

Course Title	:	Principles of Risk Management
Course Code	:	RIM2200
Recommended Study Year	:	2
No. of Credits/Term	:	3
Mode of Tuition	:	Sectional Approach
Class Contact Hours	:	42 hours (3 hours per week)
Category in Major Programme	:	Required course – BBA (Hons) Risk and Insurance Management Programme
Prerequisite	:	Nil

Brief Course Description

This course aims to introduce students to the rationale, principles, process and major tools of risk management. A holistic/integrated view of risk management is adopted throughout the course. Covered topics include the concept of risk, risk theory, risk measurement, corporate risks and the rationales of corporate risk management, risk management organization and process, and some major tools of risk management. A lot of the course content reflects the latest developments & industry practices in the discipline of risk management. Ethical aspect of risk management is also emphasized.

Aims

This course aims to introduce the students to the rationale, principles, process and major tools of risk management.

Learning Outcomes (LOs)

On completion of this course, students will be able to:

1. Describe the nature of risk management and its importance for both individuals and businesses. They are also expected to be able to explain how corporate risk management can help coordinate corporate financing and investment decisions
2. Identify key pure and financial risks facing businesses
3. Evaluate risks in terms of frequency and severity using various statistical and financial tools
4. Map out various risks and deal with different risks using appropriate risk management techniques (e.g., risk avoidance, loss control, planned risk retention,

risk transfer via insurance and non-insurance contracts, hedging financial risks and other contingent financing)

5. Understand the organization of risk management and comprehend why an integrated/holistic rather a stand-alone approach to risk management is important for today's businesses

Indicative Contents

Concepts of Risk

Definition of risk. Peril and Hazard. Subjective and objective risks. Static and dynamic risks. Pure and speculative risks. Fundamental and particular risk. Operational and strategic risk. Economic and social cost of risk.

Economic Theory of Risk

Expected Utility Hypothesis. Risk preferences. Risk premium. Measurement of risk attitudes. Risk aversion coefficient.

Risk Measurement

Loss frequency and severity. Expected value and variance. Degree of risk. Loss distributions. Stochastic dominance on degree 1, 2 and 3. Value at risk.

Corporate Risks & Rationale of Corporate Risk Management

Overview of key pure risks. Overview of key financial risks. Operational and strategic risk. Rationales of corporate risk management. Considerations in outsourcing risk management function. Holistic/integrated risk management.

Risk Management Organization and Process

Objectives of risk management and risk management policy statement; Risk manager and responsibility; Risk management decisions; Ethical aspects of risk management decisions. Identification and evaluation of risks; Risk Mapping; Choosing risk management methods; Implementation, monitoring & review of the chosen methods;

Major Tools of Risk Management

Risk avoidance. Risk reduction & loss control. Risk retention & self insurance. Risk transfer via insurance. Concept of financial risks hedging. Alternative risk transfer.

Teaching Method/Class Activities

Class activities will include the lecture of concepts and theories and in-class exercises such as cases, team discussions, and student presentations of cases. A high level of student participation in the classes is encouraged.

Guidelines for Term Project

1. Purpose: a) to apply knowledge learnt in class; b) to understand business risk management in practice; c) to develop communication, practical problem-solving and team working skills; d) autonomous learning;
2. Rules for the term project:
 - a. For the project assignment, you are required to analyze a local business entity or a non-profit organization in Hong Kong by your choice. You are supposed to do this as a consultant for the management team of the entity on risk management issues.
 - b. Students will be divided into teams of four or five. You are free to form your own team as long as every team consists of four or five team members. Teams should comprise, where possible, students from more than one specialization with a view to applying a variety of perspectives to a business problem and the project.
 - c. The focus of your analysis should be on the identification of key risks, evaluation of existing risk management policy and practices and suggestions and recommendations made to the management team. You should note that the materials from this course form a basis of your analysis. However, your analysis is not constrained to those materials.
 - d. To better achieve the above end, you are encouraged to approach the organization chosen by your group. Talking to managers and staff, paying a visit to the premises and observing the production/services process can help you better understand the nature of the business, the potential risks and the existing risk management policy and practices of the organization. Introduction letter (if needed) can be provided for your convenience.
 - e. The text of the project should be less than **ten pages**, typed, double spaced, the full name as well as the student number of each group member should be included. Suggested contents may include, but not limited to the following:
 - i. Executive summary,
 - ii. Brief profile of the firm (including the operation history, nature of business, industry sector and environment, organization structure, facilities/premises, ownership structure),
 - iii. Key pure/financial/operational risks (e.g., related to IT, internal control, fraud prevention). In order to give an in-depth discussion and furnish some effective suggestions, you do not need to exhaust all risks and can choose to focus on some selected key risks.
 - iv. Existing risk management policy and practices (e.g., risk management policy statement, organizational setting, decision making, loss prevention/control programs, historical loss record keeping and reporting, managerial attitude towards risk management, etc)
 - v. Evaluation, suggestions and recommendations,
 - vi. Appendix (e.g., you can enclose questionnaire or any other materials you deem relevant).
 - f. You should hand in **two copies** of your written report as one will be given to your discussant team for critical comment

Measurement of Learning Outcomes

1. Quizzes and/or mid-term examination regularly test students' understanding of lecture materials. A comprehensive final examination covering all subject topics assesses the comprehension of, and ability to apply risk management concepts, theories and principles. (LO1) (LO2)
2. In both the continuous assessments and the final examination, some close-end questions will be used to test students' understanding of basic subject knowledge. Open and essay questions will be used to assess students' ability to apply their learning in analyzing specific contexts and cases. (LO1, LO2, LO3, LO4, LO5)
3. Term project requires student teams to analyze a real-life business situation and to propose solutions based on a risk management framework. Both a written report and an oral presentation of findings to the instructor and critique groups are required in order to test their understanding of the business situation and the application of their knowledge. The quality of the presentation plus the ability of the team to address questions are assessed. The field study report is assessed for logicity, flow or argument and feasibility of recommendations within an overall risk management framework. (LO1, LO2, LO4, LO5)

Assessment

- a) Class participation: 10% (overall attendance 5% and the quality of participation 5%)
- b) Mid-term exam: 25%
- c) (Group-based) Term project: 15% (for details see a separate sheet)
- d) Final exam: 50% (comprehensive)

Required/Essential Reading

Fundamentals of Risk and Insurance 11th Edition, Emmett J. Vaughan, Therese M. Vaughan, Wiley

Note: Given the subject area is developing quickly, no single textbook is fully suitable. The lecture notes draw upon different sources and so may not fully follow any of the textbooks.

Recommended/Supplementary Readings

George E. Rejda, Michael J. McNamara, *Principles of Risk Management and Insurance*, latest edition, Person Education.

P67 Fundamentals of Risk Management, 2014 Study Text, Diploma in Insurance, CII.

Case articles assigned by the lecturer. Pages of the reference books are normally given in the handout.

Hull, J., *Fundamentals of Futures and Options Markets*, 8th Edition, Wiley

Hull, J., *Risk Management and Financial Institutions*, 4th edition, Wiley

Jorion, P., *GARP, Financial Risk Manager Handbook*, 6th edition, Wiley.

Important Notes

- (1) Students are expected to spend a total of 5 hours (i.e. 3 hours of class contact and 2 hours of personal study) per week to achieve the course learning outcomes.
- (2) Students shall be aware of the University regulations about dishonest practice in course work, tests and examinations, and the possible consequences as stipulated in the Regulations Governing University Examinations. In particular, plagiarism, being a kind of dishonest practice, is “the presentation of another person’s work without proper acknowledgement of the source, including exact phrases, or summarised ideas, or even footnotes/citations, whether protected by copyright or not, as the student’s own work”. Students are required to strictly follow university regulations governing academic integrity and honesty.
- (3) Students are required to submit writing assignment(s) using Turnitin.
- (4) To enhance students’ understanding of plagiarism, a mini-course “Online Tutorial on Plagiarism Awareness” is available on <https://pla.ln.edu.hk/>.