Subject Outline

FIN327 Risk and Insurance
Wollongong

Credit Points-6
Spring Session 2003

Co-ordinator - Dr Shyam Bhati

School of Accounting and Finance
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Subject details

Description

The subject deals with the concept and technical analysis of risk, risk attitudes and insurance. The contents cover protection against portfolio, financial and corporate risk that are part of various types of investment decisions. The analysis covers risk insurance in relation to share portfolio protection, hedging against currency exchange rate movements and loan interest movements.

Objectives

On completion of the subject, the student should be able to

- Identify and evaluate the concept of risk and consequences for corporations and individuals
- Identify and apply the steps in the risk management process
- Define risk management strategies and the issues involved in risk management
- Recognise the place of insurance in risk management process
- Understand the features of insurance industry and their relationship to contracts used to manage risk.
- Identify and apply hedging to corporate and investment risks.

Method of delivery

Face to face delivery at Wollongong campus

Study time

6 hours per week
Lecture/tutorial times

Lectures       Wednesday 16.30 to 17.30   Room 40.123  
                Thursday  16.30 to 17.30  Room 25.107 

Tutorials       Wednesday 17.30 to 18.30   Room 40.127  
                Thursday  17.30 to 18.30  Room 30.120 

Major text


Recommended Readings


Please note that while these readings are listed to help you in sourcing materials, these readings by no means represent all the source material available.

Students are encouraged to visit websites of various insurance companies and regulators for current developments in insurance industry.
Contacts

Subject Coordinator/lecturer/tutor

Dr. Shyam Bhati  
School of Accounting and Finance  
Building No 40, Room No 318  
Telephone 61 2 4221 5383  
Facsimile 61 2 4221 4297  
Email sbhati@uow.edu.au

Consultation times: TBA

Student administration

Telephone 61 2 4221 3938  
Facsimile 61 2 4221 4322  
Email studenq@uow.edu.au  
Student OnLine Services http://www.uow.edu.au/student/sols

Library

Telephone 61 2 4221 3548  
Web http://www-library.uow.edu.au

Distance students studying within Australia should refer to the Off-Campus Library Services Student Guide contained in their subject package. Distance students studying outside Australia should contact their subject coordinator as arrangements for library services may be available within their own country.

Purchasing of books (Unishop)

Telephone 61 2 4221 8050  
Facsimile 61 2 4221 8055  
Email unishop@uow.edu.au  
Assessment Guidelines

General Criteria

Attendance at lectures and tutorials is a compulsory requirement of the subject.

For the purpose of determining the final grade student performance will be evaluated on a composite mark determined on the basis of assessment tasks given below.

To be awarded a Pass or higher grades, students must achieve a mark of more than 40% in the final examination.

Performance grades

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>HD</td>
<td>High Distinction</td>
<td>85–100%</td>
</tr>
<tr>
<td>D</td>
<td>Distinction</td>
<td>75–84%</td>
</tr>
<tr>
<td>C</td>
<td>Credit</td>
<td>65–74%</td>
</tr>
<tr>
<td>P</td>
<td>Pass</td>
<td>50–64%</td>
</tr>
<tr>
<td>F</td>
<td>Fail (unsatisfactory completion)</td>
<td>0–49%</td>
</tr>
</tbody>
</table>

Summary

<table>
<thead>
<tr>
<th>Task</th>
<th>Weighting</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practical Assignment</td>
<td>20%</td>
<td>16/10/03</td>
</tr>
<tr>
<td>Mid-session examination</td>
<td>20%</td>
<td>TBA</td>
</tr>
<tr>
<td>Tutorial participation</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Final Examination</td>
<td>50%</td>
<td>University Examination Period</td>
</tr>
</tbody>
</table>

Special Consideration

University policy requires students who, through serious illness or other circumstances beyond their control, are unable to attend an examination or meet any of the other course requirements, to submit medical or other documented evidence as soon as possible after the event to support their request for special consideration.

**Supplementary examinations**

Students should note that supplementary examinations are **not** an automatic entitlement on the submission of a request for special consideration. In cases where the decision is made to allow a supplementary examination, students will usually be required to take the examination at a date to be determined by the School within three weeks of the end of the formal examination period. Students will be notified of the exam at least seven days beforehand. It is every student’s responsibility that the University has a correct record of your current address.

Full details of the University’s policy regarding special consideration are available on the web at [http://www.uow.edu.au/handbook/courserules/specialconsideration.html](http://www.uow.edu.au/handbook/courserules/specialconsideration.html) students should familiarise themselves with these policies.

**Disability Policy**

If a student with a disability requires reasonable accommodation in this subject, they are strongly advised to discuss the issues early in the session with one of the following people: the Disability Liaison Officer, Faculty Disability Adviser and/or the Subject Coordinator. Students with a disability should also register with the University of Wollongong Disabilities Unit. More details can be found on the web at [http://www.uow.edu.au/student/services/disabl.html](http://www.uow.edu.au/student/services/disabl.html)

**Non Discriminatory Language**

As part of its Equal Opportunity/Affirmative Action initiatives, the University of Wollongong endorses a policy of non-discriminatory language practice and presentation in all academic and administrative activities of the University. The policy is available at [http://staff.uow.edu.au/eeo/nondiscrimlanguage.html](http://staff.uow.edu.au/eeo/nondiscrimlanguage.html)

**Receipt of Assessment Tasks**

It is your responsibility to ensure that you have a receipt signed by your lecturer/tutor, acknowledging submission of written work.
Assessment Tasks

Task 1: Insurance Report

Due date: 16/10/03
Weighting: 20 %
Length: 3000 words

Assignment details

This is a group assignment to be undertaken in groups of 3 students.

Assume that your group is a firm of insurance consultants to business companies. You are approached by the directors of a firm, who are considering taking an insurance policy, relating to one of the business areas discussed in your text-book. They intend to engage your consultancy firm to write a report for them on the area of insurance. The purpose of the report is to provide the Directors of the firm with information that will help them to decide whether or not the firm should take out insurance in the particular area. The report should cover the following areas comprehensively.

Introduction - Explain the general nature, purpose of business risk and insurance. Explain why businesses should consider entering into insurance contracts in order to help them achieve their objectives and how it relates to minimising the adverse consequences of risk.

Business Risk - Explain the nature of business risk and the categories of risk covered in your area. Explain the major risks in your chosen area, how these risks may arise and the types of adverse consequences for the firm's operation. How the firm's objectives are affected if the firm remains uninsured? What are the main costs and benefits of the insurance? What are the consequences for the business objectives if the insurance is not contracted. Discuss the legal liabilities of the selected type of risks. Explain how the insurance policy will cover the potential liabilities. Identify one or two insurance products that will help in achieving the objective (but do not recommend any)

Consultancy - Give your consultancy a catchy name and provide some details about your consultancy that are relevant to your client's request such as history, services you can provide, type, size, nature of clientele etc.
Client Firm - Provide relevant details about client firm (Invent if necessary). Details like client's industry, size, location, markets etc. should be provided. The details should be relevant to the type of risk and risk consequences in your chosen area.

Objective of the Report - The objective of the report is to provide the Directors with sufficient information, explanation, discussion and illustration in the selected area of insurance. The Directors should be able to make an informed and rational decision about the insurance policy after reading your report. Your job is to provide a report to the directors not to take a decision for them.

Assessment Criteria/Marking Guidelines

The marks will be awarded based on how well you achieve the stated objective of the report, the structuring of the report, your understanding of the major risk and insurance principles in your area, references, your explanations, illustrations, discussions, presentation etc.

Task 2: Midterm Examination

Due date: TBA
Weighting: 20%

Assignment details

This is a one-hour examination comprising of multi choice questions

Task 3: Final Examination

Date: University examination period
Weighting: 50%
Length: 3 hours 10 minutes

Examination details TBA
Submission Requirements

Submission

Place of Submission: Lecture

Facsimile: No faxed assignments will be accepted

Assignment cover: (You must complete and attach a School of Accounting and Finance Assessment Cover Sheet to the front of your assignment (available at the following web address: http://www.uow.edu.au/commerce/accy/resources/index.htm)

Collection: Lecture

Acknowledgment/Plagiarism

Plagiarism is not acceptable and may result in the imposition of severe penalties. The University provides clear guidelines on its attitude towards plagiarism and how to avoid unintentional plagiarism in the Postgraduate University Calendar, located on the web at http://www.uow.edu.au/handbook/courserules/plagiarism.html

Students are advised to read these carefully. If any doubts remain as to what constitutes plagiarism, students should discuss the matter with the subject co-ordinator

Due Date

The due date is the last date for the University to receive an assignment. The date of submission by post for distance students will be the postmark date stamped on the assignment envelope.

Extensions

Extensions may be granted if circumstances beyond the control of the student interfere with their ability to complete the task on time. These will only be granted by the subject co-ordinator and must be applied for before the due date.

Please Note: Extensions will not be granted after the due date.
Late submission

Penalties applied for late submissions

Disclaimer

The School attempts to ensure that the information herein is up to date at the time of production, however we reserve the right to amend without notice in response to changing circumstances.
## Subject Program

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<th>Week</th>
<th>Topic</th>
<th>HN</th>
<th>Tutorial Questions</th>
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<tr>
<td>1</td>
<td>Introduction to Risk</td>
<td>Ch. 1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Objectives of Risk Management</td>
<td>Ch. 2</td>
<td>Ch. 1 - QP 1,2,3,4,5</td>
</tr>
<tr>
<td>3</td>
<td>Risk Measurement &amp; Risk Pooling</td>
<td>Ch. 3 &amp; 4</td>
<td>Ch. 2 - QP 1,2,4,5</td>
</tr>
<tr>
<td>4</td>
<td>Insurance Pricing &amp; Risk Management by Corporations</td>
<td>Ch. 6 &amp; 7</td>
<td>Ch. 3 - QP 4,5,6</td>
</tr>
<tr>
<td>5</td>
<td>Corporate Risk Management</td>
<td>Ch. 9</td>
<td>Ch. 6 - QP 1,2,3</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Ch. 7 - QP 1,2,4</td>
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<tr>
<td>6</td>
<td>Loss Financing Methods</td>
<td>Ch. 11</td>
<td>Ch.9 - QP 1,2,3,4</td>
</tr>
<tr>
<td>7</td>
<td>Risk Management Decision-making</td>
<td>Ch.12</td>
<td>Ch.11 - QP 1,4,5,6</td>
</tr>
<tr>
<td>8</td>
<td>Legal liability in Insurance Areas &amp; Issues in Liability Management</td>
<td>Ch.14</td>
<td>Ch.12 - QP 1,2,3,4,5</td>
</tr>
<tr>
<td>9</td>
<td>Risk Reduction through Hedging</td>
<td>Ch. 13</td>
<td>Ch.14 - QP 1,2</td>
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<td></td>
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<td>Ch.17 - QP 1,2</td>
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<tr>
<td></td>
<td><strong>Two weeks recess from 22/09/03 to 05/10/03</strong></td>
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<tr>
<td>10</td>
<td>Automobile Insurance</td>
<td>Ch.21</td>
<td>Ch.13 - QP 1,2,4,5</td>
</tr>
<tr>
<td>11</td>
<td>Homeowner’s Insurance</td>
<td>Ch.22</td>
<td>Ch.21 - QP1,2,3,4,5</td>
</tr>
<tr>
<td>12</td>
<td>Life Insurance and Annuities</td>
<td>Ch. 23</td>
<td>Ch.22 - QP1,2,3,4,5</td>
</tr>
<tr>
<td>13</td>
<td>Government Regulation of Insurance Markets</td>
<td>Ch.24</td>
<td>Ch.23 - QP1,3,4,5,6</td>
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HN - Harrington and Niehaus

QP - Questions and Problems