

NEW YORK UNIVERSITY STERN SCHOOL OF BUSINESS

FINC-UB.0081: Risk Management, the Insurance Industry and the Financial Services Sector

Fall 2014

Monday/ Wednesday 9:30-10:45 a.m. – TISCH- LC21 (40 W 4TH)

Professors John Biggs (jbiggs@stern.nyu.edu) and Sam Liss (sliss@stern.nyu.edu)

Synopsis:

This course will introduce the insurance sector and the roles it plays as a major factor in the financial services arena, starting with risk identification and the risk management process across the economy, and examination of insurance as a systematic and strategic process to pool, transfer and finance both business and personal risk. We will study the private insurance industry, the underlying financial structure of insurance products, and explore the financial, actuarial, marketing, investment, underwriting, claims, technology and regulatory challenges in managing an insurance company. We will look at the industry financial performance over time, public company valuation metrics and structuring of acquisitions and capital formation among insurance companies. We will also examine distribution channels and marketplace intermediaries, as well as introduce insurance sector career opportunities.

This course qualifies for the NYU Stern undergraduate Finance Concentration, and is an excellent supplement for those in the Actuarial Concentration.

Prerequisites for this course are NYU Stern's *Financial Accounting, Microeconomics and Fundamentals of Finance*.

The course is open to Junior/Senior undergraduates and will be additionally beneficial for students interested in exploring possible work as insurance industry professionals or advisors to the financial services sector as potential investment banking analysts, consultants, investment, financial product marketing, underwriters, actuaries, lawyers or general management professionals. It also is relevant to those aspiring to senior human resources, legal and senior management responsibilities in any company.

About the Instructors:

John H Biggs, Phd and Fellow in the Society of Actuaries, and Adjunct, NYU Stern, has had numerous management leadership roles, including serving as the former Chairman, CEO and President of TIAA-CREF (the largest annuity insurance company in the U.S.) and has served on numerous non- profit and for- profit Boards, including Boeing and JP Morgan.

Samuel G. Liss, MBA and Adjunct, NYU Stern, is the former Executive Vice President of Travelers Insurance (one of the largest business and personal lines insurance companies in the U.S.) and Managing Director Financial Institutions Banking as well as Equity Research at Credit Suisse and Salomon Brothers. Sam is currently the principal of Whitegate Partners LLC, an advisory firm, and serves on the Boards of Verisk Analytics, DST Systems and Ironshore.

Introduction:

The recent financial crisis served as a powerful demonstration of failure in risk management. The insurance industry suffered far less structural damage and business model challenges than the commercial, retail and investment banking sleeves of the financial services sector. How did insurance companies fare during these years, and what roles and functions do insurance carriers play as key participants in our financial services infrastructure?

Insurance companies carry out a significant role in providing risk mitigation capabilities across the financial landscape. This industry sector is a leader in managing global investment assets and risk exposures, and accounts for some 9% of GDP, while supporting employment exceeding 6 million.

This course will introduce risk identification and the risk management process across both financial and non- financial services, leading to examination of insurance as a systematic and strategic process to pool, transfer and finance risk. We will study the private insurance industry framework, the underlying financial structure of insurance products, and explore the actuarial, financial, investment, underwriting, claims and technology issues in managing an insurance company. We will look at how the insurance industry is regulated, as well as include an introduction to some of the statutory and

GAAP accounting concepts, public insurance company valuation approaches and the deal making process among insurance companies. We will also take a look at the various distribution channels and marketplace intermediaries who advise and sell insurance products. Given the richness of practitioners in the risk and insurance space in the greater NY area, terrific guest speakers from both the private and public sector will bring additional domain expertise to the class discussions.

In a practical vein, all Stern graduates will immediately need to know how to be smart in buying health insurance, life insurance as they start families, auto and property insurance as soon as they rent, lease or own some property, and liability coverage against large risks. It is important for all to understand the risks they and their families have and how to mitigate those risks with insurance.

The insurance industry represents a major group of employers who would be interested in NYU graduates who have had a broad course in risk management and the insurance industry. Major insurance companies based in the New York area include Metlife, TIAA-CREF, AIG, Prudential, New York Life, Guardian, Chubb, Travelers, WR Berkley and many others

Reading Requirements:

The primary text is “Fundamentals of Risk and Insurance” by Vaughan and Vaughan, Eleventh Edition 2014)

Supplemental resources- papers, articles and case studies- will be assigned. **Students will assume the responsibility to regularly check My Classes for supplemental reading assignments and course requirements.**

Grading will be based on:

1 Class attendance, active participation, individual memos (4—individual effort) -33%

These will be brief papers (typed and double- spaced), giving your analysis and views on an issue raised in readings and in class. **Papers will be due prior to the class date assigned. No late assignments will be accepted.**

2. One mid- term exam (take home, individual effort) -33%

3. A final paper (individual effort)-34%

Class attendance, participation and professional behavior is mandatory.

No personal electronic devices (phones/ laptops/other) will be permitted in class in the belief it creates distractions to all parties in the classroom.

ACADEMIC INTEGRITY

Integrity is critical to the learning process and to all that we do here at NYU Stern. As members of our community, all students agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to:

Exercise integrity in all aspects of one's academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.

Clearly acknowledge the work and efforts of others when submitting written work as one's own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.

Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

The entire Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found here: www.stern.nyu.edu/uc/codeofconduct

To help ensure the integrity of our learning community, prose assignments you submit to My Classes will be submitted to Turnitin. Turnitin will compare your submission to a database of prior submissions to Turnitin, current and archived Web pages, periodicals, journals, and publications. Additionally, your document will become part of the Turnitin database.

GENERAL CONDUCT & BEHAVIOR

Students are also expected to maintain and abide by the highest standards of professional conduct and behavior. Please familiarize yourself with Stern's Policy in Regard to In-Class Behavior & Expectations (<http://www.stern.nyu.edu/portal-partners/current-students/undergraduate/resources-policies/academic-policies/index.htm>) and the NYU Disruptive Behavior Policy (<http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/bullying--threatening--and-other-disruptive-behavior-guidelines.html>).

STUDENTS WITH DISABILITIES

If you have a qualified disability and will require academic accommodation of any kind during this course, you must notify us at the beginning of the course and provide a letter from the Moses Center for Students with Disabilities (CSD, 998-4980, www.nyu.edu/csd) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

Class Schedule and Reading Assignments:

Date	Topic	Reading assignment
Sep. 3	Defining Risk and Risk Management	Chapters 1, 2
Sep. 8	Major Personal and Commercial Risks	Chapters 1, 2
Sep. 10	The Insurance 'Device' – I.D. and Handling of Risk	Chapters 3, 4
Sep. 15	The Private Insurance Industry	Chapter 5
Sep. 17-	The Regulatory Framework	<i>Memo 1- upload prior to class</i> Chapter 6
Sep. 22	Functions and Operations of Insurers	Chapters 7
Sep. 24	Financial and Legal Structure	Chapter 8, 9
Sep. 29	Property Casualty – Industry overview Commercial lines of insurance	<i>Memo 2- upload prior to class</i> Chapter 31, 32
Oct. 1	Property Casualty – Commercial lines <i>Guest</i>	Supplemental
Oct. 6	Property Casualty – Personal lines focus	Chapter 29, 30
Oct. 8	Property Casualty – Personal lines <i>Guest</i>	Chapter 24, 28
Oct. 13-	<i>Columbus Day Holiday – no class</i>	No class
Oct. 15	Property Casualty – Deeper Dive	<i>Memo 3- upload prior to class</i> Supplemental
Oct. 20	Property Casualty – Emerging Industry Issues	Supplemental
Oct. 22-	Personal Enterprise Risk	Chapter 10
Oct. 27	Enterprise Risk Management- Insurance and Financial Institutions	<i>Mid Term- upload prior to class</i> Supplemental
Oct. 29	Global Financial Crisis and the Insurance Sector	Supplemental
Nov. 3	Life Insurance, Annuities and Health	Chapter 12, 13
Nov. 5	Managing Life Insurance Company Challenges <i>Guest</i>	Chapter 14, 15
Nov. 10-	Deeper Dive on Life Insurance	Chapter 17
Nov. 12-	Deeper Dive on Annuities	Chapter 18
Nov. 17-	Managing a Insurance Company and Risk Management of a University <i>Guest</i>	<i>Memo 4- upload prior to class</i> Supplemental

Nov. 19-	Managing Retirement Risk	Chapter 19
Nov. 24-	Managing Social Security	Supplemental
Nov. 26-	NO CLASS	No class
Dec. 1	Role of the Intermediary – Agent/Broker/Distribution channels	Supplemental
Dec. 3-	Regulation Revisited <i>Guest</i>	Supplemental
Dec. 8	Valuation approaches and Corporate Deal Making in the Insurance Industry <i>Guest Speaker</i>	Supplemental
Dec. 10	Working in the insurance industry—weighing the opportunity set	Supplemental
Dec. 16		FINAL- upload by 12:00 noon