University of Wisconsin – Madison
School of Business
Department of Actuarial Science, Risk Management and Insurance
Summer 2008
RMI 300 – Principles of Risk Management

Professor
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Office Hours: MW 11:30 a.m. – 12:30 p.m. and by appointment

Class Hours: MTWR 8:55a.m. – 11:25a.m.
Class Location: Grainger, Room 1175

Course Description
This course provides an introduction to the different types of risks faced by businesses and individuals along with alternative methods of treating such risks. We will examine applications of these methods with regards to life, health, property, casualty and liability exposures. First, we will gain a clear understanding of risk, the risk management process and risk analysis. Next, we will investigate noninsurance risk management techniques. Then we will discuss insurance with a focus on auto insurance. We will also examine contemporary issues and challenges in risk management and insurance. Time permitting, the ultimate section of the course will cover individual and corporate risk management decision making. This course is designed for non-majors as well as a foundation for more advanced risk management and insurance courses. The course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

Course Objectives
- Teach the principles and terminology of risk management and insurance.
- Explain how corporations and individuals use the risk management process to control or finance their exposure to accidental loss.
- Describe the job opportunities available in the insurance and financial services industry.
- Illustrate the principles and theories of insurance law with a focus on the most widely purchased insurance policy: personal automobile.
- Discuss both ethical and global business issues as they relate to the insurance transaction.
- Explain how life insurance, annuities and health insurance form an integral part of the tripod of economic security.
- Describe the economic problems presented by the insurance transaction, and how the government regulates this transaction.
- Build a foundation of understanding so that some of our society’s most important economic problems can be viewed intelligently.
- Encourage students to present their own analysis in a confident, organized and coherent manner.

Course Materials
- Required: Supplemental readings and documents available from the class web page (CW)
**Academic Integrity**

You are responsible for maintaining the highest standards of honesty and integrity in every phase of your academic career. The penalties for academic dishonesty are severe and ignorance is **not** an acceptable defense. All students must abide by the code of academic honesty of the University of Wisconsin – Madison which is available from the **Office of the Dean of Students** or the following website: [http://www.wisc.edu/students/saja/misconduct/academic_misconduct.html](http://www.wisc.edu/students/saja/misconduct/academic_misconduct.html). You are responsible for informing yourself about these standards before performing any academic work. It is my responsibility to uphold the University’s academic honest policy and report my suspicions of dishonesty to the **Office of the Dean of Students**.

**Attendance**

Class attendance is **strongly** advised as it constitutes part of your class participation grade. If you do not miss any classes for a given exam (regardless of whether the absence is “excused” or “unexcused”), 2 points will be added to your exam grade for that exam. You must sign the attendance sheet that is distributed during each class in order to be counted as present. If you are late for class, leave prior to the end of the class, or have a classmate sign your name, you will not receive credit for attendance and are in violation of the code of academic honesty. Exams will be based primarily on material covered in class including student presentations. Active class participation will improve your grade in borderline cases. Should you miss class for any reason, it is your responsibility to obtain lecture notes from another student.

**Current Events Group Project**

Please see the separate handout for details on the current events group assignment.

**Exam Policy**

There will be two exams during the semester, one midterm and one final exam. The final exam will not be comprehensive. Exams will consist of multiple choice questions, quantitative problems and short answer questions. Exam material will come from lectures, text, and any material distributed in class or through the course web page (see below).

Please do not miss an exam. If you should miss a midterm exam because of a University approved excuse (e.g. written medical excuse), your final exam score will be used as the score for the missed exam.

**Grade Composition**

- Midterm Exam 40%
- Final Exam 40%
- Current Events Presentation and Written Report 15%
- Class Participation 5%

**Grade Scale**

Lower bounds for A, B, C, and D final grades will be no higher than 90, 80, 70, and 60 percent of the total available points, respectively. All other grades (A, B and F) will be determined at the end of the semester based upon the performance of the class. Grades will be curved if necessary.

**WEB Resources**

A course page has been established as a means for me to efficiently administer this class. The web page allows you to obtain a copy of the syllabus, obtain lecture notes, link to other important web pages, etc. You are responsible for accessing the course web page on a regular basis. You may log on to the web page through the following address: [http://courses.bus.wisc.edu](http://courses.bus.wisc.edu).

**Email**

Announcements regarding the class may be sent from me to you via mail. Any announcement sent via email is assumed to be communicated to the entire class. Thus, it is imperative you check your email regularly.

I will answer simple, factual questions via email; however, more thoughtful questions need to be asked during class or office hours. Email is useful for simple communication but is limited in the ability to develop firm understanding of material. Should you need to email me, please type RMI 300 in the subject line. Otherwise, your email may be filtered into junk mail. I will respond to individual emails in a reasonable amount of time.
**Actuarial Science, Risk Management and Insurance (ASRMI) Homepage**

The address for the ASRMI homepage is [http://www.bus.wisc.edu/asrmi/](http://www.bus.wisc.edu/asrmi/). For those interested in the major, you should familiarize yourself with this site. Important dates, events, and announcements related to the ASRMI program appear here, as well as information regarding Career Opportunities, Scholarships, Career Fair, and other important topics.

**Special Needs**

Any student who feels that he or she may need an accommodation for a disability of any sort should consult with me as soon as possible so that appropriate arrangements may be made.
Additional material, such as handouts, notes, announcements, etc., should be retrieved from the course web page prior to class. Please come prepared.

*The schedule is subject to change. Actual depth of coverage will depend on available time.

**Risk and Risk Management Problems**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Chapter References</th>
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<tbody>
<tr>
<td>Introduction to Risk</td>
<td>Chapter 1, 2 (HN)</td>
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<td>Risk Identification and Evaluation</td>
<td>Chapter 3, 26.1-26.3 (HN)</td>
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<tr>
<td>Property and Liability Loss Exposures</td>
<td>Chapter 12 (HN)</td>
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**Risk Management Techniques: Noninsurance and Insurance Methods**

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<th>Topic</th>
<th>Chapter References</th>
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<tr>
<td>Noninsurance Risk Management Techniques</td>
<td>Chapter 11, 22.1, 25.4 (HN)</td>
</tr>
<tr>
<td>Risk Pooling</td>
<td>Chapter 4 (HN)</td>
</tr>
<tr>
<td>Insurance as a Risk Management Technique</td>
<td>Chapter 10 (HN)</td>
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<tr>
<td>Functions and Organization of Insurers</td>
<td>Chapter 5 (HN)</td>
</tr>
<tr>
<td>Adverse Selection and Asymmetric Information</td>
<td>Akerlof, 1970 (HO), Insurance Market</td>
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**Individual and Corporate Risk Management Decision Making**

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<th>Topic</th>
<th>Chapter Reference</th>
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<tr>
<td>Risk Management for Auto Owners</td>
<td>Chapter 13 (HN)</td>
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<td>Risk Aversion and Risk Management by Individuals and Corporations</td>
<td>Chapter 9, Appendix 9A (HN)</td>
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<td>Hedging with Derivative Contracts</td>
<td>Chapter 24 (HN)</td>
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**Important Dates**

- Submit Current Events Group Members and Three Preference Dates: Tues, June 17 (end of class)
- Midterm Exam: Thurs, June 26, 9 a.m. – 11a.m.
- Last Day of Class: Wed, July 9
- Final Exam: Thurs, July 10, 9 a.m. – 11 a.m.
Submit Group Members and Three Preference Dates: Tuesday, June 17 (end of class)
Presentation Dates: MTWR (will be given to each group)

Objective: The objective of this assignment is to provide students an opportunity to analyze a risk related current event that is of particular interest to them (i.e. the topic is not given) and to present their findings in a professional manner to the entire class. Given the numerous interpretations of “risk” and applications of risk management and insurance, there should be no trouble finding a recent event that is of interest.

Description: In the first few days of class, students will split themselves into groups of 4. During the semester each group will be responsible for leading one current events presentation that will not exceed the first twenty minutes of class. Each group will also submit a corresponding written report. Strict guidelines for selecting your current event are as follows:

✓ The current event must be pre-approved by me at least one week prior to presentation.
✓ The current event must be within the last calendar year and must have relevance to the class.

Presentation: The presentation of your current event should include the following:

✓ A brief summary of the current event. Do not read the entire article(s) to the class.
✓ A discussion about how the event relates to our class, why you selected the event, why you feel the topic is important, and any further relevant insight you wish to discuss.
✓ A handout for each student in the class outlining your presentation.

On the day of your group’s presentation the group should arrive at least five minutes early in order to begin your presentation promptly. The entire group must be present to receive full credit. Students that arrive late who are not presenting will not be permitted into the classroom during a current events presentation. A current events presentation schedule will be determined and distributed once the current event groups are finalized.

Written Report: The corresponding written report should be precise and clear. It should be written in an informative, business style format. Length is not a plus when the same ideas can be presented in fewer words. I would prefer the report not exceed seven pages. Graphs, tables, and charts are excellent tools for succinctly communicating any quantitative analysis. The report must also include a list of sources used or works cited.

Sources: The following are examples of acceptable sources for current events topics:
- Wall Street Journal
- New York Times
- Best’s Review Magazine
- Business Insurance Magazine
- Risk Management Magazine
- Newsweek, Time, Businessweek, U.S. News & World Report

Examples: The following are examples of several recent events related to risk management:
- Identity Theft (Personal Risk Management)
- Insurance Fraud (Auto Insurance, Health Insurance, Life Insurance)
- Products Recall (Product Liability, Moral Hazard Problem, Liability Insurance)
- Medical Malpractice Crisis (Insurance Demand, Liability)
- Captive Insurance (Employee Benefits, Insurance, Corporate Risk Management)