

School of Economics and Finance

FINA 413 RISK MANAGEMENT AND INSURANCE

Trimester 1, 2015

COURSE OUTLINE

Lecturer Leigh Roberts, RH 323, phone 463-5937 (coordinator)
 office hour: 9.30 - 10.20 Thursdays in RH 323
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Administrator Rachel Zhang, RH 307, phone 463-6148
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Lecture times Wednesday 12.40 - 14.30, RHLT 3

Trimester dates

Teaching Period: Monday 2 March to Friday 5 June 2015

Study Period: Monday 8 June to Thursday 11 June 2015

Examination Period: Friday 12 June to Wednesday 1 July 2015 (inclusive)

Withdrawal from the course

Your fees will be refunded if you withdraw from this course on or before Friday 13 March 2015.

The standard last date for withdrawal from this course is Friday 15 May 2015. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on the form 'Application for Associate Dean's permission to Withdraw Late', and include supporting documentation. This form is available from either of the Faculty's Student Customer Service Desks.

Prescription

Risk management methodology. Recent development in risk management, emphasising the transfer of risk to financial markets. Financial risk management case studies. Theory and practice of insurance as a means of transferring risk and as providing a framework for the consideration of risk; recent developments in the insurance markets; captive insurers; insurance derivatives, catastrophe bonds.

Course Learning Objectives

By the end of this course, students should be able

1. To explain the extent and scope of risk management, and its manifold interpretations.
2. To establish a clear framework and methodology for dealing with risk; and to apply the principles of risk management to problems arising in the real world.
3. To investigate insurance theory and practice; and in particular to explore the use of insurance, both as a means of transferring risk, and more generally as providing a framework for the consideration of risk.
4. To interpret recent developments in risk management, in particular the use of the capital markets, and the blurring of boundaries in the financial sector.
5. To summarise elementary aspects of theories of risk and uncertainty, with special emphasis on risk management in the finance sector.
6. To recognise the potential of, as well as the limitations of, quantitative models and methodologies in dealing with risk.

Course Content

The content and timing of the course, and the order of presentation, may differ slightly from the information given in the following table. Note that Friday 3 April, Monday 27 April and Monday 1 June are University holidays (Good Friday, Anzac Day holiday and Queen's Birthday).

Date, 2015	Week	Theme	Essay	Ass set due
2 - 6 March	1	RM overview, template		
9 - 13 March	2	Perilous and Prudent, Savings & Loan		1
16 - 20 March	3	Savings & Loan, GFC		
23 - 27 March	4	Financial securities: CDOs, CDSs etc.		2 1
30 March - 3 April	5	GFC	A1	
<i>Mid-trimester break, 2 weeks: Monday 6 April - Friday 17 April 2015</i>				
20 - 24 April	6	VaR; ART, cat bonds, captives		2
27 April - 1 May	7	Hedge Funds, LTCM		
4 - 8 May	8	LTCM; Enron	E1	
11 - 15 May	9	Enron; Dark Pools	A2	
18 - 22 May	10	Regulation: Basel 2/3, Solvency 2		
25 - 29 May	11	Dodd Frank	E2	
1 - 5 June	12	Revision		

Under the Essay column, 'A1' denotes approval of the first essay topic by the coordinator; and 'E2' the due date of the second essay, etc.

Assignments are set in the week indicated above, to be handed in to blackboard by the Friday (midnight) two (course) weeks later. The coordinator may give permission for a more mathematical assignment to be handed in by hard copy, generally by 5 pm to a Box on the Mezzanine floor, Rutherford House. The box number will be notified should this be necessary.

Suggested broad areas for essay topics are to be circulated, on blackboard and in lectures, within the first two weeks of the course. Essay topics are subject to approval by the coordinator, by email, no later than the end of the weeks indicated above. Students are however encouraged to think about essay topics from inception of the course, and to seek the coordinator's approval of their topics well before the deadlines.

The essays are due by the end of weeks 8 and 11, viz. Friday 8 May and 29 May 2015, and are to be submitted electronically to Blackboard, by midnight on the due dates. Penalties are imposed for late submission of assignments and essay: see the Penalties section below.

Submitted essays should list the approximate number of words, and have page numbers inserted. Penalties may be imposed if the length of work submitted does not lie within the recommended range of the number of words.

Further notes on the requirements for essays in this course are available on Blackboard: <http://www.blackboard.vuw.ac.nz/>.

Expected Workload

You should expect to spend about 10-12 hours per week reading, studying and completing essays and assignments. Overall it is expected that you will spend approximately 150 hours on completing this course.

Readings

Lecture notes and readings will be made available on Blackboard.

It is *not* recommended that you purchase any text books for this course.

Parts of the course will be based on Hull (2012).

- J C Hull (2012), *Risk Management and Financial Institutions*. Third edn, Pearson.

This book is available as an e-book in the VUW library.

Further books which may provide useful background for the course include:

- C L Culp (2002), *The ART of Risk Management*. Wiley.
- F X Diebold, N A Doherty and R J Herring (2010), *The Known, the Unknown and the Unknowable in Financial Risk Management*. Princeton.
- M Naylor (2005), *Risk Management and Insurance in New Zealand*. Thomson.
- J Teale (2008), *Insurance and Risk Management*. Wiley.
- B Tuckman and A Serrat (2012), *Fixed Income Securities: Tools for Today's Markets*. Third edn, Wiley. Also available as an e-book in the VUW library.
- E J Vaughan and T M Vaughan (2014), *Fundamentals of Risk and Insurance*. 11th edn, Wiley.

The first and second editions of Hull's book (2007, 2009) are less suitable for the course, inasmuch as the third edition contains some new material which is incorporated into the course.

Materials and Equipment

One or more assignments will involve the use of the computer suite R, available to students in RWW 202. If they wish, students may download R onto their own computers: it is open-source software, available free from <http://www.r-project.org/>. No previous knowledge of R is assumed, and notes for the downloading and use of R are available on blackboard.

Assessment

- 10% Two assignments, each worth 5%;
to be submitted electronically to blackboard at the end of weeks 4 and 6,
Friday 27 March and Friday 24 April 2015.
- 50% Two essays, each of length 2500-3500 words, each worth 25%;
to be submitted electronically to blackboard at the end of weeks 8 and 11,
Friday 9 May and Friday 30 May 2014.
- 40% Two hour final examination; during the examination period,
Friday 12 June - Wednesday 1 July 2015 (inclusive).

All CLOs are addressed by the exam; essays will typically address CLOs 3, 4 and 6; and assignments will address CLOs 1, 2 and 5.

The assessment handbook will apply to all VUW courses: see
<http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>

Penalties

Except in the matter of illness (for which a doctor's certificate is required), or other highly exceptional circumstances, marks for essays and assignments are reduced by 5% for each day late.

Failure to obtain approval by email of the essay topic by the due date may cause the mark for the essay to be reduced by 5% for each week late.

Essays and assignments appearing to be copied will be marked as zero. Appeals on marking may be made to the coordinator in the first instance, and to the Head of School if there is still disagreement.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the university at any time during the formal examination period. The final examination for this course will be scheduled at some time during the following period:

Friday 12 June - Wednesday 1 July 2015 (inclusive)

Mandatory course requirements

Submission of the essay and attendance at the exam are compulsory.

If you cannot complete an assignment or sit a test or examination, refer to www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat

Class representative

A class representative will be elected in the first class, whose name and contact details will be made available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

Communication of additional information

Additional information will be conveyed to students via Blackboard.

Student Feedback

Student feedback on University courses may be found at www.cad.vuw.ac.nz/feedback/feedback_display.php

Link to general information

For general information about course-related matters, go to <http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

Note to Students

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.