal of Risk and Insurance*, 72(3): 441-478.
11. Cummins, J. David, 2000, “**Capital Allocation in the Insurance Industry**,” *Risk Management and Insurance Review* 3: 7-28.
12. Cummins, J. David, 2007 presentation, “**Bancassurance: Mergers & Acquisitions of Insurance Agencies by Banks and Insurers**”.

Some Useful URLs Relating to Course Content

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

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

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

<http://www.enterprisere.com>

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

<http://www.ambest.com>

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

<http://www.standardpoor.com/ResourceCenter/Reference/Insurance/>

<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.org>

<http://www.internationalinsurance.org/default.htm> (<http://www2.iii.org/international/toc>)

<http://www.bis.org>

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

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

<http://www.reactionsnet.com>

<http://www.captiveguru.com>

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

<http://dtgfsi.com>

<http://www.insurance.com>

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

<http://www.state.ma.us/consumer/Info/insur.htm>

<http://www.ifb.org/IFRR/ifrr.asp>

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

<http://www.isda.org>

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

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

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