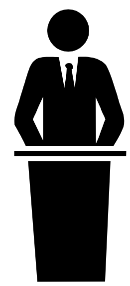
Session CS E6: Research and Education in ERM



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University of Illinois

Enterprise Risk Management Symposium
May 2005

Overview

- Academic/Industry Partnership
  - Office of Risk Management and Insurance Research (ORMIR)
- ERM Course
  - On campus
  - CAS online version

ORMIR

- Begun in Fall 2003
- Partnership between:
  - Risk Management and Insurance Program at the University of Illinois
  - Companies involved in risk
    - Insurers
    - Consulting firms
    - Other organizations

Partnership Roles

- Role of Corporate Partners
  - Help identify research needs (ERM, correlated risks)
  - Encourage practical, useful research
  - Help improve academic program
  - Networking opportunity for partners
- Role of Faculty
  - Direct research to identified needs
  - Present research to partners
    - Presentations
    - Executive summary style reports

Finance 590: Enterprise Risk Management

- Spring semester 2005 - 7 week course
- Instructors:
  - Stephen D'Arcy, Professor of Finance
  - Mark Vonnahme, Visiting Lecturer, former CEO at CNA Surety
  - Guest speakers
    - Rick Gorvett, former Senior VP over ERM
    - Frank Strenk, Lockton Companies
    - Scott Taylor, Deloitte
    - Lee Smith, Paradigm Shift
    - Kevin Dickson, Director of ERM, Allstate
    - James Lam, Lam and Associates

Students

- MBAs
- MS – Finance
- Not Actuarial Science majors
- Initial enrollment: 33
- Current enrollment: 26

Readings

- Text:

  Lam, 2003, *Enterprise Risk Management: From Incentives to Controls*

- Other articles include:

  D’Arcy, 2001, “Enterprise Risk Management” *Journal of Risk Management of Korea*

  CAS, 2003, Overview of Enterprise Risk Management

  Samad-Kahn, 2005, Why COSO is Flawed, *Operational Risk*

Course Approach

- Yin and Yang of ERM
- Soft skills – Vonnahme
  - Corporate governance
  - Organization structure
  - Training and development
  - Performance measurement and incentives
- Hard skills – D’Arcy
  - Risk analytics

Risk Analytics

- Hazard Risk
  - Loss frequency/severity
  - Aggregate loss distributions
  - Expected losses
  - Retentions and policy limits
- Financial Risk
  - Interest rate sensitivity
  - VaR
- Operational Risk
  - Capital requirements
  - Market performance

Lessons Learned

- Importance of pre-requisites
  - Risk Management
  - Fixed Income Portfolios
  - Modeling skills
- Need for useful cases
  - Existing cases focus on specific risks
  - Need for comprehensive case
    - Address different types of risk separately
    - Integrates over all areas as conclusion
- Challenges of teaching a diverse student population

Online ERM Course

- To be offered by the CAS
- Available fall 2005
- 2 week course
- PowerPoint lectures with audio
  - Available on CDs and online
- Reading assignments
- Case studies
- Online discussion forum
- Final exam

For More Information

- E-mail: s-darcy@uiuc.edu
- U of I ERM course website:

http://www.business.uiuc.edu/~s-darcy/Fin590/2005/index.html