

Corporate Risk Management (RMIN 7120)

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Office hours: Monday/Tuesday, 2-4 p.m. and by appointment

Class Hours: Tuesday, 9:30-10:45 p.m.

Class Location: Sanford 309

1 Course Description

The operational and financial risks faced by firms and the study of various methods of handling these risks, including loss prevention, risk retention, self-insurance, corporate insurance programs, and capital markets. Extensive use of cases.

Emphasis is given to the economic impacts of losses and alternative methods of risk financing. First, we will gain a clear understanding of risk and quantitative methods available for risk analysis. Since insurance plays a central role in risk management, we will examine the market for insurance from both the demand side and supply side along with problems that are inherent to the insurance market. The largest section of the course will cover corporate risk management. Here, corporate finance ideas will be integrated into analysis of corporate risks and loss financing methods, as well as risk securitization. Finally, we will learn how employee benefit programs coupled with social insurance programs reduce risk originating from human resource exposures. Since corporate risk management is a multi-disciplinary team effort, assignments and class discussions will involve teamwork. Throughout the semester students will have the opportunity to demonstrate their understanding of risk related topics through presentations of case studies and homework assignments.

2 Course Objectives

- Broaden perspectives regarding risk and risk management.
- Be able to apply quantitative analysis to risk analysis.
- Describe how risk management is incorporated into individual and corporate decision-making.
- Investigate the challenges faced and tools used by today's corporate risk managers.
- Work productively in a group setting.
- Present your own analysis in a confident, organized and coherent manner.

3 Course Materials

3.1 Required

- Text: Custom text based on Doherty, *Integrated Risk Management and Insurance*: 1st edition, McGraw-Hill Professional, 2000
- Cases included in the custom text
- Additional course materials posted on WebCT
- A financial calculator
- Access To A Major Business Publication: Suggestions include *Wall Street Journal*, *Wall Street Journal Interactive Edition*, *Business Week*, *Economist*, *Forbes*, *Fortune*, etc. It is important to keep abreast of business news as we will discuss it in class in the context of the material we are studying. It is also an important habit for business majors to begin and continue throughout their professional lives.

3.2 Recommended

Other resources that will aid in understanding and analyzing risk management issues:

- Introductory Risk Management and Insurance texts, including
 - Harrington and Niehaus, *Risk Management and Insurance*: 2nd edition, McGraw-Hill/Irwin, 2004
 - Trieschmann, Hoyt and Sommer, *Risk Management and Insurance*: 12th Edition, South-Western Publishing, 2005
- Insurance publications available through the library include: *National Underwriter*, *Risk Management*, *Best's Review*, *Business Insurance Magazine* and other business publications.
- *The Essays of Warren Buffet: Lessons for Corporate America*, Buffet and Cunningham: The Cunningham Group, 2001
- Annual reports for publicly traded corporations

4 Policies and Procedures

4.1 Classroom Dynamics

Class starts promptly at 9:30 a.m. Latecomers are encouraged to take their seats quietly to avoid distracting others. While you are encouraged to not use a computer in the classroom (except when computer applications are being demonstrated), if you do, please mute your speakers and refrain from excessive e-mail and instant messaging. Cell phones should be turned off or set to vibrate and should not be answered in the classroom. Exams will begin at 9:30 a.m. and latecomers will not be allotted extra time.

4.2 Academic Integrity

UGA's Student Honor Code:

I will be academically honest in all of my academic work and will not tolerate academic dishonesty of others.

Cheating in any form will not be tolerated and will result in a grade of F for the course. For details on the standards of honesty in academic work, please refer to the handbook *A Culture of Honesty*, available at http://www.uga.edu/honesty/ahpd/culture_honesty.htm.

4.3 Appeal Process

If you feel that an answer you provided deserved more points than it was awarded, you simply submit an e-mail to me within two class days of when the tests are returned. This appeal must include the following:

1. Note which item(s) you are concerned with and what you answered.
2. Justify why your answer warrants more points. This could include information from the book, notes, other classes, whatever. What is not acceptable, however, are reasons such as "I misread the question" or "my uncle Harry always believed xyz, etc." I am willing to consider other interpretations of any given item, but they must be properly supported.
3. Finally, tell me how many points you think your answer deserves. Is it really worth full credit? Half? You tell me what you think is fair.

I will consider each appeal that is sent and let you know what I think is fair. We can talk in person if you are not satisfied with the outcome.

4.4 Announcements and Materials

You are responsible for knowing the material and homework assignments due on any given day, as well as changes in the schedule. Material and homework will be posted on WebCT and announcements will be sent to all e-mail addresses of record on the class roster. If you prefer class announcements to be sent to a different address, please e-mail me.

5 Assessment

There are multiple opportunities to demonstrate understanding of course material. The primary method is through three exams, with the final being comprehensive but heavily weighted to material in the final segment of the class. The secondary methods are the WebCT news diary, current events presentation and class participation. The allocation of credit to each assessment tool follows:

Exam 1	25%
Exam 2	25%
Exam 3	35%
News diary and class participation	10%
Current events presentation	5%

If the final exam grade is higher than either mid-term, then the weight of the final will increase to 40% and the lowest mid-term will drop to 20%.

5.1 News diary

At the beginning of the semester, you will be asked to choose one publicly traded company (from the S&P 500) and follow its press reports through the semester. You will post four short reviews on WebCT for your classmates to see real examples of how the tools studied in class are used (or ignored) by practitioners. Each post will be graded.

First post The first post should describe the major businesses that your company engages in, the major risks faced by the firm, and any major issues of the past year. This will give you experience in evaluating a company's risk profile based on its annual reports and press reports. This post will be graded and cannot be made up. This post is due before class on January 22.

Subsequent posts At least three additional posts should relate current press articles about or involving your firm to the content of class thus far. You should have at least one post before the first mid-term related to early-semester material, at least one more post before the second mid-term related to time value of money and valuation material and at least one more post before the final related to project selection material. These are intended to be very short assignments and should not require a significant amount of work, if you are reading the press on a daily basis.

The grade for the best four posts will be entered as part of the class participation grade.

5.2 Class Participation

The interactive nature of this class requires regular attendance. More than three absences without certified medical excuse will have a negative impact on your grade. Absence from classes when a guest speaker is scheduled will result in a 1/2 letter grade reduction (i.e. A to A-).

When a guest speaker is scheduled, students will be expected to participate by reading about the speaker's company, asking intelligent questions and interacting with the speaker in a courteous manner.

5.3 Current Events Presentation

By January 29, class members should create groups of three or four students. Students in these groups will create a group presentation that selects a common risk theme among the companies they are following throughout the semester and prepare a presentation comparing and contrasting the risk management approaches used by each company.

Beginning on February 28, most classes will begin with a ten-minute group presentation of the risk management analysis. The expectations and layout of this assignment will be provided after the first exam.

6 Tentative Course Outline

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

Date	Topic	Reading
Jan. 8	Introduction	Doherty 1
Jan. 13	Risk and Utility	Doherty 2 and mini-case 1
Jan. 15	Risk and Utility	Doherty 2
Jan. 20	Moral Hazard and Adverse Selection	Doherty 3 and WebCT reading
Jan. 22	Moral Hazard and Adverse Selection	Doherty 3 and in-class exercise
Jan. 27	Portfolio Theory and Risk Management	Doherty 4
Jan. 29	Capital Market Theory	Doherty 5
Feb. 3	Exam 1	Doherty chapters 1-5 and readings
		Careers Day: Classic Center
Feb. 5	Atlanta RIMS Educational Conference	No Class
Feb. 10	Derivatives and Options	Doherty 6 and WebCT readings
Feb. 12	Derivatives and Options	Risk Management at Apache
Feb. 17	Why is Risk Costly to Firms?	Doherty 7 and mini-case 2
Feb. 19	Why is Risk Costly to Firms?	Doherty 7 and WebCT reading
Feb. 24	Risk Management Strategy: Duality and Globality	Doherty 8
Feb. 26	Risk Management Strategy: Duality and Globality	Doherty 8
March 3	Enterprise Risk Management	Honeywell Case
March 5	Exam 2	Doherty 6-9 and readings
March 8-14	Spring Break	
March 17	Post-Loss Investment Decisions	Doherty 9
March 19	Post-Loss Financing: Fundability and Investment	Doherty 10
March 24	Post-Loss Financing: Liquidity and Debt Renegotiation	Doherty 11
		Withdrawal Deadline
March 26	Contingent Financing	Doherty 12
March 31	Contingent Leverage Strategies	Doherty 13
April 2	Global Risk	ProComp Informatic case
April 7	Hedging and Insurance	Doherty 14
April 9	Hedging and Insurance	Doherty 14
April 14	Real Options Analysis	WebCT reading
April 16	Real Options Analysis	Case study and in-class exercise
April 21	Organizational Form and Risk Management	Doherty 15
April 23	Catastrophe Securitization	Doherty 16 and WebCT reading
April 28	Review	
May 7	Final Exam , 8:00-11:00 a.m.	Comprehensive Focused on Doherty 9-16 and cases