

FIN 656 INSURANCE AND RISK MANAGEMENT

FALL 2021

- Instructor:** Jing Ai, Ph.D.
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- Class:** Thursdays 6:00 – 8:45 PM ONLINE ONLY
- Office:** BUSAD E602-a
- Office Phone:** (808) 956-9519
- Office Hours:** W 9 – 11am by appointment
- Class References:** **Main References:**
1. John C. Hull, *Risk Management and Financial Institutions*, Wiley, 2018 **(required)**
 2. Baranoff, E., Brockett, P.L., Kahane, Y. and Baranoff, D., *Risk Management for Enterprises and Individuals (Version 2.1)*, Flat World Knowledge, 2021 **(recommended)**
 3. Harrington, S. and Niehaus, G., *Risk Management and Insurance (2nd Ed.)*, McGraw Hill, 2003 (out of print; chapters will be posted)
- Secondary/Advanced References:**
4. McNeil, A., Frey, R., and Embrechts, P., *Quantitative Risk Management: Concepts, Techniques, Tools*, Princeton University Press, 2005
 5. Doherty, N., *Integrated Risk Management*, McGraw Hill, 2000

Course Description

Risk management and insurance are an integral part of a corporation's decision making process. The awareness of corporate risks and the importance of risk management have reached an unprecedented level, giving rise to the emergence of enterprise risk management (ERM). The toolkit for risk management has also been broadened and enhanced significantly over time. Through a combination of lectures, case studies, and class discussions, this course introduces the concepts of risk and risk management, investigates various aspects of corporate risks, discusses the basics of insurance as an important risk management tool, and develops important quantitative risk management techniques in the context of ERM. A specific focus is placed on financial risk management concepts and techniques.

Learning Outcomes

The main learning outcomes of this course are the following:

1. Understand the concepts of risk and risk management
2. Know how to identify and measure primary risks of a corporation
3. Understand the main categories of financial risks
4. Understand the basic aspects of insurance as an important risk management tool
5. Develop analytical skills for risk management and apply to real business environments
6. Understand enterprise risk management and its implementation in a corporation
7. Establish exposure to emerging/important risk categories, the challenges and potential solutions

Class Components

Chapter assignments and other reading materials:

Chapter reading assignments and additional materials (handouts) from industry/academic/media sources provide a balance between fundamental concepts and applications. The handouts are usually discussed in the following class. It is essential to read both the assigned chapters and handouts *before* each class.

Group research project:

A research project will be assigned. The research project will reflect your understanding of the class materials and critical thinking on a set of important issues. Specific guidelines will be given prior to the assignment.

Midterm exam:

There is one exam (a Midterm Exam) for this class. It is based on lectures, handouts, and in-class discussions. *No make-up exam* will be given. Tutorial sessions may be arranged prior to the Midterm Exam.

Group presentations and other individual assignments:

As a group, you will do two presentations as described below:

1. Mini cases: A case of risk management failure of your choice
2. A more substantial content presentation that will be assigned later

There may be a limited number of other individual assignments. Specific guidelines will be given for the case presentations and each assignment.

Attendance and class participation:

Attendance and active participation are critical for the success of this class and are highly encouraged. Please make *pre-arrangements* with me if you have a legitimate reason for absence.

Other resources:

Additional resource materials may be posted on "Laulima." These are provided in order to expand your learning horizons and to supplement class materials. They are mainly for you to use as general references; some of them may be the basis of in-class discussions.

Course Evaluation - Student grades will be determined on the basis of 100 points**1. Midterm exam - 25 out of 100 points**

- Midterm exam is worth 25 points. Individually completed.

2. Group research project - 30 out of 100 points

- Peer evaluation forms will be distributed if necessary.

3. Group presentations and other homework assignments - 35 out of 100 points

- Mini case presentation is worth 5 points
- Main content based presentation is worth 20 points
- Other homework assignments are worth 10 points

4. Attendance and class participation - 10 out of 100 points**Late Assignment Policy**

Different assignments are designed to reinforce your learning. They are due at specific dates/times and in proper formats. Any assignment handed in after the due date/time but during the next 24 hours will receive HALF credit. Assignments handed in more than 24 hours after the due time will receive NO credit.

Normative Class Communications

Interactions are very important for effective learning and are highly encouraged.

1. Attendance is expected, and students are strongly encouraged to participate in class discussions and raise questions. You are responsible for material covered in class and any assignments missed due to absence. It is recommended that you make pre-arrangements with me in this case.
2. Besides office hours, email is the best way to reach me outside class. **When sending e-mails regarding the class, please include "FIN 656" in the subject line** and please remember to leave your name at the end of the email.
3. Class information will be communicated mainly through "Laulima" and group emails. You are responsible for checking "Laulima" and emails regularly.
4. In order to be considered, all grading questions should be raised **within two weeks** of the score posting date.
5. Please refrain from using laptops for any purpose not directly related to the current class since it affects/distracts other students.

Use of Laulima

This class uses Laulima (<http://laulima.hawaii.edu>). It may be used to distribute course materials, to communicate and collaborate online, to post grades, to submit assignments, and to take online quizzes and surveys.

You will be responsible for checking Laulima course site regularly for class work and announcements. Scheduled Laulima downtimes are posted on the Laulima login page, and thus are not an excuse for late work. Laulima technical support can be reached at itech-l@hawaii.edu, so plan accordingly.

Special Accommodations

Students with disabilities are encouraged to contact the KOKUA Program for information and services. Services are confidential and free of charge. In case of need, contact KOKUA at 956-7511, or kokua@hawaii.edu, or Student Services Center Room 13. Early contact is strongly recommended.

Drop Policy

If the University policies permit, a student may withdraw or drop this class with approval by the withdraw/drop deadlines set by the University. For deadlines for dropping/withdrawing from business classes, please check www.hawaii.edu/myuh/manoa.

Scholastic Dishonesty Policy

Acts of academic dishonesty are not tolerated in this class. Acts of academic dishonesty as defined by university policies may lead to redoing the assignment, receiving a failing or reduced grade for the course or being referred to the UH Dean of Students for University disciplinary action.

Students should refer to the UH Student Conduct Code (www.hawaii.edu/student/conduct) for detailed definitions and explanations of academic dishonesty.

Calendar (subject to change)

Date	Topic	Reading Assignment	What Due in Class
<i>Part One: Introduction to Risk Management and Insurance</i>			
26-Aug (Class 1)	Course Introduction (Syllabus Overview); Basic Risk Concepts	Syllabus; BBKB Ch 1, 3, H&N Ch 1, 3	
2-Sept (Class 2)	Risk Pooling and Diversification; Insurance Basics	H&N Ch 4; Hull Ch 3, BBKB chapters	Presentation groups
9-Sept (Class 3)	Risk Measurement – VaR and Beyond	Hull Ch 12, BBKB Ch 2, Handouts	Research project groups
16-Sept (Class 4)	<i>Behavioral Economics</i> ; Risk Attitudes; Value of Risk Management	H&N Ch 9, Handouts; H&N Ch 2, 20, 21, Handouts	
23-Sept (Class 5)	Dependence Structure and Copula; Extreme Value Theory (time allowing)	Hull Ch 11, Handouts; Hull Ch 13, Handouts	
30-Sept (Class 6)	Introduction to ERM	Hull Ch 27, Handouts	
7-Oct (Class 7)	Guest Lecture (tentative); Operational Risk Management	Hull Ch 23, Handouts	Research project deliverable 1
14-Oct (Class 8)	Simulations; <i>Stress Testing</i>	Hull Ch 13, Handouts; Hull Ch 22, Handouts	
21-Oct (Class 9)	Midterm Exam		
28-Oct (Class 10)	<i>Catastrophe Risk Management</i> ; Alternative Risk Transfer	Handouts	Research project deliverable 2
4-Nov (Class 11)	Credit Risk Management	Hull Ch 19, Ch 20, Ch 21	
11-Nov	Veteran's Day!		
18-Nov (Class 12)	Guest lecture (tentative); <i>Regulations (two presentations)</i>	Hull Ch 15, Hull Ch 16	Research project deliverable 3
25-Nov	Thanksgiving Day!		
2-Dec (Class 13)	<i>Fintech</i> ; Business Analytics Applications	Handouts	
9-Dec (Class 14)	Research Project Discussions; Concluding Remarks		

Updated: 8/26/2021