THE UNIVERSITY OF HONG KONG

Faculty of Business and Economics

FINA0106A/ FINA2342 Insurance: Theory and Practice

Semester A: K. S. Maurice Tse (*E-mail:* ktse@hku.hk)

Class Hours and Venue: Wednesday 9:30am-12:20pm;

Venue: CYPP4

Demonstrator: Frankie HO

Course description

Insurance is the study of risk financing through risk pooling. The use of insurance to reduce the adverse financial impact in case of a loss has become an important element of financial and risk management in our society. This course will cover the theories underlying each major type of insurance products; the characteristics of the contractual agreements pertaining to insurance products; the structure of the insurance industry and its impact on the pricing of insurance products; the operation of insurance companies and the need for government regulations of the industry. The theories and principles discussed in this course apply globally.

Prerequisite: ECON1001/ ECON1210 Introductory Microeconomics

Course Aims

This course aims to:

1   *Introduce* you to the concepts of risk and risk management that are essential for the identification of risk and the effective assessment of the exposures to loss of properties, human lives, and business operations.

2   *Introduce* you to various risk handling alternatives and tools available for formulating an effective risk management program compatible with the objectives of risk management function.

3   *Introduce* you to the techniques of analyzing the costs and benefits of different insurance coverage with respect to the specific need for insurance.

4   *Introduce* you to the current structure of the insurance industry and the functions and operations of insurance institutions.

Learning Outcomes

Upon completion of this course, you should be able to:

CLO1 *Assess* the loss exposures of properties, human lives, business operations, and the financial consequences as a result of the occurrence of a loss.

CLO2 *Formulate* an effective risk management program to reduce the potential loss.

CLO3 *Incorporate* the use of life and health insurance, property-liability insurance, and employee benefits in the management of a business firm and financial planning process

CLO4 *Analyze* the unique features of the insurance industry and regulations.

Aligned Faculty Goals	Course Learning Outcome
1. Acquisition and internalization of knowledge of the programme discipline	CLO1-4
2. Application and integration of knowledge	CLO2-3
3. Inculcating professionalism	CLO2
4. Developing global outlook	CLO4
5. Mastering communication skills	CLO1-2
6. Cultivating leadership	CLO2

Teaching and Learning Activities

The course will consist of lectures covering the theories and concepts of the different kinds of risk and risk management tools and case discussion and/or group presentation requiring students to apply the tools and concepts to managing risks.

Course Teaching and Learning Activities	Expected contact hour	Study Load (% of study)
T&L1. Lectures	36 hours	30%
T&L2. Three Individual Assignments	30 hours	25%
T&L3. Tutorial Sessions	12 hours	10%
T&L4. Self-study	42 hours	35%
Total	120 hours	100%

Textbook and Reading Materials

The text book assigned for this course is "**Principles of Risk Management & Insurance**", *George REJDA and Michael McNamara,* 13th Edition, Pearson.

Other reading materials as assigned by the instructors.

Required Tool

A standard financial calculator SUCH AS Texas Instruments, Casio, and HP 12C.

Timetable

Date	Topics	Readings
Sep 01	**Introduction**	Handout
Sep 08	**L1: Conceptual Framework of Risk** **Book Chapters:** • Risk and Its Management • Objectives of Risk Management • Risk Identification and Measurement • Pooling Arrangements and Diversification of Risk	Handout Ch 1
Sep 15	**L2: Framework of Insurance and Risk Management** **Book Chapters:** • Risk Management and Shareholder Wealth • Loss Control • Risk Retention and Reduction Decision • Alternative Risk Transfer • Analysis Tools Used in Corporate Risk Management	Handout Chs 2 and 3
Sep 22	**Day Following Chinese Mid-Autumn Festival**	
Sep 29	**L3: Insurance Pricing: Asymmetric Information, Signaling and Utility Analysis** **Book Chapters:** • Insurance Pricing • Risk Aversion and Risk Management	Handout Ch. 4
Oct 06	**L4: Insurance Pricing: Asymmetric Information, Signaling and Utility Analysis**	Ch. 4

Oct 13	**Reading Week**	
Oct 20	**L5: Functions of Insurers** **Harvard Business School:** • **Note on Insurance Industry** **Book Chapters:** • Types of Insurers and Marketing Systems • Insurance Company Operations	Handouts Chs 5, 6
Oct 27	**L6: Functions of Insurers** • Financial Operations of Insurers	Ch. 7
Nov 03	**L7: Legal Framework of Insurance** **Book Chapters:** • Insurability of Risk, Contractual Provisions and Legal Doctrines • Legal Liabilities for Injuries	Handout Chs 9 and 10
Nov 10	**L8: Life Insurance** **Book Chapters:** • Life Insurance and Annuities	Handout Chs 11 and 12
Nov 17	**L9: Buying Life Insurance**	Chs 13
Nov 24	**L10: Annuties and Pension**	Chs 14

Grading Policy

The course grade will be based on tutorial discussions, assignments, and a final exam. The point distribution is as follows:

Assessment Methods	Weights	Aligned Course Learning Outcomes
A1. Tutorial Participation & Discussion	10%	CLO 1-4
A2. Three Assignments	30%	CLO 1-4
A3. Final Exam	60%	CLO 1-4
Total	100%	

Additional problem sets will be assigned but will *NOT* be collected and therefore *NOT* graded. The purpose of these problem sets is to assist you in reviewing the materials and preparing for the exams.

Course Grade Descriptors

Grade	Descriptors
A+ A A-	• All aspects were addressed and researched in great depth. • Demonstrates a clear understanding of and the ability to apply and theory, concepts and issues relating to the topic. • All aspects conform to a high academic / professional standard
B+ B B-	• Most aspects were addressed and researched in depth. • Demonstrates a good understanding and some application of the theory and issues relating to the topic. • Most aspects conform to a high academic / professional standard.
C+ C C-	• Most aspects were addressed and researched adequately. • Demonstrates a good understanding of the theory, concepts and issues relating to the topic but limited application relating to the topic. • Most aspects conform to an acceptable academic / professional standard.
D	• Basic aspects were addressed and researched adequately. • Demonstrates mainly description, showing basic understanding of the topic but no application. • Limited aspects conform to academic / professional standards
F	• Basic aspects were superficial, inadequate or absent. • Demonstrates limited understanding of the topic and draws conclusions unrelated to the topic. • The written work is not of an academic / professional standard

Assessment Rubrics for Each Assessment
Assignments: While the detailed assessment rubric may differ slightly across assignments, the criteria of assessment can be broadly divided into two aspects: (1) Appropriateness of Analysis (60%) and (2) Clarity/Readability (40%)

Academic Honesty and Integrity

The University Regulations on academic dishonesty will be strictly enforced. Please check the University Statement on plagiarism on http://www.hku.hk/plagiarism/.

Cheating or plagiarism of any kind would result in an automatic F grade for the course plus strict enforcement of all Faculty and/or University regulations regarding such behavior. Incident(s) of academic dishonesty will NOT be tolerated.

Academic dishonesty is a behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

a. Plagiarism - The representation of someone else's ideas as if they are one's own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged.
b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort.
c. Cheating on In-Class Exams - The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.

Unauthorized Advance Access to an Exam - The representation of materials prepared at leisure, as a result of unauthorized advance access (however obtained), as if it were prepared under the rigors of the exam setting. This misrepresentation is dishonest in itself even if there are not compounding factors, such as unauthorized uses of books or notes.