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Fall 2012

## IDS473/Fin473: Risk Management

**Course Text:** Harrington, S. and Niehaus, G., *Risk Management & Insurance*, Second Edition, Irwin, 2004.

This class is sponsored by AON Risk Services of Illinois, Inc.  
with John B. Sullivan as Guest Lecturer.

Business managers today must operate in a complex, global environment with many risks. These risks can threaten not only operational goals such as profitability and growth, but also the organization's very survival. These risks are often associated with legal liability, property losses, political risks, currency exchange and interest rate fluctuations, workplace injury, and employee benefits. *Risk Management* is a systematic approach to dealing with business risks.

The purpose of this course is to provide a solid understanding of the basic principles of risk management and insurance. The course enables the students to develop a framework for making risk management decisions. The course should be valuable in both your professional and personal lives. The course begins by acquainting the students with the basic knowledge and vocabulary of insurance. We will discuss what risk is, how it can be measured and transferred, why individuals care about risk, and why corporations care about risk. This process, known as the risk management process, is becoming an increasingly important tool in the management of business and personal financial health. An effective and efficient corporate risk management program leads to knowledge and control of costs and an improved bottom line. The risk management process involves identification of risks and associated potential costs, analysis of the causes of risk of financial loss, determination of various strategies to treat risk, selection of strategies appropriate to the goals and objectives of the business, implementation of the selected strategies, management and monitoring of results. Making adjustments, adapting to external and internal forces, and crisis or disaster management are incorporated in the corporate risk management process. An effective risk management program will reduce losses, and improve financial performance and employee morale. By the end of the semester the student should have a good conceptual framework for analyzing risk and making decisions in a corporate setting as well as personal lives.

We are very fortunate to have this class sponsored by AON Risk Services of Illinois, Inc. the largest insurance and risk management broker in the U.S. Indeed, one of AON's employees, listed in the header, is a guest lecturer of this class, and will from time present in class and/or participate in the class discussion. This will provide the class with the proper "mix" of theory and reality, and will assure that the class will address the risk management issues faced by business, industry, and government.

The grade in the course will be determined on the basis of class participation (8%) and exams (92%). Class participation is understood in a broad sense ranging from class discussions to the development of pedagogical material Bringing interesting and relevant material (eg., articles, books etc) to the attention of class and the instructor (with possibly a critique) is yet a third form of class participation There is no predetermined percentage of the class that will get an A or that will fail. However, rest assured that if you all do exceptional work you will all get exceptional grades.

### **TENTATIVE & APPROXIMATE COURSE SCHEDULE**

This schedule is subjected to changes, either because we will spend more time on a particular issue, or because we will have a guest speaker. This schedule also does not reflect possible adjustment resulting from participation by the AON guest lecturer.

Class	Date	Guest Speaker	Topics	Text
1	28-Aug		Risk, and Its Management	1
2	30-Aug		Objective of Risk Management	2
3	4-Sept		Risk Identification & Measurement;	3
4	6-Sept		Pooling Arrangements & Diversification of Risk;	4
5	11-Sept		Insurance Ownership, Financial & Operational Structure;	5
6	13-Sept		Midterm # 1	
7	18-Sept		Insurance Regulation;	6
8	20-Sept		Insolvencies, Solvency Ratings, & Solvency Regulations;	7
9	25-Sept		Insurance Pricing;	8
10	27-Sept		Risk Aversion & Risk Management by Individuals and Corporations;	9
11	2-Oct		Midterm # 2	
12	4-Oct		Insurability of Risk, Insurability of Risk, Contractual Provisions, & Legal Doctrines;	10
13	9-Oct		Loss Control;	11
14	11-Oct		Legal Liability for Injuries;	12
15	16-Oct		Automobile Insurance;	13

16	18-Oct		Midterm # 3	
17	23-Oct		Homeowners Insurance;	14
18	25-Oct		Life Insurance & Annuities;	15
19	30-Oct		Employee Benefits;	16
20	1-Nov		Retirement Plan;	17
21	6-Nov		Midterm # 4	
22	8-Nov		Workers' Compensation & Employee Injuries;	18
23	13-Nov		Social Security;	19
24	15-Nov		Risk Management & Shareholder Wealth	20
25	20-Nov		Tax, Regulatory, and Accounting Factors Affecting Corporate Risk Management;	21
26	22-Nov		- Thanksgiving holiday -	
27	27-Nov		Midterm # 5	
28	29-Nov		Risk Retention/Reduction Decisions	22
29	4-Dec		Commercial Insurance Contracts	23
30	6-Dec		Midterm # 6	