JOURNAL OF RISK EDUCATION

Risk Education Moving Forward

Volume 4, No 1 2013

Inside This Issue

From the Special Issue Editor

Serving as Guest Editor of this special issue of the *Journal of Risk Education -- Risk Education Moving Forward* has been an interesting endeavor to say the least, and I have gained a greater appreciation for those who have served as Editors of various academic risk management and insurance journals because of this experience. The "Risk Education Moving Forward" issue has a broad collection of articles that serve various niches in risk management and insurance education.

The role of risk management and insurance (RMI) education has taken on a greater importance in recent years. While not unique to the insurance industry, most readers of the *Journal of Risk Education* are well aware of the talent gap facing the industry in the next decade or two. In addition, because of the cost incurred by insurers for their training programs, more carriers are cutting back on their training and relying on RMI collegiate programs to produce students that at a minimum have a solid foundation in areas such as loss control, claims, underwriting, risk theory, actuarial principles, insurance company operations, etc. We are also relied upon to inform students about how principles of risk and insurance work in the real world, including educating them on misunderstandings about the industry. While each student has to pursue his or her own passion, RMI educators are called upon to introduce college students to the industry and provide exposure to the potential of a risk management and insurance career, and yes, even the exciting aspects of this dynamic profession.

In this issue of "Risk Education Moving Forward" the four papers cover a wide array of topics that each in their own way contributes to the advancement of RMI education. Appalachian State University faculty Karen Epermanis and David Wood provide an extensive and comprehensive case study involving the four categories of risk facing an amusement park. Bringing RMI concepts alive in a case study setting has proven to be a successful approach for students to learn and retain important RMI principles. Brenda Wells of East Carolina University draws upon her vast experience as an RMI educator to offer a blueprint for building such a program. Many of the concepts discussed in her paper are also applicable to established programs that have a relatively longer history.

Richard Corbett, who recently retired from Florida State University, draws upon over four decades of teaching experience to provide some “best practices” in teaching ethics within a risk management and insurance curriculum. Unfortunately, the business community has experienced its share of questionable ethical practices, especially in the past few years, which adds to the timeliness of the Corbett paper. Speculative risk is important to an insurance company’s overall profitability and is an important component of Enterprise Risk Management. Stephen Avila and Kevin Gatzlaff, both with Ball State University, discuss an assignment they’ve used successfully that examines speculative risk, including financial markets, investments, stocks, mutual funds, 401(k) plans, target retirement funds, and asset allocation.

I would like to take this opportunity to thank those who participated in the double-blind referee process as Associate Editors by providing helpful comments to the authors who submitted manuscripts for review. Kudos also goes out to Doris Rios, Administrative Assistant in the Finance Department at New Mexico State University for providing editing and formatting expertise. Finally, gratitude is extended to Dr. James Kallman of St. Edwards University, whose vision for an academic journal focused on risk management and insurance education resulted in the establishment of the *Journal of Risk Education*.

A secondary purpose of this Special Issue was to provide an impetus to “restart” the Journal of Risk Education after a period of hiatus. In that regard I am pleased to announce that Dr. Brenda Wells will be taking over the duties as Editor of the Journal of Risk Education for future issues. Brenda has already set up an impressive web site for the JRE at www.jofriskeducation.org, where specifics on submitting manuscripts to be considered for future issues, and well as a wealth of other information, can be found.

J. Tim Query, Ph.D., C.P.A., A.R.M.
New Mexico State University

Amusement Central
A Case Study

By:

Karen Epermanis, Ph.D.
Associate Professor
Appalachian State University
Epermanisk@appstate.edu

And

David D. Wood, Ph.D., CPCU
Joseph F. Freeman Distinguished Professor of Insurance
Appalachian State University
Wood@appstate.edu

Dr. KAREN EPERMANIS is Associate Professor and Director of the Brantley Risk & Insurance Center in the Walker College of Business at Appalachian State University. She joined Appalachian State University in the fall of 2006 after previously serving on the faculty of The University of Mississippi and the University of Hartford. She earned her Ph.D. degree in Finance from the University of South Carolina and also holds a B.B.A. in Risk Management from the University of Georgia and an M.B.A. from the University of Tulsa. Her teaching interests include enterprise risk management and principles of risk management and insurance. Dr. Epermanis has received awards for outstanding faculty Service (Appalachian State University), teaching (University of Mississippi), and the Shinn Research Excellence Award (International Insurance Society). Prior to entering academe Dr. Epermanis was Director of Risk Management for *Sulzermedica USA, Inc./Sulzer Inc.* Risks included the manufacture of implantable medical devices and heavy industrial machinery.

Dr. DAVE WOOD, CRM, CPCU serves as the Joseph F. Freeman Distinguished Professor of Risk Management and Insurance at Appalachian State University. He earned his Doctor of Business Administration degree from Louisiana Tech University, an MBA from the University of Mississippi and bachelors from Delta State University. Dave works closely with the insurance industry in the development of education programs and seminars. His research interests include alternative risk financing, solvency issues and agency/brokerage operations.

AMUSEMENT CENTRAL
Case Study

ABSTRACT

The use of a case study is an invaluable method of integrating and applying the knowledge and concepts learned in other College of Business courses including Economics, Accounting, Finance, Statistics and most importantly Risk Management and Insurance (RMI). The case study method is probably the most effective way to teach and assess students' understanding of enterprise risk management concepts. However, developing and writing a case study takes an inordinate amount of time for the faculty, and reusing previous cases may tempt students to plagiarize the work of their predecessors.

Amusement Central represents a case structured to guide students through the four categories of risk (strategic, operational, financial and hazard) faced by a company that owns and operates amusement parks. Emphasis is on hazard risk and the use of insurance as a risk treatment method; however, the focus could be shifted to financial management, human resources management, or international management. For undergraduates the case solutions should focus on identification of risk; graduate students should provide solutions that address risk control and alternative risk transfer solutions as well as organizational structure.

INTRODUCTION

The use of a case study is an invaluable method of integrating and applying the knowledge and concepts learned in other College of Business courses including Economics, Accounting, Finance, Statistics and most importantly Risk Management and Insurance (RMI). The case study method is probably the most effective way to teach and assess students' understanding of enterprise risk management concepts. However, developing and writing a case study takes an inordinate amount of time for the faculty, and reusing previous cases may tempt students to plagiarize the work of their predecessors.

The following case was used in the RMI capstone course at Appalachian State University during the spring semester of 2012. App State offers a major in RMI and the capstone course is designed to incorporate elements of the major courses as well as fundamentals taught in other College of Business courses. The capstone course covers the management of enterprise risk and insurance. While the case was designed specifically for an RMI course, it can easily be adapted for finance, human resources, or international management courses.

The case is entirely hypothetical; however, it is based on a variety of actual amusement parks and actual geographical locations are important for the case analysis. Financial statements, loss data and other supporting statistics are entirely fictitious and may be exaggerated to demonstrate certain concepts.

TEACHING NOTES:

The case is structured to guide students through the four categories of risk (strategic, operational, financial and hazard) faced by a company that owns and operates amusement parks, Amusement Central. Emphasis is on hazard risk and the use of insurance as a risk treatment method; however, the focus could be shifted to financial management, human resources management, or international management. For undergraduates the case solutions should focus on identification of risk; graduate students should provide solutions that address risk control and alternative risk transfer solutions as well as organizational structure.

The Amusement Central case includes Excel files that are available from the authors. Students are expected to work through the Excel workbooks. The Risk Map Workbook provides a structure for students to identify exposures, organize them in terms of relative frequency and severity, and depict them graphically on a risk map. The Claims Workbook requires students to evaluate potential problems with frequency and severity in workers' compensation losses and suggest loss control steps. The Loss Forecasting Workbook is designed to help students forecast future expected Workers Compensation losses. The Financial Statements Workbook requires students to conduct an analysis of the financial health of Amusement Central. The Property Workbook provides schedules of property owned or used by Amusement Central and requires students to properly categorize various types of insurable property, the appropriate values to be considered, and identify insurance policies that would provide coverage (if insurable). The Insurance Program Worksheet provides a current insurance program for the company and requires students to suggest changes and recommend a new program in terms of coverages, endorsements, limits and hypothetical insurers (based on information provided).

For graduate students the case may be used as the source of instruction under the case method. The case should be used as a supplement to traditional undergraduate class lectures. Students can work on the case individually or in groups of 3 to 5. An exceptionally beneficial use of the case is for students to present their case analyses to a panel of industry professionals. The panel should then present their reactions and evaluations of the solutions at the conclusion of the presentations. This practice not only helps students understand the perspective of professionals, but also builds ties with industry which can lead to scholarship and internship support. Students should understand that career opportunities could even result from the presentation of case solutions.

Amusement Central (AC) is a family based company structured as a Limited Liability Company (LLC). Students should note the importance of corporate forms and the impact on financial, governance and legal liability and insurance coverage issues.

The home office is based in the United States, but the company has operations in Mexico and suppliers in Asia. Several issues are raised to encourage students to consider the international exposures of exchange rates, international trade, supply chains, regulation, foreign property, employment of foreigners, cultural and liability issues. Additional emphasis could be placed on the historical impact and effectiveness of trade agreements such as the North American Free Trade Agreement (NAFTA).

The organizational chart and the make-up of the Board of Directors are provided. Students should recognize that the reporting relationships are not ideal and suggestions are needed for a succession plan. The complications of a family owned enterprise can also be emphasized as well as the value of outside directors. Other situations are presented in the case that relate to family involvement in a work situation that need to be addressed in every organization such as the use of corporate vehicles by family members. Domestic disputes and other human resource issues could be easily interjected. AC's current employment practices and the need for an employee manual could lead to discussions of virtually any human resource issue for family and non-family owned enterprises.

AC is highly leveraged and students should recognize the problems that they have in the areas of receivables and inventory management. Information for ratio analysis can be obtained from the authors. Additional emphasis for a finance intensive course could be placed by adding information for capital budgeting and cash budgeting problems. Risk management students should identify exposures that could cause a park shutdown and suggest a crisis management plan in the event of such a shutdown.

Numerous examples are provided for students to identify risk, suggest loss control options, determine whether the current insurance program provides coverage and suggest needed coverage changes. Students should also recognize that hazards can't be easily compartmentalized and that solutions in one area (cyber liability for example) may cause problems in other areas (customer service and profitability). Students should also consider the benefits (savings) versus the risk of using or not using vendors/wholesalers (importing Chinese seafood, for example).

The case refers to contracts AC has entered into and provides a sample lease agreement. Students should recognize that AC has accepted liability of others through these contracts; then discuss contractual liability and how risk can be transferred contractually. Additional emphasis could be placed on civil and contractual legal principles through discussion of tragedies at amusement parks. Recently, a woman fell to her death while riding a roller coaster at Six Flags Over Texas, focusing attention on the lack of federal regulations. (Curry, 2013) Park safety news and information is provided by the Amusement Safety Organization. (Amusement Safety Organization, 2013)

Students should be encouraged to think “out of the box” and suggest solutions that are not necessarily given in a textbook. This encourages discussion among students, exercises critical thinking skills and gives opportunity to learn from one’s mistakes.

Works Cited

Amusement Safety Organization. (2013, July 30). *The Latest Park Safety News & Information.* Retrieved July 31, 2013, from Amusement Safety Organization: http://www.amusementsafety.org/

Curry, C. (2013, July 22). *No Federal Regulations for Roller Coaster Safety* . Retrieved July 31, 2013, from ABC News: http://abcnews.go.com/US/flags-roller-coaster-death-highlights-lack-safety-regulations/story?id=19736762

AMUSEMENT CENTRAL

Case Study
For Enterprise Risk and Insurance Management

This case is entirely hypothetical. Any resemblances to people, events or entities are merely coincidental. Some of the places may actually exist and the geographical locations may be important for the case analysis. This case is purely for instructional purposes and may not otherwise be reproduced or used in any fashion without the written consent of the authors.

The following Excel Workbooks are available from the authors:

- Claims Analysis
- Financial Statements/Ratios
- Insurance Program
- Loss Development
- Loss Forecasting
- Property
- Risk Map

AMUSEMENT CENTRAL

Company Description

Amusement Central (AC) is a Limited Liability Company (LLC) operating a regionally based system of amusement parks headquartered in Charleston, SC. Founded in 1940 as a family fun park, AC has based their operations on the premise of "everyone having a good time." Additionally, their main attraction to the park includes providing guests with the most *extreme* adventure possible in terms of their roller coasters and other rides. For example, for many years AC has been able to boast the oldest and longest wooden roller coaster adventure at their Charleston, SC facility. Each park has on average 10 different roller coasters or otherwise "extreme" rides.

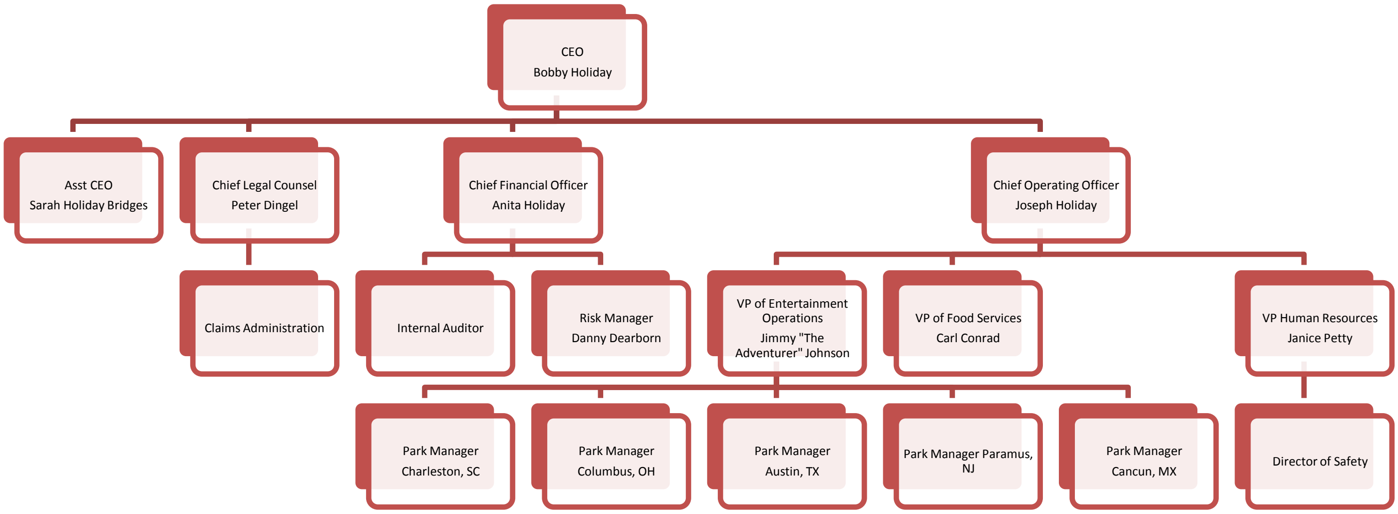
Amusement Central is primarily a family based operation. The Holiday family currently has 45% ownership in the company. Just over 12 years ago, the family was faced with financial challenges and had to reorganize from a partnership to an LLC. The remaining ownership rests with 20 very large LLC's, banks, and private equity firms. Amusement Central, LLC passes profits to its members based on percentage of ownership. The LLC structure is an attractive business form because it allows the company to pay out earnings to its owners without first paying significant federal and state taxes at the entity level, avoiding what is known in the corporate form as double taxation of earnings.

Eight years ago AC embarked on a major acquisition effort and expanded from their historic 2 park operation (Charleston, SC and Columbus, OH) to its current base of 5 theme parks. This includes the three year old acquisition of a run-down indoor theme park located in Cancún, Mexico, which targets cruise line passengers during their debarkation in Cancún or Cozumel. Other locations include Austin, TX and Paramus, NJ. With the current expected economic downturn lasting for several additional years, Standard & Poor's Ratings Services had lowered its outlook on the theme park company to "Negative" from "Stable". Amusement Central's SIC code is 7996 and corresponding NAICS code of 713110. On average, the parks are open 6 months/year running from May 1st through October 31st. The Cancún theme park is open year-round.

AC judges their annual performance based upon two main parameters: (1) Total number of guests visiting each park, and (2) Average amount spent in the park per guest. Last year's attendance was 8,721 ('000) with in-park spending per guest of $36.26 (food, drinks, games, etc).

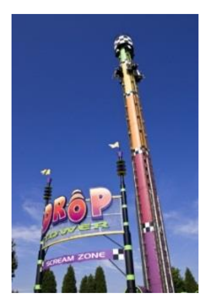
Summary of Park Pricing Schedule	
U.S. Operations	
Season Pass ≥ 48" tall	$85.00
Season Pass < 48" tall	$62.00
Regular 1 Day Pass	$40.00
Regular 2 Day Pass	$60.00
Mexico Operation	
Cruise Line 1 Day Pass	$95.00
Non-Mexican Citizens Regular 1 Day Pass	$75.00
Mexican Citizens' Regular 1 Day Pass	1,400 MX - Pesos

The Holiday family has 45% ownership and they run the company. Last year the company suffered a loss (just over $6 million) for the first time in many years. The organizational chart is:



The Board of Directors consists of the following members:

- Bobby Holiday – Chief Executive Officer, Amusement Central
- Anita Holiday – Chief Financial Officer, Amusement Central
- Joseph Holiday – Chief Operating Officer, Amusement Central
- Sarah Holiday Bridges – Assistant Chief Executive Officer, Amusement Central
- Peter Dingle - Chief Legal Counsel, Amusement Central
- Phillip Cage – Retired Chief Financial Officer – AmeriCan Grocery Services, Inc.
- Lewellin (Lew) Forrester – Chief Executive Officer – Allstate Entertainment Enterprises
- Kingsford W. Gross, IV. – Chairman and President – SwampFox Adventures
- Mary Beth Oxford – Retired Senator from the State of South Carolina



Bobby Holiday is 76 years old and has been at the helm of the company for the past 35 years. He loves to ride the roller coasters and believes that he is only doing his job when he is out on site visiting with guests and employees. Last June the family had quite a scare when Bobby complained of chest pains after riding the signature Dragon Drop Gravity Tower. After a trip to the emergency room, it was determined that he was just suffering from a bad case of indigestion. However, the event scared the family because it highlighted the fact that the company does not have a firm succession plan in place should one of the family members die or become incapacitated.

Sarah Holiday Bridges, 47, is Bobby's oldest daughter. Her place as the company's Assistant CEO is largely titular. Sarah quit high school when she was 17 and spent many years traveling around the country trying to "find her." After several visits to drug rehab centers, Sarah thinks she is finally getting her act together. Two years ago she married Jonah Bridges whom the family thinks is a fortune hunter. The family just wants Sarah to be happy, so they largely overlook Jonah's wild spending sprees and penchant for bar-hopping. The outside board members are largely displeased with Sarah's role in the company and want to force a vote to get her dismissed from the company and board. However, the Holiday Family has pulled out all the stops to preclude this from happening (see Litigation).

Anita and Joseph Holiday are Bobby's more successful children. Anita, 45, serves as the company Chief Financial Officer (CFO), with internal audit and risk management reporting directly to her. Joseph, 42, serves as the Chief Operating Officer (COO) and is responsible for all operations involving the park. This includes the park rides, food services, and human resource functions. Jimmy "The Adventurer" Johnson serves at the VP of Entertainment Operations. His nickname as "The Adventurer" was proudly earned. Jimmy's main goal in life is to create new and more adventurous rides for each park. He firmly believes that the AC brand across the nation will only survive their competition by offering the most challenging and frightening rides in the country. At times Jimmy goes a bit too far and guests have complained of heart pains and severe body bruises from the roller coaster rides.

Danny Dearborn, 30, serves as the company's risk manager. Danny is relatively young but has earned quite a reputation among other risk managers in the recreation industry as being honest, forthright, and progressive in his risk management philosophy and practices. Danny recently completed his CPCU designation and is currently actively learning as much as he can about Enterprise Risk Management. Danny is convinced that a more global approach to managing all types of risk will keep the company from economic catastrophe, especially during these hard economic times. Danny is lobbying to become the company's youngest VP as their new VP Enterprise Risk. Currently Danny's main role is to purchase insurance and he wants more control over risk. Danny especially wants a change in reporting structure where both the claims and safety functions report directly to him. Currently there is widespread confusion concerning this idea.

Operations

With the exception of the Mexico location, each park has the same basic layout. Park operations include a 400 acre theme park with an additional 100 acres designated for parking. Each park has on average 10 thriller rides, with other smaller and less exciting rides dispersed throughout. There is a special area designated for smaller children, with age-appropriate rides included.

Walking is the primary means of transportation throughout the park. However, each park also has a chair lift to transfer guests from one end of the grounds to another. Guests under the age of 8 must be accompanied by an adult on the chair lift. Modified golf carts are used for transportation of injured or ill guests to the first-aid station which is located near the park's entrance. The first-aid station is staffed with one registered nurse and two medical students from area schools. A tram system is in place to help guests get from the parking area to the entrance. Children's strollers and manual or electric powered wheelchairs are available at the entrance for rent at a cost of $10.00 per day.

Each park has a “Main Street” section with restaurants, shops, and entertainment venues. Alcoholic beverages are available for purchase only in the “Main Street’ section of the park. The *Scavengers Bar* is the most popular location for adults who want to see scantily clad bar-maids and pirates re-enact the old days while chugging down a brew or two. For fight scene reenactments, *Scavengers* has been known to use pyrotechnics. A few small fires have been noted to erupt, but so far there has been no major damage. At times the bar gets rather rowdy, so guests under the age of 21 are not allowed. Parents have been known to “lose” their children as they have let them run unaccompanied through the park while the parents spend time in the bar.

For security purposes there is only one means of ingress or egress at each park…through the main entrance. Main Street is strategically located as the first major area within the park. Three to four restaurants are located along the street for a mid-level to fine dining experience. Entrees range from $15-$40 per person. A number of shops are also included for gifts and souvenirs associated with the Amusement Central experience. Guests must walk through this area before accessing the other attractions. Three theaters are also included for entertainment purposes. Shows start at 10:00 am and run until the park closes at 10:00 pm. Most of the early shows are geared for children and young adults. However, a nationally acclaimed comedy show and adult content shows typically run from 7:00 – 10:00 pm. During the evening hours, show entertainers have been known to walk around Main Street in their “performance outfits” to entice adult guests into the show.

AC runs two seasonal events each year, one in July and the other in October. In July, the park celebrates the birth of our country with a special 4th of July month-long promotion (excluding the Cancún location). Park hours are extended until midnight, and a special U.S.A. Forever show is conducted on Main Street. Bands play and children get to dress up in their favorite U.S. character for the parade. The evening is capped off with a special fireworks extravaganza where the night skies are lit over the parking area. A few guests have complained over the years about cinders on their parked cars, but to date no serious reports of injury or damage have been noted.

Because of the specialized skills necessary to run the *Scavengers* pyrotechnics and the special July fireworks extravaganza, AC has contracted with Fires Are Us (FAU) to provide this service. FAU is a small family-run company that has been in the business for the past 50 years. The company will not work in Mexico, so only the U.S. operations are involved.

The agreement with Fires Are Us states, in part, that:

> *“Amusement Central agrees to indemnify and hold harmless Fires Are Us and its officers from and against all liabilities, damages, losses, costs, and expenses for property damage, bodily injury or death of any officer, agent, employee, or customer of Amusement Central, arising out of or in connection with products and services to be provided under this agreement.”*

During the month of October, AC runs their famous “Amusing Halloween Adventure” promotion. The entire park is re-engineered to scare the guests in typical Halloween fashion. The lights are dimmed or replaced with low-wattage orange lights throughout the park. Employees dress in their favorite Halloween costumes. The more gore the better is the overall park theme. After dark, children under the age of 10 are not recommended because of the risky scare factor.

Each year Jimmy "The Adventurer" Johnson personally designs a unique *House of Screams* attraction which is intended to scare even the most pessimistic guest out of their mind. This attraction has a special sign at the entrance which states: "Caution, this *House of Screams* is our ultimate extreme attraction designed to scare the wits out of you. Children under the age of 10, pregnant women, and individuals with heart ailments are not encouraged to attend." The only problem is that the sign is posted at the attraction's entrance and because of the popularity, there is, on average, a two hour wait before guests even see the sign. Many guests decide after the wait to just go in and see what the fuss is all about.

Foodservice operations represent approximately 30% of total net revenues with approximately 50% coming from the in-park restaurants and 50% from the Food Kiosks strategically located throughout the park. Guests may not bring in food or drink from outside the park. Thus, AC has a captive audience for food and drink sales.

Cancún, Mexico

The Cancún location operates differently from the U.S. operation because it is on a much smaller scale, targets a specific audience, and is operated year-round. Purchased as a run-down amusement park several years ago, this indoor park is mainly used for cruise-ship day adventures from Cancún and nearby Cozumel, MX. The park is 75 acres with only 15 acres designated for parking. Several extreme rides are located throughout the park. Many smaller rides exist for the children, as well as an extended "adults-only" area for entertainment purposes. Mexican food is the specialty, served in one of the two restaurants located in the *Calle Major* (Main Street) section of the park. At the food kiosks located throughout the park, plenty of hot dogs, nachos, popcorn, soft drinks, cerveza, and bottled water are available.

While Mexican tourists are certainly welcome, the pricing schedule does not particularly encourage "locals" to the park. The daily "average" Mexican wage base is approximately 50 MX Pesos. Park operations cater to the docking of cruise ships and other tourists vacationing in Cancún. Park hours are from 8:00 am until 4:00 pm, with an average guest stay of 4 hours in the park. AC provides special tour busses at the dock to shuttle guests to the park and back. A 20% service charge is built into the ticket price and paid directly to the Cruise Line. Cruise passengers love coming to this park because there are much fewer people milling around and in general you don't have to wait more than 15 minutes to get on a ride. Also, because the park is under a roof, weather is not a factor. Reporting the financial results for this park has been troublesome. Cruise-line and general tourist related revenues are transacted in $U.S. currency. Guest spending within the park is accepted in either U.S. or Mexican currency, and Admission Fee for Mexican citizens is transacted in Pesos.

Mexican safety laws are not as extensive as those found in the United States. In order to turn a profit, Joseph Holiday thinks it is fine to just meet the minimum Mexican safety standards and not upgrade this facility to meet U.S. standards. As a result, the incident rate of injured guests at the park runs about 3 times higher as compared to other park operations. Joseph thinks this is fine, after all "When in Rome…" However, other board members are concerned about the faltering safety rate and its effect on the company's reputation.

An additional challenge at this location is finding employees who are fluent in English for their clientele. As a special "hiring bonus" each new employee is given a special *Family Pass* which admits up to 8 family members into the park for the calendar year. The only requirement is for the park employee to be with their family members in the park and vouch at the entrance that the individuals are indeed family members. The Park Manager has noted a marked increase in "locals" at the park and is questioning whether these free passes are allowing too many non-tourist guests into the park. This park also has a higher petty crime incidence rate than other comparable parks

Strategic

AC prides itself on delivering a superior customer experience in each of its parks. The roller coasters and other thriller rides are the main draw. The company's Mission Statement reflects their desire to provide affordable entertainment in a safe and fun manner. From the company's perspective, the term *"amusement"* in its corporate name pretty much sums up the company's objective.

The company competes for discretionary spending with all phases of the recreation industry within its primary market areas, including movies, sports events, restaurants and vacation travel. The economic slowdown and tightened credit environment that began a few years ago continues to the present, as consumers curtailed discretionary spending in response to the worsening recession. Despite the challenges of the ongoing recession, AC continued investing in, and even accelerated, certain strategic growth initiatives with regard to infrastructure and park rides. AC's philosophy is to invest in new equipment now so that the parks are ready to go when the economy recovers and customers resume visiting amusement parks.
While the Holiday family runs the company, each individual Park Manager has autonomy in managing day-to-day park operations. Maintaining franchise consistency between the parks remains a key area of concern. The Mexico operation in particular is managed as an independent location and very little has been done to integrate that park into the overall corporate structure.

Financial

Market Risk
Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. Amusement Central is exposed to market risk from changes in both foreign currency exchange rates and interest rates. Amusement Central monitors its exposure to these risks and attempts to manage the underlying economic exposures through the use of derivative financial instruments. Amusement Central does not intentionally use derivative instruments for speculative or trading purposes.

<u>Currency/Foreign Exchange Risk</u>
Amusement Central has international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations and restrictions on movement of funds. Foreign exchange risk exists to the extent that Amusement Central has payment obligations

or receipts denominated in currencies other than the functional currency. To manage these exposures, Amusement Central identifies naturally offsetting positions and then purchases hedging instruments to protect the residual net exposures.

Interest Rate Risk

Amusement Central's interest rate risk management policies are designed to reduce the potential volatility of earnings that could arise from changes in interest rates. Through the use of interest rate swaps, Amusement Central aims to stabilize funding costs by managing the exposure created by the differing maturities and interest rate structures of Amusement Central's assets and liabilities.

AC manages interest rate risk through the use of a combination of fixed-rate long-term debt, interest rate swaps, which fix a portion of the variable-rate long-term debt, and variable-rate borrowing under their revolving credit facility. AC mitigates a portion of their foreign currency exposure from the Mexican peso through the use of foreign-currency denominated debt. Hedging of the U.S. dollar denominated debt, used to fund a substantial portion of investment in the Mexican operations, is accomplished through the use of cross-currency swaps. Any gain or loss on the effective hedging instrument mainly offsets the gain or loss on the underlying debt. Translation exposures with regard to the Mexican operations are not hedged.

Credit Risk

Credit risk is the possibility of loss from a customer's failure to make payments according to contract terms. Prior to granting credit, each customer is evaluated, taking into consideration the borrower's financial condition, collateral, debt-servicing capacity, past payment experience, credit bureau information, and other financial and qualitative factors that may affect the borrower's ability to repay.

Unfavorable general economic conditions, such as higher unemployment rates, a constrained credit market, housing-related pressures, and higher prices for consumer goods may hinder the ability of those with which AC does business, including vendors, concessionaires and customers, to satisfy their obligations to AC. Exposure to credit losses depend on the financial condition of vendors, concessionaires and customers and other factors beyond AC's control, such as deteriorating conditions in the world economy or in the theme park industry. The current levels of disruption and volatility in the credit and financial markets have increased AC's possible exposure to vendor, concessionaires and customer credit risk because it has made it harder for them to access sufficient capital to meet their liquidity needs. This market turmoil generally increases AC's risks related to the company's status as an unsecured creditor of most of their vendors and concessionaires. Credit losses, if significant, would have a material adverse effect on business, financial condition and results of operations. Moreover, these issues could also increase the credit risk inherent in the business.

Working Capital and Capital Expenditures

During the operating season, AC carries significant receivables and inventories of food and merchandise, as well as payables and payroll-related accruals. Amounts are substantially reduced in non-operating periods. Seasonal working capital needs are funded with revolving credit facilities, which are established at levels sufficient to accommodate the AC's peak borrowing requirements in April and May as the seasonal parks complete preparations for opening. Revolving credit borrowings are reduced daily with AC's strong positive cash flow during the seasonal operating period. The company believes that annual park attendance is influenced to a large extent by the investment in new attractions from year to year. Capital expenditures are planned on a seasonal basis with the majority of such capital expenditures made in the period from October through May, prior to the beginning of the peak operating season. Capital expenditures made in a calendar year may differ materially from amounts identified with a particular operating season because of timing considerations such as weather conditions, site preparation requirements and availability of ride components, which may result in accelerated or delayed expenditures around calendar year-end.

Specific Debt Agreements
Three years ago Amusement Central was faced with potential bankruptcy given their highly leveraged financial situation and the decline in gate receipts. Consequently, the company had to renegotiate key debt agreements at less than favorable terms. These debt agreements contain restrictions that could limit the company's flexibility in business operations. The credit agreement includes restrictive covenants that could impose significant operating and financial restrictions including:

- Limitations on incurring additional debt or issuing preferred equity;
- Selling certain assets;
- Creating liens on certain assets to secure debt;
- Consolidating, merging, selling or otherwise disposing of all or substantially all assets;

The credit agreement also requires AC to meet certain maximum leverage ratios. Failure to comply may constitute default under the credit agreement.

Litigation

One key issue for the company's outside board of directors is to be able to assist with the management of the company and not just "rubber stamp" the Holiday family decisions. In particular, the continuance of employment for Sarah Holiday Bridges as Assistant CEO is seen by outside board members as blatant favoritism and unreasonable given her background. When the board tried to force Sarah's ouster and replacement, they were effectively shut down by the Holiday Family. In response, Phillip Cage filed suit on behalf of the unitholders against the company alleging that the MLP has blocked the right of the unitholders to nominate board candidates, or to solicit proxies in support of new candidates, for election to the board of directors. This litigation is ongoing.

Hazard

Restaurants/Kiosks
Amusement Central is able to provide the freshest produce to each of its U.S. locations through an exclusive deal with Produce Distributors (PD). PD gets its produce from a variety of small farms located primarily throughout the south. In order to keep costs down, PD delivers produce directly to Austin, TX (greater Houston) park and also to the Charleston, SC park. The Charleston facility serves as a clearing-house for the Columbus, OH and Paramus, NJ locations. Once delivered in Charleston, produce is immediately transferred to refrigerator trucks and park employee volunteers drive throughout the night to distribute the produce to the two northern locations. Produce Distributors is currently on the Department of Agriculture's *high alert* list for a suspected E. Coli breakout this past summer. While AC is a bit concerned about this issue, they are not currently planning any changes in operations because to their

knowledge no park guest has complained about getting sick on produce. For the Cancún location, AC obtains produce directly from local Mexican suppliers.

Last year AC imported $100 million in seafood from China and Taiwan. In an effort to save money, rather than deal with local wholesalers AC deals exclusively with Chinese Checker Distributors (CCD) who contracts directly with local fishermen for the freshest seafood available. About 35% of the seafood items come directly from farms along the Long River in Fuqing China. Payment is made in the Chinese Yuan, and the terms of the shipment are *Free on Board (FOB)* Shanghai, China. AC does not know how CCD obtains their Taiwanese seafood, but feels it is not their problem. The seafood is delivered directly to the Port of Charleston and then divided up for further transport. Often, the seafood shipments are combined with the produce shipments for distribution to Paramus and Columbus. This past year AC has noticed that an increasing percentage of seafood is arriving as "spoiled". AC's spoilage rate was 10% as compared to previous years' 5%. To ship seafood to Texas, AC contracts directly with Federal Express.

AC's contract with Chinese Checker Distributors states, in part, that:

> *"Amusement Central agrees to indemnify and hold harmless Chinese Checker Distributors and its officers from and against all liabilities, damages, losses, costs, and expenses for property damage, bodily injury or death of any officer, agent, employee, or customer of Amusement Central, arising out of or in connection with products and services to be provided under this agreement."*

In another effort to keep costs down, Carl Conrad has been able to use his connections in the wholesale industry to negotiate special deals on meat. While Carl is certain that his suppliers will continue to honor the agreements for some time, there are no written contracts in place. Every night between the hours of 11:00 pm and midnight, AC sends its drivers in company owned refrigeration trucks to the wholesaler's warehouse. Deeply discounted meat is loaded onto the truck and driven between 150 and 200 miles back to the AC facilities. This is a cash only transaction, so drivers usually have $10,000 in the truck on their way to the wholesaler. Employees driving the trucks are under a special incentive plan to have the meat unloaded at the AC parks by the time the kitchen staff reports the next morning at 6:00 am. Failure to do so means an automatic pay reduction of $100 and possible termination. The drivers are grateful for their radar detectors in order to help them make their delivery on time.

To help keep the drivers awake, each is provided with a cell phone and instructed to talk to whomever they want as long as it keeps them awake. The employees from Mexico especially like this benefit. Lately, the cellular phone bills have been very high. AC's owners do not mind. They figure the high cell phone bills are still less than the cost of an accident related to a worker falling asleep at the wheel.

The restaurant servers are generally college kids hired from the local area. However, AC has found that some of its most loyal chefs have come from Mexico. It is a big joke among the employees that if you want to know what is going on in the kitchen, then you better speak Spanish. Current employees often recommend friends and family to work in the kitchen. No background checks are performed. Recently, Janice Petty was concerned that several of the workers had not supplied social security numbers on their employment forms. The workers, all from Mexico, say that they have lost the cards and will get the information to her soon. In some cases, they have been saying that for several years.

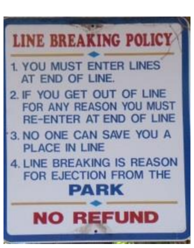
Amusement Rides

Of paramount importance is to keep the rides operating at all times. All rides are run and inspected daily by both the company's maintenance and ride operations personnel before being put into operation. Additionally, all parks are subject to state or county ride-safety inspectors where mandated under state/local law.

Because rides are the parks' main attraction, AC spends considerable time working through the logistics of getting as many guests on rides as possible in any given day. AC recently purchased a specialty computer program from a vendor, Ajay Aiswara, of Line Management, that Jimmy Johnson met outside the annual Amusement Park Conference and Exhibit. While Ajay's business card was printed by *Vista Print*©, Jimmy was very impressed with Ajay's mastery of the English language and his Harvard education. The program has recently been installed on the company's only mainframe computer which is located at the Charleston headquarters. It is designed to track each specific guest's entry onto the rides and times the guest's experience throughout the park. Each ride-based employee is given a hand-held scanner who scans the park ticket before the guest enters the ride. The scanned bar code also includes specific guest information, including credit card numbers, for those who did not pay in cash. Jimmy hopes that this new program will help manage and cut down wait times associated with the rides. Carl Conrad is currently lobbying for the scanning capabilities to be expanded to track food service operations throughout each park.

In order to keep rides operational and the guest lines flowing, each of the main attraction rides are staffed with special employees whose job it is to "unstick" any overweight or otherwise immobile guest from the ride's seating area. Park employees view this particular responsibility as one of the least desirable because park guests usually complain about the methods employed to forcibly remove a stuck guest. Litigation has been threatened against the company from allegations of improper touching of personal areas to wanton discrimination against the obese. Park employees complain that these individuals are insensitive to the park's ride constraints because usually a guest who has needed assistance in being removed from a ride typically goes on their way to ride more rides. The company record for "unsticking" a single guest is 8 times in one day!

A park policy is to allow handicapped guests and their families to go to the head of the line for each ride. While handicapped patrons love this particular perk, Bobby Holiday has noticed that wheelchair rentals have increased by 50% over the past year. Bobby suspects that families are renting a wheelchair to show *handicapped status* and cut to the front of the line.
Bobby has also noticed an increased incidence of employees turning a "blind eye" to the posted height requirements. Generally a child must be 48" or taller in order to ride one of the extreme thrillers. However, many employees feel that as long as an adult is with the child to supervise them then it is ok to get on the ride. The Director of Safety has reported 14 incidents of children practically falling out of their seat belt/harness on the roller coaster rides. Thankfully no child has completely fallen out during a ride.



Staff management has also noticed an increased incidence of employees letting their friends jump to the front of a particular ride. On several occasions other guests have protested, and in one particular case a fist-fight erupted when a guest felt the practice was unreasonable. The protesting guest suffered a broken nose and was given 2 complimentary day passes for their next visit. They left the park satisfied, and no incident report was filed.

Crime/Security

Amusement Central is particularly committed toward the safety of their guests. Security cameras are strategically located every 25 yards in the park. Additionally, cameras are posted at each cash register within the park. This includes the Food Kiosks, Restaurants, Gift Shops, and the Entrance. Park managers have recently installed cameras in each restroom, hoping to cut down on the number of "alleged" slips and falls in the area. For the parking area, cameras are installed every 50 yards and covers about 80% of all parked vehicles. The security system is 15 years old, on average. Tapes from the cameras run on a 72 hour loop. Thus, any incident more than 3 days old is erased with new feed. One security guard is housed in a special un-locked room at the back of the first-aid station to monitor the extensive set of security cameras.

Nighttime security is left up to the individual park managers. The Charleston and Columbus locations employ retired police personnel who police the grounds during the park season. These guards are armed. Austin and Paramus locations are a bit more conservative. Rather than having armed guards, park managers each house 10 guard dogs specifically trained to maim when an intruder is on the premises. At the Cancún location, the park manager has opted for an electronic security fence to be installed to keep the locals out of the park. The internal grounds are monitored with one security guard who drives a golf cart around the interior.

Company policy dictates that a maximum of $1,000 in cash can be held in the register at any given time. Once the limit is reached, employees must log out of their register and prepare a deposit slip. Employees then call on a basic walkie-talkie system for a security guard to pick up the deposit. Deposits are to be picked up within 15 minutes of the call. However, in practice it generally takes 45-60 minutes for security to arrive. Armed security personnel arrive in a beefed-up metal golf cart to receive the deposits and deliver them to the park safe, located in the first-aid station. The park manager is instructed to make nightly deposits to the local bank. It is not unusual for $150,000 in cash to be deposited on peak park days. Some park managers assume that there is no need to get the deposit to the bank right away; as long as it gets there before morning. On one occasion (Paramus, NJ) the manager reported $55,000 in cash stolen from his pick-up truck's glove compartment while parked at his home. In this particular incident, the manager had a special party to attend after his shift and forgot to make the deposit before his party.

Each location receives, on average, 3 reports of petty theft within the park each week. Usually it involves a purse, handbag, backpack, or stolen wallet. Park security is trained to spot these incidents and feels that the incident rate is below-average for their type of operation (Note: Mexico's incident rate is 9 reports weekly). However, security is trained to look out for these types of incidents. Company policy is to give the affected guest 2 complimentary regular admission passes for a future visit to the park. Because one cannot verify the amount of cash stolen, no offer for reimbursement of cash is tendered.

With respect to the gift shops, security is usually on heightened alert. Security personnel have been known to take suspected shoplifters into a back room and work them over for 1-2 hours in hopes of obtaining a confession. While security cameras are trained on the cash registers, they are not posted throughout the shop. Thus security is afforded the opportunity to use their discretion in interviewing suspected shop-lifters.

As CFO, Anita Holliday is responsible for the books and reconciling accounts. However, she dislikes working with figures and leaves the accounting issues to her trusty bookkeeper, Adrian, who has been with the company for 15 years. With the exception of facility improvements such as ordering and maintaining the amusement rides, Adrian has full authority to sign all checks and approve orders for supplies and equipment at all 5 locations.

Computer operations are tied into one mainframe server housed at the company's headquarters. Park managers are instructed to back-up their financial information on a daily basis. However, in practice, this is performed only weekly, along with the master data transfer to the mainframe.

Customer credit card information is also stored on the mainframe. However, the company typically uses the old carbon-backed manual system for credit card purchases at the gate. These carbons are placed in the trash for regular disposal. On a weekly basis an employee manually enters information from the carbons/receipts into the database.

As a means of procuring additional revenue, Anita Holiday is considering the sale of AC's master mailing list to select vendors. When park patrons purchase annual passes, critical information such as the customer's name, mailing address and credit card numbers are stored on the mainframe. Selling this information can potentially net the company an additional $200,000 in annual in revenues. Six months ago Anita noticed a possible hack into the main computer. Since she is not sure that the hacker actually stole critical information, she decided to ignore her suspicions and did not notify the authorities of the supposed impropriety.

Since September 11, 2001, Homeland Security has been on heightened alert. Three years ago Chief Legal Counsel, Peter Dingel, attended a 2-week training session on additional security measures for public venues and training to spot suspicious visitors. Peter was enamored with the training he received. However, since neither of the 4 parks has ever had a suspicious incident, he has largely ignored their advice. Park security officers have not received any specific additional training on possible terrorist activities.

Automobile/Transportation

AC has a corporate policy of keeping their vehicular transportation exposures to a minimum. At the Charleston corporate headquarters, each family member is given a leased Toyota Land Cruiser valued at $65,000. The Chief Legal Counsel and the three Vice Presidents are given leased Toyota 4Runners valued at $38,000. Elsewhere, the park managers are each supplied with leased GMC Sierras 2500HD valued at $25,000. Because these vehicles are leased, Danny Dearborn assumes that the leasing company is responsible for any damage resulting from operating the vehicles. Thus the cars are not covered under the master insurance program.

Because of the family-run style of operations, there is no company policy regarding allowing other family members to operate these vehicles. Last spring Anita Holiday received quite a scare as she allowed her 17 year old son Luke to drive the Land Cruiser to his prom. Returning home that evening, Luke lost control of the vehicle, slid off the road and into a tree. When Anita got there, she realized that Luke had been drinking. She opted to pay for the $3,500 in damages from petty cash, and did not file a police report. Luke's date for the evening suffered minor injuries but has been complaining about neck pain ever since the two quit dating.

For meat, produce and seafood deliveries, four of the five parks own two International Refrigerator Trucks valued on average at $50,000 each. The Charleston location owns four refrigerator trucks. These vehicles are 24' long, and 85" high. Because of the required night driving, the trucks are equipped with GPS systems, radar detectors and cell phones. Drivers are typically hired by placing ads in local newspapers. The company also uses word of mouth for good prospects.

There is no policy on checking driving records or employment histories. Janice Petty does ask the new drivers to check a box on the employment form indicating that they possess a Commercial Drivers License (CDL), but she does not personally verify it. For meat pick-ups at the wholesaler's, drivers are expected to drive up to 400 miles each evening between the hours of 11:00 pm and 6:00 am. Longer runs are necessary for produce and seafood deliveries from the Charleston clearinghouse to Columbus, OH and Paramus, NJ. Drivers are encouraged to drive up to 12 hours straight in order to get the trucks back to Charleston as quickly as possible.

In order to cut down on transportation costs, each facility has its own gas pump located at the back of the park. These pumps are used for the refrigerator trucks as well as the golf carts and trams. Employees with a company supplied vehicle are also permitted to use the pump. Recently the Director of Safety has noticed an increased frequency in filling up the storage tanks at the Cancún and Paramus locations. While he suspects that employees are pilfering from the pumps during their shift, he cannot rule out the possibility that one or both locations have a leaking storage tank. For the Paramus location he is considering calling the EPA and asking them how to check for leaks.

Other transportation issues include the tram system which involves a series of 4 trams at each U.S. Park that shuttle guests to/from their cars. These trams are valued at $50,000 each ACV and $60,000 each for RC. Local high school students are typically hired as drivers. At the Austin location, three guests were recently injured when two of the workers decided it would be fun to "drag race" their respective trams. Thankfully the worst of the injuries was a broken leg. Each U.S. Park also owns a series of 10 gas powered modified golf carts valued at $8,000 each. These carts are principally used by personnel to transport injured or ill guests to the first-aid station. During the evening hours, security personnel also use the carts during their rounds.

In Mexico, only one tram is used to shuttle visitors to the entrance. However, their main exposure rests with shuttling cruise passengers to/from their ships. Park Manager Juan Gonzales uses his brother Pablo to contract with local bus companies for this service. The procedure is for Pablo to go to a pre-arranged meeting place each morning at 5:00 am and "contract" with interested bus companies for that day's service. The cost varies greatly, depending upon local demand.

AC needs on average 100 busses each day shuttling passengers back and forth every ½ hour. Since cruise guests prefer to stay indoors on rainy days rather than opt for other offered cruise excursions, AC needs at least 200 busses. AC does not have a contract in place for these busses, as the service provider(s) vary each day. AC believes it is the bus company's responsibility to get all cruise guests back to their ship on time. However, they do utilize an extensive PA system to announce final departures to specific cruise ships. In only one instance has a bus broken down on the highway leaving 50 guests stranded in Cancún as their ships set sail.

Buildings and Property
Each building in the U.S. is sprinklered, while the Mexican facility is not. U.S building codes require that any building suffering damage of 25 percent or more be rebuilt to current codes. Each facility has a series of outdoor signs valued at $100,000 per location.

Amusement Central has estimated that the maximum shut-down time for any facility is six months; that is, it would take six months for the facility to resume normal operations after a total loss. The company's main exposure is loss from a natural catastrophe such as a hurricane or tornado. The company has not assessed their exposure to the earthquake peril. Management has put very little thought into what would happen to their customer base (especially annual season ticket-holders) in the event of a total shut-down.

In Mexico, AC was able to purchase a very run-down indoor park from the government after a severe natural catastrophe. AC has a 50 year lease of the land, but owns outright the building and all associated fixtures/rides. AC spent over $40 million to refurbish this park.

Workers Compensation and Employment Practices
For the U.S. locations, AC employs 560 full-time and 8,500 part time employees. The work is highly seasonal, and AC relies on local high school and college kids for a majority of their work-force. Peak revenue times are the June – August window, where average monthly revenue is up 20% as compared to the remainder of the season. Parks are closed during the months of November – April. While Janice Petty, VP of Human Resources, would like to do more regarding the screening of employees, the volume of turnover is high. Thus it is up to the local park managers to oversee hiring decisions.

Each park manager typically uses an assistant to oversee the seasonal hiring. There is no formal HR manual which covers hiring guidelines and issues. At some parks, it is alleged that minors have been hired without proper documentation. Also, some parks seem to have a high percentage of Hispanic employees and documentation may be an issue. Background checks are not routinely employed.

The typical training period for new hires is two days. During this period of time, the employee is put under the supervision of a more "seasoned" employee to be shown the ropes. While safety is of paramount importance, the extent to which a seasonal employee is trained is entirely dependent upon their trainer. New hires that can evidence CPR training are started out at an additional $0.50/hour wage. Otherwise, there is no formal CPR training provided.

AC does not believe in providing overtime pay for their seasonal employees. In lieu of overtime pay, each park remains open an additional hour after closing so that employees can have unlimited access to ride the key thriller rides. Many of the employees are roller coaster buffs, so they like this particular benefit. The employee lounge is stocked with beer and sodas for use exclusively during the after-hour rides.

The "entertainment crew" is local as well. Using the dance program at regional colleges, AC typically hires a professor to manage the local entertainment venues. They do the auditions for entertainment staff and manage the productions. While in the past there have been allegations of favoritism among the staff for certain "key parts", no one has filed a formal complaint.

The safety and maintenance crew are always full-time employees. In-season their main responsibility is to perform safety checks each morning before the park opens. They also do some emergency repairs during the day if a ride shows signs of malfunctioning. On the off-season, these employees are charged with refurbishing the park, which includes re-painting all of the rides. At the Charleston facility, maintenance staff has been known to deposit unused paint in the local stream which runs through the back of the property. This stream is usually a dry-bed except for the April rainy season.

For full-time employees there currently is a health insurance plan in place, but not a 401(K) program. Janice Petty is considering implementing such a program for the 560 permanent full-time U.S. employees and would like input in this regard. The company believes that the recently enacted healthcare mandate could adversely affect labor costs, particularly for seasonal employees.

The risk manager, Danny Dearborn, has noticed an increase in worker injuries over the past few years. There is no formal return to work program, but this hasn't been a particular problem since the part-time employees usually just go away and they are replaced with new hires. The current Workers Compensation program is a mess. Each of the 4 states has their own insurance program which has been put in place by local agents and controlled by the Park Managers. Danny would like to centralize this particular insurance/risk function. However, one of the states is considered an "Opt Out" or non-subscription state, one is "Monopolistic," and the remaining two states are "Competitive."

The Mexico operations are totally independent. Even with the passage of the North American Free Trade Agreement [NAFTA] in 1992 (and implementation in 1994), increased use of Mexican labor by U.S. companies has not helped their labor situation. For the most part the country continues to ignore many human rights issues with respect to the workers' ability to form a union, equal pay, and sex discrimination. Workers' compensation/reimbursement for on-the-job injuries is at the discretion of the employer. For AC, they have encouraged the Park Manager to compensate employees who are injured while working. However, they have largely turned a blind eye to his actual practices.

Miscellaneous/Additional Information

Amusement Central currently projects its annual growth rate for the next three years to be 2% per year (conservative estimate). The company's discount rate is 5.75%. The annual inflation rate for the area in which the company is located is 5%, while the income tax rate is 37%.

Payroll: AC has 8,500 part-time and 560 permanent full-time employees. For the previous year, payroll was $88,400,000 for part-time and $36,771,000 for full-time personnel.

Attachment A – Standard Lease Terms

WITNESSETH:

Upon the terms and conditions hereinafter set forth, the Landlord leases to Tenant and Tenant leases from Landlord property referred to as the Premises, all as follows:

*1. PREMISES. The property hereby leased to Tenant, located at XXXX [*each of the leased location addresses are entered here*], together with such common spaces in the building and on the lot where the building is allocated as are hereinafter specified (but one another), which leased property is herein referred to as the Premises.*

2. TERM. This lease shall commence on the earlier of the date that the Tenant takes possession of any part of the Premises or [appropriate date inserted here]*, and shall terminate (unless extended as herein provided) at midnight on* [appropriate date inserted here]*. Provided that Tenant not be in default under any of the provisions hereof, and provided further that Tenant give Landlord one hundred and eighty (180) days advance written notice of intent to do so, Tenant shall have the right to extend this lease for an additional period of six months.*

3. USE. Tenant may use the Premises for manufacturing/distribution space, but for no other use without Landlord's prior written consent. In no event shall Tenant make any use of the property which is in violation of any government laws, rules, or regulations insofar as they might relate to Tenant's use and occupancy of the premises, nor may Tenant make any use of the premises not permitted by any restrictive covenants which apply to the Premises, or which is or might constitute a nuisance, or which increases the fire insurance premiums (or makes such insurance unavailable to Landlord) on the building. The tenant is responsible for the payment of the taxes and insurance.

4. RENT. All rent payable by Tenant shall be without previous demand therefore by Landlord, and without setoff or deduction. The Minimum Rent for the term shall be at the rate of $75,000 per month, which rent shall be payable on or before the first of every calendar month during the term of this lease, unless the term commences other than on the first day of the month, in which event rent at the above rate until the end of that month shall be due and payable on the commencement date. In addition to such remedies as may be provided under the Default provisions of the lease, Landlord shall be entitled to a late charge of five percent (5%) of the amount of the monthly rent if not received when due, and a charge of five percent (5%) of the rent for any check given by Tenant not paid when first presented by Landlord.

5. TENANT'S ACCEPTANCE AND MAINTENANCE OF PREMISES. Tenant or occupant of the Premises represents to the Landlord that it has examined and inspected the same, finds them to be as represented by the Landlord and satisfactory for Tenant's intended use, and evidence Tenant's acceptance "as is". Landlord makes no representation or warranty as to the condition of said Premises. Tenant shall maintain (and so deliver at the end of the Lease) each and every part of the Premises in good repair and condition, and shall make at Tenant's sole cost and expense such replacements, restorations, renewals, or repairs in quality equivalent or better than the original work replaced, as may be required to so maintain in the same, ordinary wear and tear only excepted.

6. TENANT'S BETTERMENTS AND IMPROVEMENTS. Tenant shall make no structural or interior alterations of the Premises without Landlord's prior written consent, and any work performed by Tenant shall be done in a good and workmanlike manner, and so as not to disturb or inconvenience other Tenants in the building. Tenant shall not at any time permit any work to be performed on the Premises except by duly licensed contractors or artisans, each of whom must carry general public liability insurance certificates, of which copies shall be furnished to the Landlord.

7. RENT SHALL ABATE. If, during the continuance of this lease, said premises shall be so damaged by fire or other casualty as to be rendered untenantable, then, in case said premises shall not be repaired within 30 days thereafter, this lease may be canceled at the option of either party, and rent shall be payable only to the date of such fire or other casualty. If the premises are damaged, but not rendered wholly untenantable by such casualty, rental shall abate in proportion as the premises have been damaged, and the lessor shall restore as speedily as practicable, whereupon, full rent shall recommence.

8. TENANT'S COMPLIANCE--PROPERTY. Tenant shall comply with all applicable laws, ordinances and regulations affecting the Premises, including general rules for Tenants as may be developed from time to time by Landlord and delivered to Tenant or posted on the premises, and shall hold Landlord harmless from loss, cost, or expense resulting from or occasioned by Tenant's use of the Premises, whether caused by Tenant or by its agents, servants, employees, independent contractors or licensees. Tenant shall maintain and care for its personal property on the premises, insure the same to such extent as it deems appropriate, and shall neither have nor make any claim against Landlord for any loss or damage to the same, regardless of the cause thereof. Tenant is further responsible for insuring building. Tenant shall maintain through the term of this lease general public liability insurance in amounts acceptable to Landlord and naming Landlord as an insured party, and shall furnish Landlord copies of such policies and evidence of payment for premiums prior to the date such policies would be in default for nonpayment.

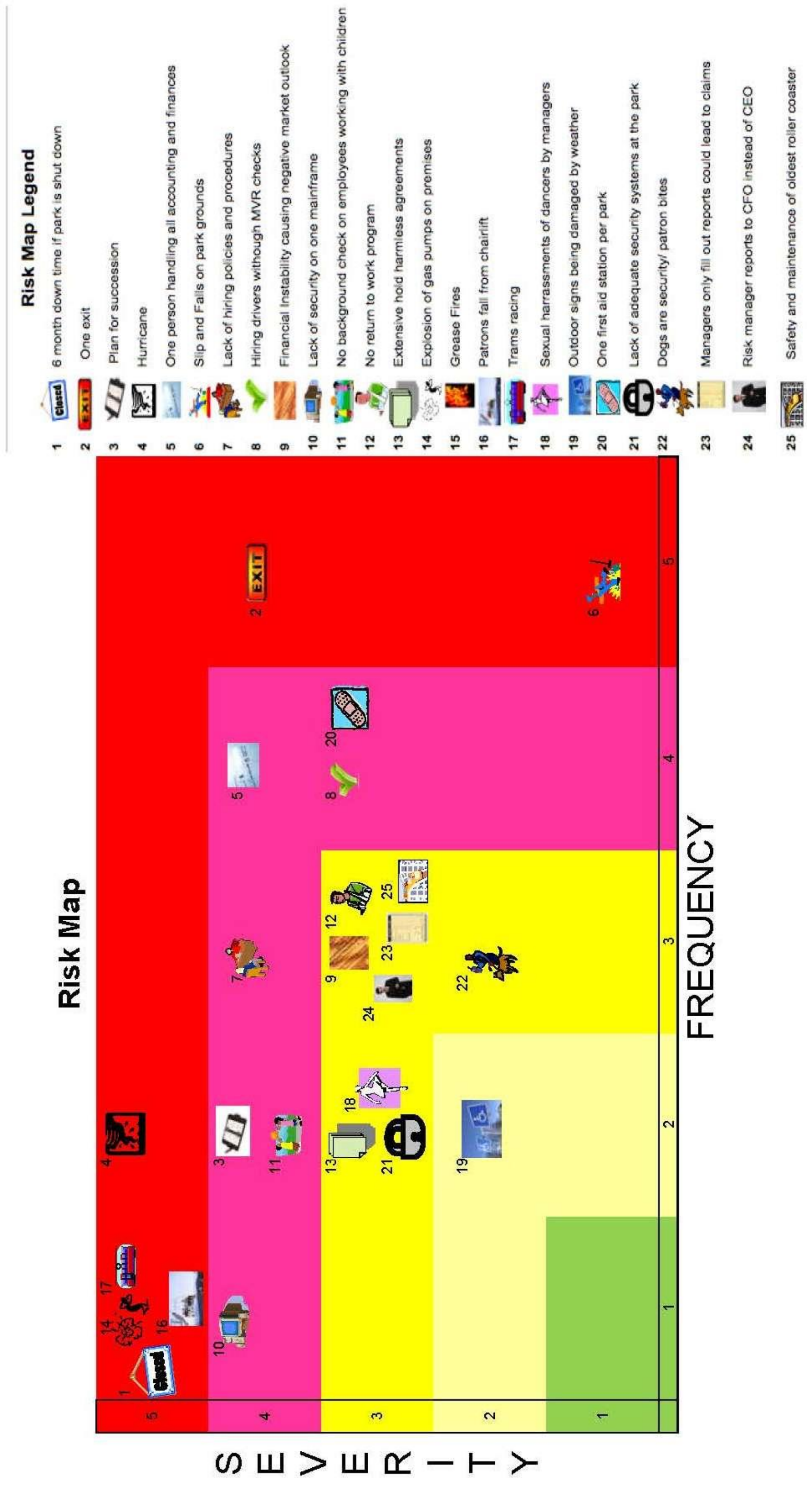
9. REPAIR OF PREMISES. Lessee shall repair partitions, all glass and plate glass, elevators, electric and plumbing fixtures, and all machinery whatever in leased premises. Lessee shall be liable for and shall hold Lessor harmless in respect of: damage or injury to Lessor, premises, and property or persons of Lessor's other tenants, or anyone else, if due to act or neglect of Lessee, or anyone in his control or employment. Lessee shall at once report in writing to lessor any defective condition known to him which Lessor is required to repair, and failure to do so shall make Lessee responsible for damages resulting from such defective condition.

10. RISKS OF INJURY. The Landlord shall not be responsible for any injury which shall be sustained by the Tenant or any employee, customer, or other person who may be upon the Premises or in the said building or the entrances or appurtenances thereto. All risks of any such injury being assumed by the Tenant, who shall hold the landlord harmless and indemnified therefrom.

Sample Workbook: Risk Identification – Amusement Central Top Risks

ID	PRIORITY	RISK IDENTIFICATION	FREQUENCY					SEVERITY					RISK MANAGEMENT METHOD
			1	2	3	4	5	1	2	3	4	5	
BI	1	Six month down time if park is shut down	✓							✓			Retain
GL	2	One Exit					✓		✓				Retain
BC/BI/RR	3	No succession plan of adventurous CEO		✓						✓			Loss Control & Transfer
CE/BBP/BI	4	Hurricane exposures		✓					✓				Loss Control
CM/FIN	5	One person handling all accounting finances				✓			✓				Loss Control
GL/WC	6	Slip and fall on park grounds					✓					✓	Loss Control & Transfer
EP	7	Lack of hiring policies and procedures			✓					✓			Loss Control
EP/AU	8	Hiring drivers without MVR checks				✓			✓				Retain
FIN	9	Financial Instability Causing Negative Market Outlook			✓						✓		Loss Control & Transfer
CR/BI	10	Lack of security on one mainframe	✓						✓				Loss Control
EP/GL	11	No background checks of employees working w/ children		✓						✓			Loss Control & Retain
EP/WC	12	No return to work program			✓					✓			Loss Control
CL	13	Extensive hold harmless agreements		✓						✓			Loss Control & Transfer
BBP/ER/BI/GL	14	Explosion of gas pump on premises	✓									✓	Transfer
BBP/GL/BI	15	Grease Fires	✓								✓		Avoid
GL	16	Patrons fall from chair lift	✓									✓	Avoid
GL	17	Trams racing	✓								✓		Loss Control
EP	18	Sexual harassment of dancers by managers		✓					✓				Loss Control & Transfer
BBP	19	Outdoor signs being damaged by weather		✓							✓		Avoid
GL/RR	20	One first-aid station per park				✓					✓		Transfer
CM	21	Lack of adequate security systems at parks		✓							✓		Loss Control
GL	22	Dog acts as security exposing patrons/licensees to bites			✓					✓			Loss Control
WC/EP	23	Managers only fill out reports that might lead to claims			✓					✓			Avoid
BC/EP	24	Risk Manager reports to CFO instead of CEO			✓						✓		Loss Control
GL	25	Safety maintenance of oldest roller coaster in SC			✓					✓			Transfer

Sample Workbook: Risk Map – Amusement Central Top Risks



CASE INSTRUCTIONS TO STUDENTS

The case includes a detailed set of instructions for the students. The project is divided into three phases with corresponding due dates. The first phase involves the students dividing into groups with four or five in each group. The group determines a group name and logo for use throughout the project. A group captain is selected and a list of expectations for the group members is developed. The expectations include issues such as meeting times, meeting frequency, initial responsibilities/division of labor, and how performance of group members will be evaluated. Each group member is required to evaluate the other members' contributions. The peer evaluation is a component of the project grade. Group members are also expected to communicate with each other and work out any problems within the group. If the group has a problem that affects the members' ability to successfully complete the project, the professor will meet with the group and create a solution agreement. Violation of the solution agreement is grounds for a student to be removed from the group and that student must complete the entirety of the project on their own.

Phase One involves the completion of Excel workbooks that accompany the case. Students work together in their groups to complete these assignments. There is a workbook for each of the following areas:

- Claims Analysis
- Financial Statements/Ratios
- Insurance Program
- Loss Forecasting
- Property Valuation
- Risk Map

Phase Two involves a group presentation to a panel of faculty members and insurance professionals. Each group presents a summary of their overall risk management analysis and recommendations. The presentations should last about 20 minutes, with an additional 5 minutes reserved for a question/answer period. Each group member must present and these are board room type presentations with proper business dress.

Phase Three concludes the project with each student turning in an independently written analysis of the case. Students are allowed to partner with one other classmate to write the analysis report. However, the paper must be seamless and will require substantial coordination and effort on behalf of both team members. Many students choose to write the paper by themselves. Students are not under any obligation to use the decisions that their group came up with. The final report is based on the student's own professional opinions, and written using proper business language and form.

CONCLUSION

This case study project is designed for a capstone risk management course. The project requires students to use information that they have acquired from a wide range of Risk Management & Insurance and College of Business courses. Students' analyses follow the basic risk management process, yet contemplate risk from an enterprise perspective. The case is easily adaptable for use in finance, human resources, or international management courses.

The essence of this project is for students to act as risk consultants to provide advice to senior management of the business in this case. Successfully completing this case study requires students to work effectively with a group of people. Students have the opportunity to enhance their computer skills (i.e., Excel and PowerPoint) helping them to possess more than a rudimentary understanding of Excel and PowerPoint as they prepare to enter the workforce. Students also benefit from delivering boardroom presentations to a somewhat intimidating audience. The authors have found that involving industry professionals in the presentations allows students to showcase their abilities and wins recognition for the university's academic program.

Undergraduate Risk Management & Insurance Programs: A Blueprint

By
Brenda Wells, Ph.D., CPCU, AAI*
Associate Professor
East Carolina University

Contact Information:

2815 Madison Grove Rd.
Greenville, NC 27858
Phone: 252-481-2777
E-mail: drbrendawells@gmail.com

*Dr. Wells is a graduate of the highly-ranked University of Georgia program, one of the largest and most successful programs in the U.S. She presently serves as the faculty "architect" of the East Carolina University risk management and insurance program, which has grown to approximately 50 majors in just three years of existence.

Undergraduate Risk Management & Insurance Programs: A Blueprint

ABSTRACT

There is a well-documented talent crisis in the RMI industry (Wells, 2009; Cole and McCullough, 2012). This crisis is somewhat evidenced by the fact that many of the collegiate RMI programs across the U.S. boast a near-100% employment rate.

Colleges and universities are also facing a new source of pressure with respect to any program: justifying the cost of an undergraduate education. The fact that risk management programs across the U.S. advertise starting salaries on their websites of $40,000 or more means that RMI programs, as compared to many others, should fare well in an informed market.

With all of these forces in play, the demand for RMI programs should be increasing. The peer-reviewed, academic literature has limited content on building an RMI program at the undergraduate level. This paper takes a first step towards filling that gap by offering a blueprint for building such a program. This blueprint is based largely on the author's career experience and observations. The key elements of a successful program are identified, and, the process of recruiting students is also discussed. A model of the lifecycle of the successful program is suggested, and, recommendations on a process for curriculum development are also made.

KEY WORDS: risk management, insurance, education, program building

INTRODUCTION

Professors of risk management and insurance (RMI) often have to justify their existence to university administrators and sometimes even colleagues. Colleagues that perceive themselves to be in a more "pure" discipline often criticize the teaching of something so "vocational" or "applied" as RMI.

Meanwhile, there is a well-documented talent crisis in the RMI industry (Wells, 2009; Cole and McCullough, 2012). This crisis is somewhat evidenced by the fact that many of the collegiate RMI programs across the U.S. boast a near-100% employment rate.

Colleges and universities are also facing a new source of pressure with respect to any program: justifying the cost of an undergraduate education. With $1.1 trillion in student loan debt in the US (Wolf, 2013), more and more prospective students are comparison shopping and evaluating institutions of higher learning based upon the earning potential of the institution's degree. A new online tool created by the Consumer Financial Protection Bureau (CFPB) called the Financial Aid Comparison Shopper allows students to evaluate financial aid packages and ultimate debt at graduation *in relation to the expected average starting salary.* (Dervarics, 2012). The fact that risk management programs across the U.S. advertise starting salaries on their websites of $40,000 or more means that RMI programs, as compared to many others, should fare well in an informed market.

With all of these forces in play, ivory tower snobbery notwithstanding, RMI programs should not only be in demand now, but, that demand should be increasing. It appears that perhaps they are. New programs have sprouted in the last ten years that include East Carolina University, Butler University, and University of Houston Downtown.

The peer-reviewed, academic literature on RMI education is quite limited. One area that has been largely unexplored is what it takes to successfully build an undergraduate RMI program. This paper takes a first step towards filling that gap by offering a blueprint for building such a program. This blueprint is based largely on the author's career experience and observations. The key elements of a successful program, as well as challenges to building such a program, are identified. A model of the lifecycle of the successful program is suggested, and, recommendations on a process for curriculum development are also made.

THE FOUR PILLARS OF A SUCCESSFUL PROGRAM

From university-level courses in insurance law in the late 1800's to today's programs offering a multitude of courses and specialties, the RMI discipline has had its high and low points in terms of development (see McClain, 1951; Gardner and Schmit, 1995; and Ferguson et al., 2000). It appears that this is a time of expansion and increased demand again, given the talent shortage in the RMI field that for years has been taken very seriously by the RMI industry (see How Insurance Companies, 2006)

Dorfman, Ferguson and Ferguson (2006) assert that both curriculum design and course content are two strategic issues important for an RMI program's survival. These issues are certainly important, but this author asserts that there are four fundamental pillars that must be in place before curriculum is addressed. If any of these pillars is missing, the program becomes much like a four-legged table that loses a leg: it's unstable at best, and likely to topple over. Those four pillars are:

1. The RMI industry,
2. University administration,
3. RMI faculty, and
4. Students.

RMI Industry

The most successful RMI programs always feature strong industry support and good working relationships with insurers, brokers, agents, trade associations, and public and private entity risk management departments. The RMI industry is a critical component of any successful program because there must be demand for the final output or "product" of the program: its graduates.

Today more than ever, parents and students are evaluating degrees in terms of jobs and earning potential. The industry that employs those students will have to be there to offer real career opportunities. With baby boomers retiring soon, and, a scarcity of replacements for them, the demand is clearly already there for new college graduates in RMI. But, that is not the only function the industry serves in supporting a strong RMI program.

The industry members must be available to promote the field of RMI to both the university that will house the program, and, the students that will ultimately choose to major in it. Additionally, it is important that the industry communicate to the university and its students what it takes to be successful, and, what factors will influence future employment options.

The most efficient way to garner industry involvement in the program is the creation of an RMI advisory council or board. This group should be chaired by an industry person with passion and energy for the success of the program. It should be primarily made up of industry members from a wide range of areas and backgrounds, so that all segments of the industry are represented. These segments include: agency/brokerage, insurers (including claims and underwriting), personal lines, commercial lines, and surplus lines, and, of course, risk management.

There are many ways for the industry to get involved in university activities and become engaged in the program's success. Naturally, financial contributions are an important element of engagement, but there are many other ways for groups or individuals in RMI to become involved in an RMI program:[1]

[1] Very often the financial contributions will not flow freely unless and until the industry is actually engaged with the university and the RMI students.

- participation in career fairs,
- membership in alumni organizations,
- membership on college advisory boards,
- classroom visits and lectures,
- attendance at student organization meetings, and
- participation in student organization activities, including community service projects.

In addition to financial support and participation in the activities listed above, there is one other component of industry engagement that is critical: invitations for students, faculty and administrators to participate in industry events. The reasons these invitations are important are numerous. Students as prospective employees need to see where they will work, what they will do, and, who they will work with. Faculty need to understand industry activities so they can better-educate students about career opportunities in RMI. Administrators need to maintain contact with the industry so they can understand what is needed from the university. Examples of such activities include:

- conventions and trade shows,
- monthly association meetings,
- internships for students, and, when possible, even for faculty,
- student mentoring program,
- shadow days for student visitors to see daily operations,
- special events, such as meetings with brokers or company outings, and
- corporate community service activities.

Without these interactions, there is limited knowledge and understanding of each other. It is important that all of the four pillars supporting a program work together, understand each other, and become truly vested in one another. There is simply no substitute for time spent together to accomplish these objectives.

University Administration

The administration controls two key resource areas: money, and faculty workload. If those are not properly aligned to achieve the goals of the program and fulfill its mission, it is almost impossible to have long-term success. All the industry support, faculty dedication, and student interest cannot overcome administration that does not respect the program or its stakeholders.

Furthermore, the administration has to have integrity and commitment to the program so that industry can feel comfortable providing financial support. The utilization of funds must be transparent, and, the administration must not in any way have an agenda to reallocate funds from RMI to some other project or program. If this happens, it is virtually impossible to restore industry confidence in the university and the RMI program.

When building a program it is critical to get “buy-in” from every level of university administration. Deans will come and go, so ideally the support for the RMI program should reach the highest levels of administration. One way to garner this type of support is for administrators to meet and interface with industry representatives. Administrators must see and believe that there is demand for the program and its students, and, that the program it is something unique that can bring esteem and recognition to the institution.

One of the most effective arguments for an RMI program is the simple fact that every business school has an accounting, management, marketing and finance department, and thus competition to be nationally ranked in those areas is stiff. But, with a very small number of programs in RMI, it is possible for even the smallest of fish to become quite sizeable in the academic pond.[2]

Unfortunately sometimes one or more administrators will simply not support a "specialty" program like RMI.[3] There are a myriad of reasons why they might not: academic elitism, lack of understanding of the RMI discipline, having other favored projects, personality conflicts with one or more stakeholders of the program, or even just a personal dislike (for whatever reason) for the RMI industry. The "why" is crucial to understand so that hopefully it can be compensated for and ultimately overcome. If it cannot be dealt with and changed, it must be counterbalanced with the strength of support from other administrators. Again, the industry plays an important role in selling the idea of a program and its importance to university administrators. Industry supporters can be very helpful in garnering support from university administration.

RMI Faculty

Faculty play several roles in an RMI program. Each role is definitely important, but there has to be at least one faculty member who serves as the program architect. This faculty member is much like an orchestra conductor. This faculty conductor is responsible for bringing together the industry, the administration, and the students in the most melodic fashion.

[2] A listing of current RMI programs is available in the *IRMI Directory of Risk Management and Insurance Programs at U.S. Colleges and Universities*, available at http://www.irmi.com/insights/articles/2009/risk-management-insurance-university-directory.pdf .

[3] RMI programs are often referred to by a number of unflattering terms, including "vocational" and "minor area." Program builders are strongly encouraged to utilize terminology such as "specialty," "professional," or even "boutique," thus avoiding terms that have a negative connotation in academia.

Just an orchestra conductor has to determine how and when the various orchestra components will combine together, so must the faculty director of the RMI program. For the vast majority of activities, everything works or “sounds” better when at least two of the pillars are combined together. When all four can be combined, that is an ideal composition! It is there that support for the program can really grow strong. Sometimes solo performances are critical, such as a students-only meeting or retreat.

The program architect must have certain qualities. The first of these is a genuine interest in and passion for RMI education. A vision and goals for the program will not develop without this passion. Second, the architect must have a knack for bringing people together. Aligning the schedules and interests of employers, students and administrators will take some finesse and some effort. Third, the architect must have some comprehension of academic institution’s internal politics. Selling the program and maintaining it will require support at all levels, as mentioned previously, and it is very difficult to have that if the architect has limited political influence inside the institution. Fourth and finally, the faculty member must be able to network with industry and speak its language. Industry members, as a general rule, will have real problems trusting and supporting someone who doesn’t understand their business.

A faculty member who doesn’t have a fire in his or her belly for the architect’s role can still serve the program well and be an important player. But, someone serving as the program architect when they really don’t enjoy the job is a disaster for the program itself, and, it serves no purpose for the faculty member.

Other faculty can and must serve a number of roles. The roles these additional faculty play will largely depend on the objectives and mission of the institution, as these will dictate expectations for teaching and research. As this paper focuses exclusively on an undergraduate program and its success, there is one thing that is critical in terms of these faculty members and that is that they must care about and have a dedication to undergraduate education. The truly successful programs in the U.S. have a faculty base consisting largely of dedicated, often award-winning teachers who truly enjoy working with undergraduate students.

Every academic has encountered the colleague who believes he or she is above and beyond the task of educating undergraduate students. They usually prefer either to work with graduate students, or, to focus exclusively on research. These faculty should be avoided in an undergraduate RMI program, or, their contact and interaction with the undergraduates should be minimized to the extent possible. Selling the subject of insurance—a historically “unsexy” topic—is difficult enough without having to explain *“that”* professor.

One of the biggest obstacles to overcome is the disconnect between academia’s research expectations and the program’s needs. While it is certainly important that universities maintain research expectations and standards, at the same time they must be realistic. There are not enough hours in the day for faculty to excel in research, teaching, normal university service *and* program architecture/maintenance. This can result in challenges and even punitive measures (such as poor performance reviews, nonexistent raises, and tenure and promotion denials) for the faculty dedicated to the program.

Further, where research is concerned, it seems that publication in top tier journals often involves subjects that industry members find impractical, This is, again, where industry can play a valuable role in helping university administration to understand the needs of the industry and its core values.

Students

Each school has its own unique student body characteristics and personality. But, it is the author's experience that successful students come from all walks of life, backgrounds, and universities. The ones needed in the RMI industry should have at least three traits: a strong work ethic, good business ethics, and high integrity. In 24 years of teaching, this author has seen, among other things, less-than-stellar grades, poor test taking ability, limited public speaking skills, and learning disabilities. Students who had the desire to work, solid ethics and integrity always managed to overcome their respective challenges.

The work ethic is important because the RMI industry rarely abides bluebloods with the attitude that work is for other people. Personal and family connections can only carry one so far. The RMI industry requires hard work to be successful. Students have to want to work, both during school as students and interns, and, after school as career-minded people who want to make a real contribution to the industry.

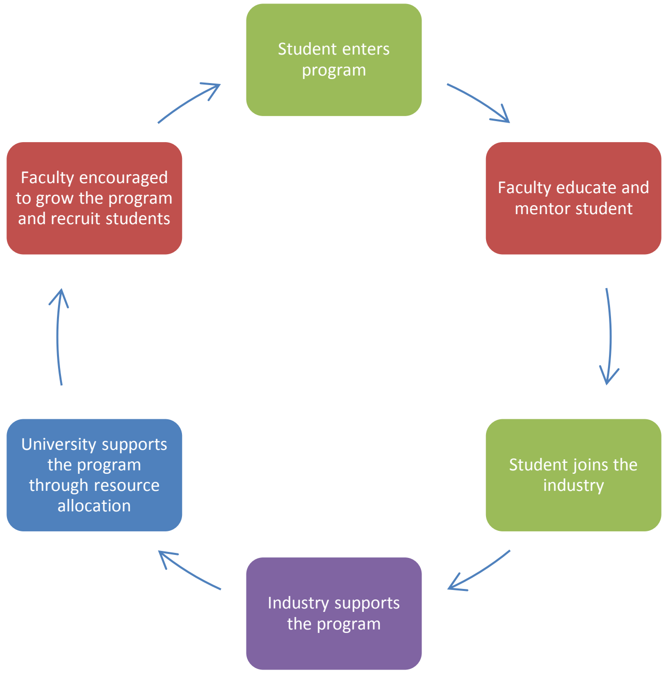
Today's industry and its legal environment demand ethical behavior and integrity to be successful, as well they should. The RMI field has been plagued, for decades, with negative stereotypes. There is no need to revive those or give them any validity by bringing in students lacking in these important traits.

Undergraduate students are a necessary pillar of the program, in spite of university funding formulas and research goals that may ultimately signal that undergraduate education is not a priority. Not only because without them, faculty have no one to teach, but also because they ultimately become industry members. And, the importance of industry has already been described. Finding these students is critical to the growth of the program, and that process will be discussed in a later section.

The Four Pillars Together

Much like biological systems in which various components work together in a mutualistic relationship to survive, so do these four pillars. With all four present and playing their described roles, there will be a cyclical perpetuation of the program that flows like this:

- Student enters program
- Student is educated, nurtured, and groomed by faculty
- Student becomes an employed RMI alumnus, with loyalty to and for the RMI program.
- The industry member/alumnus provides support for the program, signaling to administration as well as prospective students that the program is valued and in demand.
- Administrators, hearing the praise of industry, continue to support the program, allowing faculty the time and resources to work towards a thriving program.
- The faculty member recruits students to the program.
- Student enters program…..(hopefully, this will repeat frequently!)



It is the author's opinion, based on over 20 years of teaching experience, that to have a successful program, there are a few necessary conditions for these four pillars to work together to create a truly well-supported program:

1. They must frequently interact with one another.
2. They must have mutual respect and genuine appreciation for one another.
3. They must view the program itself as something of value.

Admittedly, these rules certainly challenge traditional views on the roles of each pillar, but this author asserts that those views *have* to change to ensure the ongoing success of collegiate RMI programs. Given resource pressures and informed student consumers shopping for the best educational value, the programs that don't reconsider traditional roles will likely fall behind the programs that do.

Just as one example, historically central administrators at major universities do not spend much time with undergraduate students. The reasons for that may vary, but, this model assumes that there will be interaction between them. However, if rule #2 is violated--if administrators feel that spending time with undergraduates is a waste of their time--it *will be noticed.* It leaves a very discouraged feeling in the hearts of the faculty and the industry that are so invested in those undergraduates.

If a faculty member has anything less than respect and admiration for the industry, industry members will not welcome them to industry functions, and, may not welcome the students either. If the industry doesn't value the program, but rather views students and academics as being blessed with its presence, students will turn away from it immediately as a career option.

In summary, the four pillars that support an undergraduate RMI program are critical to program growth and survival. There really is no substitute for any of them. If one is missing, or weak, the program will be unstable at best and most likely will not survive long-term. Next is a discussion of the critical and sometimes overwhelming task of finding students for the program.

FINDING AND RETAINING THE STUDENTS

The word "insurance" is generally a repellent to typical Americans. Less than 1 in 10 express a desire or interest in working in the insurance industry, and 44% cite that it sounds "boring" as a reason for not wanting to work there (Millennials, 2012). This author will not "preach to the choir" about how much opportunity there is in RMI. But, there remains one question that must be answered, and that is how to convey this one simple message to college students:

'"The RMI industry needs, wants, and will reward undergraduate talent."

Again, it is necessary to challenge traditional academic views when it comes to the process of finding students. As much as RMI educators understand the value of

RMI, there is a certain amount of selling and marketing that has to be done to get undergraduates interested in the profession. This is an activity that many academics are not experienced in, and, it requires creative thinking.

For instance, the late Dr. E.J. Leverett, also known as “The Pied Piper of Insurance,” built the University of Georgia program by literally showing up at class registration each term. He shook hands with students waiting in line to register and told them about the career opportunities in RMI. That was how he reached students before technology allowed access to them with blast e-mails and social media.

The “where” of today in terms of finding students requires an analysis of 1) which student population(s) are most likely to be interested in the message, and, 2) where those students can be found. The ideal situation is to reach students that still have time to declare or change their major.[4] There are a number of places to find those students:

- Introductory survey courses (accounting, business law, finance, etc)
- Freshman orientations
- Transfer student orientations
- Preview/visitation days that provide information to prospective students
- Extracurricular groups and organizations
- High schools

Sometimes it is as easy as asking colleagues for an opportunity to speak to a class, or, offering to cover a class for a faculty member who can’t be on campus that day. Other times there are more subtle means for reaching this audience. For example, the academic advising staff will interact with these students and have the ability to influence which majors they look to as prospective choices. A lunch or meeting with advisors that offers up information about what an RMI program offers is

[44] It is always frustrating to hear, “I wish I had found RMI sooner, because I’m about to graduate with my ________ degree and it’s too late for me to change my major!”

often followed by a surge in enrollment. Again, though, this is where university administrator support is invaluable—the dean's endorsement of the program and emphasis on its important to the advising staff will create even more of an impact on how the advisors approach students.

If people believe RMI is boring, it is up to faculty to show them that it isn't. Whether through guest speakers, videos, case studies, or field trips (just to name a few), there are numerous ways to demonstrate the creativity and problem solving that is inherent in the RMI discipline.

The Role of Social Media

Today is an era of engagement that does not separate marketing campaigns from the product itself (We're All, 2011). If faculty are marketing a program to prospective students—*and faculty most assuredly are in the marketing business when it comes to RMI programs*--then a social media program is critical. Social media is where today's college students get news and information (Ruquet, 2013). Research indicates that even high school students are now using social media to research college options (Lytle, 2012). Students look to other students for recommendations about majors and programs. Social media affords them the opportunity to have this interaction with one another and share information. The creation of a social media strategy is beyond the scope of this article. For more insight into creating a social media marketing campaign, see Tuten and Solomon (2012).

CURRICULUM DEVELOPMENT

The curriculum is irrelevant until the four pillars are in place to give it structure and backing. Once they are, it is then time to ask “What should we be teaching our students?”

There appears to be no scholarly literature on the core values or subjects that the *future* RMI professional needs. The identification and/or definition of the ideal curriculum is beyond the scope of this article. One thing is certain--technically accurate and *current* information that is both practical and relevant to today’s business of RMI is important. Again, interaction with the industry is important for understanding the skills and knowledge that tomorrow’s insurance professional needs.

No successful business manufactures products without keeping the ultimate buyer of those products in mind. Why should academia be any different, and certainly a business school? The “buyer” of the “product” is the industry that’s going to employ graduates and give them a fertile ground on which to build a career. If academia ignores the needs of the industry, it does a disservice to every stakeholder of the program, but *especially to the students*. Asking the industry what it needs and wants in terms of future employees is critical for constructing a curriculum that is an efficient use of tuition as well as limited faculty and student time.

If the RMI program will appeal to a wide range of employers and present a myriad of opportunities to the students, it should offer breadth and variety of content. The creation of an industry advisory board facilitates the gathering of feedback on the important issues both present and future. Depending on the size of the board, a curriculum “subcommittee” may be the most efficient way to gather and organize industry feedback on this issue.

Starting with an absolutely blank slate rather than retaining curriculum artifacts that have outlived their usefulness is probably the best approach to curriculum development. The class, project, schedule or textbook[5] that no one dares to question is an impediment to meaningful curriculum innovation. This is where a supportive administration comes in handy as a champion of building a program from the ground up.

CONCLUSION

The foundational elements of a solid RMI undergraduate program are: RMI industry, university administration, RMI faculty and, of course, students. Without all four of those elements working in unison, the undergraduate RMI program is unlikely to thrive. The marketing of an undergraduate RMI program is a crucial piece of recruiting students to the program. Social media is the preferred conduit for reaching today’s college students, but, face-to-face meetings and interaction at various events are also useful tools for recruiting students.

RMI program curriculum should be current and meaningful, and to gather information on what it should encompass, look no further than the RMI industry that will hire the students. Thorough preparation of the students for a career in RMI requires understanding exactly what the RMI industry is doing and what it needs in terms of talent.

This is a first-step in defining a blueprint for creating an undergraduate RMI program. Its principles and concepts can certainly be applied to existing programs in

[5] Usually written by a senior faculty member in the department.

need of rejuvenation. Topics for future research include evaluating the best methods for marketing an RMI major to undergraduates, and, the optimum undergraduate curriculum topics for an RMI program.

REFERENCES

Bowers, B., Avila, S. M., Baur, M. N., & Bratton, J. C. (1998). A matter of degree. *Best's Review, 99*, 24-31.

Cole, C. R., & McCullough, K. A. (2012). The insurance industry's talent gap and where we go from here. *Risk Management and Insurance Review, 15*(1), 107-116.

Dorfman, M. S., Ferguson, W. L., & Ferguson, T. D. (2006). Curriculum design in risk management and insurance education. *Journal of Insurance Issues, 29*(2), 158-163,165-178.

Ferguson, W. L., Dorfman, M. S., Frickel, B. J., & Ferguson, T. D. (2000). Risk management and insurance education at the millennium. *Journal of Insurance Issues, 23*(2), 153-179.

Gardner, L. A., & Schmit, J. T. (1995). Collegiate risk management and insurance education. *Journal of Risk and Insurance (1986-1998), 62*(4), 625.

How Insurance Companies Can Beat the Talent Crisis, 2006, Deloitte Financial Services. http://www.aamga.org/files/hr/us_fsi_insurance_talentcrisis_3_2006.pdf

Lytle, Ryan. (2012). High School Students Increasingly Use Social Media for College Search, *US News & World Report*, September 28. http://www.usnews.com/education/best-colleges/articles/2012/09/28/high-school-students-increasingly-use-social-media-for-college-search

McClain, David (1951) "The Half-Century in Insurance Education," *Journal of Risk and Insurance*, v. 18, no. 1 (March), pp. 54–72.

Millennial Generation Attitudes About Work and The Insurance Industry, (2012), Published by the Griffith Insurance Education Foundation and The Institutes, available at http://www.theinstitutes.org/doc/Millennial-Generation-Survey-Report.pdf.

Ruquet, Mark (2013). Agents Must Find Younger Customers Where They Live: On Social Media. *Property Casualty 360*, April 13. http://www.propertycasualty360.com/2013/04/19/agents-must-find-younger-customers-where-they-live

Tuten, Tracy T. and Michael R. Solomon, (2012), *Social Media Marketing*. Prentice Hall.

Wells, Brenda, (2009), The Insurance Industry Talent Crisis: Investing in Risk Management and Insurance Graduates. International Risk Management Institute (Dallas). http://www.irmi.com/insights/articles/2009/insurance-industry-talent-recruiting.pdf

We're All Marketers Now, (2011), *McKinsey Quarterly,* (July). http://www.mckinsey.com/insights/marketing_sales/were_all_marketers_now

Wolf, Adam B., (2013), Heading for the Student Debt Cliff, *Los Angeles Times*, June 22, http://www.latimes.com/news/opinion/commentary/la-oe-wolf-student-loan-debt-20130623,0,4634644.story

Some Issues, and Possible “Best Practices,” for Teaching Ethics in Courses in Risk Management and Insurance

Richard B. Corbett
Professor Emeritus of Risk Management and Insurance
College of Business
Florida State University

Richard B. Corbett is Professor Emeritus of Risk Management and Insurance, College of Business, Florida State University. He taught for 42 years, at five schools, and retired from FSU in 2012 as the Independent Life and Accident Insurance Company Professor.

Some Issues, and Possible “Best Practices,” for Teaching Ethics in Courses in Risk Management and Insurance

ABSTRACT

Surveys of employers indicated that they place great importance on ethical behavior, yet do not find this to be a major strength of recent college graduates. New hires are viewed as “ethically naïve,” i.e. they lack experience in considering the ethical dimensions of business decisions. The employers also expressed an interest in having ethics be a part of Undergraduate course work to remedy this lack of experience. Certain pedagogical approaches may prove to be effective in this effort. These strategies focus on providing an introduction to the principles of ethics and some relevant case examples that can be the basis for classroom discussions. The ideas expressed are based on research of students’ attitudes to set a “baseline” and a classic model of instructional design.

Practitioners in the broadly defined fields of risk management and insurance are no less subject to ethical dilemmas in the practice of their professions than are those in other professions. The ability to resolve these dilemmas is strengthened by development in two key areas. The first of these is the ability to recognize that a decision has an ethics dimension or component to it. The second is training and experience that allows a person to move logically and confidently toward resolution of the ethics “problem” in the decision. Two articles in *Risk Management and Insurance Review* highlighted the significance of ethical awareness in risk management and insurance.

Bell and Wolverton (1998, Winter, 117-123), looking at desirable professional characteristics of job applicants, discovered that prospective employers place great importance on ethical behavior. The attribute “exhibits ethical professional behavior” was ranked highest in importance in a survey. The survey respondents did not rank this as a major strength of recent college graduates, and the authors suggested that increasing ethics content in risk management and insurance courses would be beneficial.

Cassidy, Marshall, and Hollman, (1998, Summer, 89-96), looking at hiring patterns of insurers, discovered that there were significant gaps between what is being taught in RMI courses and what recruiters viewed as most important for prospective employees. A key finding was that coursework in ethics would be desirable. That would allow students to improve their ability to recognize the ethical dimensions of business decisions. To implement such course work would require two major things, an introduction to the principles of ethics and case examples.

Possible Causes of Ethical Naiveté

There are several possible explanations for the naiveté of students in the area of ethics. One obvious explanation is their relative youth and lack of exposure to ethical issues. How many college courses delve into issues of ethics? Another explanation is the relativist notions ascribed to the current cohorts of college-age persons. This has been discussed in both academic publications and the popular press. A final factor is that instructors are reluctant to enter into discussions of topics outside their areas of expertise. To make this leap, instructors need both pedagogical methods and relevant case examples.

A Framework for Teaching about Ethics

A set of short problem exercises was developed by the author to assist students in the development of decision skills and to allow them to practice dealing with possible ethical issues in business problems specific to risk management and insurance. The exercises are designed to provide practice in recognition of ethics issues and discussion of alternatives and decision variables. Each exercise is designed to be the basis of classroom discussion for one class session. Each can be expanded, by the addition of supplementary materials, to two discussion periods.

The basis of each exercise is a “real-world” situation in which an ethics issue is confronted in the context of a risk management or insurance transaction. The exercises encompass several areas of risk management and insurance practice. They are each based on an actual occurrence, and each presents an ethical dilemma that has been faced by an actual person. (Samples of the exercises are included at the end of this paper).

The following is a possible framework for approaching discussions of ethics. This is based on standard principles of instructional design and presumes no prior instruction on the basics of ethics.

First, establish a baseline

To get an idea of where our students were in terms of their “ethical awareness,” we administered a brief survey. (A copy of the survey is included at the end of this paper.) This was used near the front end of a beginning property and liability insurance course. The survey was administered for seven years, and the weighted averages of the responses were updated each term.

The responses to questions about their understanding of the concept of ethics and about where they stood in relation to other students in that knowledge were clustered near the “Agree” response on the Likert scale. The responses to questions about recognizing when an issue has an ethical dimension and whether they noticed ethical issues in the news and current topics were also clustered near the “Agree” response.

In essence, the respondents believed that they had a fairly good grasp of ethics and ethical issues. When questioned about the practical issue of accountants’ clients choosing accounting treatments, they generally agreed that this practice is ethical. When questioned about the ethics of assigning grades based on factors other than the individual students’ performances, they tended toward the “Disagree” response.[6] These results allowed us to approach the students with the notion that they had considered ethics and ethical issues but did not hold strong opinions.

Discuss the forces affecting ethical judgment

There are a number of factors that may influence ethical judgment, including culture, notions of justice, notions of rights, religious training, and values. It can be helpful to begin a discussion of ethics with these concepts and to allow students to ponder how these things affect their own life experiences. It is useful to assist them with the difference between “outcome justice” and “procedural justice” and to have a clear definition of what constitutes a value (a construct whose observance is important to you). This exercise alone helps to clear up some of the relativism that many ascribe to the young. They will be interested that they clearly have a number of shared values. Those values may include economic values, social values, aesthetic values, political

[6] This is an interesting result, given that the author has been asked numerous times to “give” a grade other than the one earned by the student.

values, and ethical values. Some of those values are clear statements of words or ideas that help people choose the right thing to do.

Associate ethics with common interactions

The next step is to associate ethics with the interactions that make up the experience of the students' daily lives. This might be a series of "truisms," such as the following:

- Ethics is part of everyday life;
- Ethical considerations are part of any business decision (or ought to be);
- Ethical issues arise from dealings with customers, employees, investors, or members of the public (those we have taken to calling stakeholders).

A key task early in this process is to disarm relativist objections. Some may hold that no one truth is higher than another truth. The simplest way to accomplish this task is to provide concrete examples of some things that are clearly wrong and some things that are clearly right.[7] Two concrete examples of things that are clearly right are helping a child with her homework and working on a Habitat for Humanity house. It is unlikely that any student will provide any reasonable objection to these notions. Two concrete examples of things that are clearly wrong are child pornography and spouse abuse. Without moralizing, it is possible to provide examples of things that clearly do, or do not, clear a moral hurdle.

[7] Credit for this notion goes to John Dienhart, The Boeing Frank Shrontz Chair of Business Ethics, Albers School of Business and Economics, Seattle University.

Provide basic notions of competing ethical views

There are three commonly cited ethical viewpoints, characterized as *the moral*, *the economic*, and *the legal*. The moral view expresses the notion that there exists a shared set of rules that can be observed by all persons. This can be expressed by the question “Would we be comfortable if our colleagues, family, and friends knew about a decision that we had made.” This can also be expressed as the “newspaper test.” Would you be comfortable if you read about this on the front page tomorrow morning? (Or, as a colleague has put it, “Would you be comfortable coming home to find the *60 Minutes* van and crew parked in your driveway?” This can be a good place to discuss whether we do what is right because it is right, or because we fear the consequences of discovery.

The economic view of ethics holds that profit maximization is the goal of business behavior. It is assumed that all costs of production are reflected in the prices of goods and services, but that firms must consider the harmful consequences of their actions. This may leads to, perhaps, a discussion of whether it is ethical to pollute, assuming we know that our firm will then be taxed to clean up the pollution. This may lead to further discussion about how capable humans have been in predicting the effects of their industrial activities, or the efforts to undo those effects.

The legal view of ethics essentially holds that if something is legal, then it is ethically appropriate. Of course, we are aware that the law often provides only a moral minimum. We are aware that the law is primarily reactive, i.e., we normally pass laws to deal with issues that have already caused problems in society. In addition, not everything that is unethical or immoral is illegal. Clearly, humans cannot police all conduct; there must be some level of ethical judgment.

Discuss levels of ethical decision making

It is useful to introduce students to the levels of ethical decision-making. Every ethical decision, in effect every decision of any kind, involves one of the following as a motivation. The first possibility is *self-development*. Does this decision help me move forward in my career, or my current relationship? The second possibility is *care*. Does this decision assist in nurturing good relationships with family and friends? The third possible decision basis is *utility*. Does this decision nurture good relationships with organizations, communities, or nations? The final possible decision basis is *human dignity.* Does this decision promote rights, justice, fairness, or intrinsic worth? Decisions that take these notions into effect are described as *ethically efficient.*[8] (These notions are well-grounded in the literature of social psychology.)

Give examples of ethical codes

To illustrate the above point more clearly, we introduce at this point examples of ethical codes that have been developed and published. A very useful one for those in risk management and insurance is the ethics code of the Society of CPCU. Another useful one for our discipline is the ethics code adopted by adjusters. We also posit to students that the following are worthy of their consideration. All of these can be easily reproduced and shown as classroom examples.

[8] This notion we also credit to John Dienhart.

- The Ten Commandments;
- The Boy Scout (or Girl Scout) Law;
- The military academy honor codes;
- The Rotary© Four-Way Test;
- Corporate codes;
- The Guide to International Business Activities from the Minnesota Center for Corporate Responsibility.

<u>Discuss the key paradigms of ethics</u>

The final task before moving to cases with students is to give them a framework for evaluating behavior of the "actors" in the cases. There are four classic paradigms for this evaluation.[9] The first paradigm is *truth versus loyalty.* This may involve trying to match honesty and integrity with commitment, responsibility, or promise-keeping. Most of your students, especially the males, will recognize the classic dilemma inherent in answering the question, "Does this make me look fat?" The second paradigm is *individual versus community*. This involves decisions of us versus them, the self versus others, or the smaller group versus the larger group.

The third paradigm is *short-term versus long-term*. This forces us to consider immediate needs or desires as opposed to future goals or prospects. The fourth paradigm is *justice versus mercy.* Here we consider issues of fairness, equity, and even-handed application of the law versus compassion, empathy, and love.

[9] Kidder, in *How Good People Make Tough Choices,* gives an excellent presentation of these classic paradigms.

Provide simple exercises and cases

Appendix 1 is an example of a "starter" case. The actor and her ethical dilemma are easily identified. She clearly faces the issue of *truth versus loyalty*. The discussion will proceed from identification of the decision paradigm to a discussion of those to whom the young account executive owes loyalty. The next area of discussion will be the process by which the young account executive decides the priorities when she knows that she has a duty of loyalty to more than one person or entity.

Move to more complex cases with ambiguous and vague issues

Appendix 2 is an example of a more complex case, with the "actors" not so easy to identify. Students may become frustrated that there are no "right answers" to the questions. This provides training not only in recognition of complex ethical issues but also in the kinds of ambiguous and possibly vague issues that may arise in business transactions. This allows them to hone their decision skill sets as they recognize that there are some principles that can be applied.

Consider using a simple pre-test/post-test procedure and discuss the results with students

Appendix 3 is a post-test instrument that we have used, which has proven to be quite useful. It can easily be adapted for pre-test use for those who want to use both. This allows students and instructors to determine if there is any change in perception as a result of discussing ethics using the case exercises. The results can be tallied and discussed with the students as the final part of the discussion of ethics.

Be aware of the "confounding" result

An interesting surprise for instructors may reveal itself when assessing the post-test instrument. Students may, in relation to a pre-test evaluation, seem to have declined in their perceptions of their abilities to detect and assess ethical issues. This, we have learned from comparing pretest and posttest responses, is natural, in that the exercise may have caused students to doubt some of the assumptions that they previously held. In other words, some uncertainty has been introduced into their “comfort levels.” This is not a bad result, and is also something that may be useful to discuss with them.

Each time that these materials have been used (over 20 times with senior-level students), the post-test comparison to the pre-test has shown a “value added” from their use, i.e., the student response showed that they felt better able to recognize and resolve ethical dilemmas. There has also been a learning experience for the author in the interpretation of post-test results seeming to indicate “regression” in the knowledge of some students. Apparently, some persons wrestling with ethical dilemmas for the first time are “confounded” by this introduction and, in the short run, believe themselves to be less confident about their abilities to make “good” ethical judgments. This insight is now part of the author’s preparation for this instructional unit.

Network and develop resources

The final step in this process is to network and to develop resources. Find others who are working on these issues and share case materials with them. The recent financial crisis has provided a wealth of what appear to be clear breakdowns of ethical standards. The exercises are easily adaptable to group learning exercises. (Working in teams is another of the desirable professional characteristics of job applicants cited by Bell and Wolverton).

<u>Experiences with these exercises and concluding thoughts</u>

We are all likely aware that undergraduate students are not particularly expressive of their appreciation for their undergraduate educational experiences. This is especially true with "slippery" materials such as discussions of ethics because these discussions do not produce "right" answers. After they have been employed for several years, however, many students do express appreciation. We have had this experience often when alumni have been asked to speak to our RMI Senior Seminar or when speaking to professional groups outside the university setting. When told of the conclusions of Bell and Wolverton and Cassidy, Marshall, and Hollman, alumni often confirm that discussion of issues of ethics would have been useful in their undergraduate educations.

Sometimes there are thoughtful expressions in "real time" as a result of this exercise in ethical decision-making. Following are some sample comments, gleaned from the post-test administered after a two-class module. The first class starts with a simple case and a brief discussion of the students' concepts of ethics. That is followed by the "groundwork" outlined here and the assignment of a second, more complex case. The second class consists of discussion of the "take-home" case and a second case distributed in class. The focus of the discussion in the second class are identification of the correct paradigm, identification of the "actors," and identification of their choices.

- *I feel that this section of the course was beneficial to me. It is a topic that is generally overlooked in school. As a graduating senior, this is the first time that I have spent more than a class lecture on this subject. It is something I think should be taught as part of the program.*
- *This is the only coursework in ethics I have had in 4 years of college. Seems the University assumes "good parenting" has taken away the need for an ethics course.*
- *I like how we related these concepts to everyday life and situations.*
- *You need more moral examples, that's what's missing with college students.*

REFERENCES

Bell, N., and Wolverton, M. (1998). What Employers Look for in Hiring Insurance Professionals. *Risk Management and Insurance Review* 2 (Winter), 117-123.

Carris, R., and Duska, R. (2003). Ethics and the Risk Manager. *Risk Management* 50 (April), 28-31.

Cassidy, S., Marshall, R., and Hollman, C. (1998). Future Directions in Undergraduate Insurance Education: Academic and Real World Perspectives. *Risk Management and Insurance Review* 2 (Summer), 89-96.

Kidder, R. (1995). How Good People Make Tough Choices. HarperCollins Publishers: New York.

APPENDIX 1

ETHICAL AWARENESS TEST

This is part of a long-term study of students' perceptions of their "ethical awareness." Please circle the number that indicates your response to the following statements, using the following scale:

1 – Strongly agree	**4 – Disagree**
2 – Agree	**5 – Strongly disagree**
3 – Neutral reaction to this notion	

1. I fully understand the concept of ethics.

   1 2 3 4 5

2. I know as much about ethical issues as my fellow college students do.

   1 2 3 4 5

3. I recognize when a problem or issue has an ethical dimension, for example, I am sensitive to ethical issues in business decisions.

   1 2 3 4 5

4. I notice ethical issues related to news stories and in discussions of current topics.

   1 2 3 4 5

5. It is ethical for an accounting firm such as Arthur Anderson to give clients choices of accounting treatments as long as the choices are permitted by generally accepted accounting principles (GAAP).

   1 2 3 4 5

6. It is ethical for teachers and professors to assign grades based on factors other than an individual student's performance.

   1 2 3 4 5

APPENDIX 2

CASE PROBLEM - THE WC PREMIUM AUDIT

A young account executive for a brokerage firm has had one of her firm's oldest clients assigned to her for servicing. The senior account executive who made the assignment was careful to note that this client is known to be very price conscious. The senior account executive also noted that he viewed a constant effort to find cost savings for clients as a critical part of the firm's service. He suggested that the young account executive go over the client's premium workups with the proverbial "fine-tooth comb."

The largest premium expense for the client is the workers' compensation (WC) premium. The young account executive has reviewed several years of WC premium audits to determine what factors have contributed most to the current premiums. Her goal in this review is to suggest better loss control procedures to reduce or prevent losses. A surprise in this review has been the discovery that there have been several employee classification errors, all of which have favored the client and have incorrectly caused the premium to be lower than experience justified.

The young account executive now wonders what to do. She knows that she owes a duty to her employer, a duty to the client, and a duty to the insurance companies her firm uses to meet the clients' risk financing needs. She remembers the comments of the senior account executive about the potential for "premium shocks" to cause clients to look elsewhere for brokerage services.

QUESTIONS FOR DISCUSSION – THE WC PREMIUM AUDIT

1. Which of the four classic paradigms for ethical dilemmas fit this situation?

2. By what process will the young account executive determine priorities for her loyalty?

3. How should the young account executive proceed? Should she approach the senior account executive first, or should she approach the client (or the insurer) first?

APPENDIX 3

CASE PROBLEM - UPSY DAISY PACKAGE COMPANY

Upsy Daisy Package Company (UDPC) serves the small-package delivery market, mainly as an alternative to USPS parcel post. UDPC uses a fleet of aircraft and trucks to move packages relatively quickly throughout the U.S. and Canada. They are considering expanding into other countries, probably first in Europe.

UDPC provides insurance on the first $100 of value of every shipment as part of the shipping fee. For shipments with values in excess of $100, there is an "excess insurance" fee of $.50 per $100 of declared value or part thereof. The company's practice was to absorb all losses as part of the cost of doing business and to include the "excess insurance" fees in reported revenues. When those fees became substantial, management began to look for ways to reduce the tax liability associated with them.

The company mentioned this problem to their insurance broker account executive, Mr. Frank Hall. Mr. Hall studied the problem and made a suggestion for an arrangement that would allow the fees to be deductible as insurance premiums. Mr. Hall subsequently assisted UDPC in forming a captive insurance company in Bolivia, Old Piety, Ltd. (OPL).

The "excess insurance" fees were remitted to Natural Onion Fire Insurance Company (NOFIRE), a subsidiary of a large U.S. financial services holding company. NOFIRE issued a "contract of insurance" to UPDC to cover the possible losses. NOFIRE then remitted the fees, less a service charge, to OPL as "reinsurance premiums." (This is a classic "fronting" arrangement.)

UDPC deducted the "premiums" paid to NOFIRE as an operating expense. OPL has a 0% loss ratio, but has substantial business expenses and is subject to the very low Bolivian corporate tax rate. The IRS has begun to look into this arrangement, but corporate counsel at UPDC has assured management that the arrangement is not illegal under the existing U.S. Tax Code.

1. Which of the four classic paradigms for ethical dilemmas fit this situation?

2. What ethical views back the actions of UPDC management and Mr. Hall?

3. How should the firm proceed in determining whether this transaction is ethical?

APPENDIX 4

RMI 4295 ETHICAL AWARENESS *POST-TEST*

Now that you have discussed one or more of the case problems, indicate your response to the following statements. Please circle the appropriate number, using the following scale:

1 – Strongly agree
2 – Agree
3 – Neither agree nor disagree
4 – Disagree
5 – Strongly disagree

1. I usually recognize that a problem or issue has an ethical dimension.

   1 2 3 4 5

2. I am sensitive to ethical issues in business decisions.

   1 2 3 4 5

3. I fully understand the concepts of ethics.

   1 2 3 4 5

4. I am aware of ethics issues that arise in everyday situations.

   1 2 3 4 5

5. I am as "tuned in" to ethical issues as my peers are.

   1 2 3 4 5

6. I notice ethical issues related to current topics and news stories.

   1 2 3 4 5

7. I believe this is a useful exercise.

   1 2 3 4 5

Comments:

Speculative Risk Assignments for an Introductory Risk and Insurance Course

by

Stephen M. Avila, Ph.D., CPCU
Professor, Risk Management and Insurance
Department of Finance and Insurance
Miller College of Business
Ball State University
savila@bsu.edu

Kevin M. Gatzlaff, Ph.D.
Assistant Professor, Risk Management and Insurance
Department of Finance and Insurance
Miller College of Business
Ball State University

Stephen Avila is a Professor of Risk Management and Insurance and Co-Director of the Center for Actuarial Science, Insurance, and Risk Management at Ball State University. His research interests include the demand for earthquake insurance, large deductible workers compensation plans, employer sponsored health plans, and executive compensation. He has published in *Risk Management and Insurance Review, Journal of Insurance Issues, Journal of Insurance Regulation, Compensation and Employee Benefits, eCPCU Journal, Journal of Financial Service Professionals, Journal of Financial Education, and the Journal of Business Ethics.*

Kevin Gatzlaff is an Assistant Professor of Risk Management and Insurance at Ball State University where he currently teaches Principles of Risk Management and Insurance and Employee Benefits and Retirement Planning. His research interests include insurer performance, insurer use of financial derivative instruments, privacy breaches, optimal health insurance structure, and litigation involving accidental death or material misrepresentations. He has published in *Risk Management and Insurance Review*, *Journal of Insurance Regulation, Compensation and Employee Benefits,* and the *eCPCU Journal.*

This paper was supported by the Center for Actuarial Science, Insurance, and Risk Management at Ball State University.

Speculative Risk Assignments for an Introductory Risk and Insurance Course

Abstract

This paper summarizes the implementation of three assignments that examine speculative risk in a Principles of Risk Management and Insurance course. The first assignment examines financial markets and investments. Students follow stocks and mutual funds throughout the semester. A second assignment consists of examining a 401(k) plan, and making investment decisions and selecting appropriate asset allocation within the plan. The last assignment examines additional mutual funds, asset allocation recommendations for given ages, and target retirement date funds. Experience has shown us that students benefit from this approach in understanding the general concept of speculative risk and the specific concepts of investments and retirement planning.

Introduction

In the Principles of Risk Management and Insurance course, pure risk exposures are a primary focus. While assignments exploring pure risk exposures are an important component of an introductory RMI course, speculative risk encountered in the form of retirement savings is likely to also play a significant role in the typical student's career. Further, there is no assurance that students in a RMI principles course will later take an investments course. Consequently, speculative risk assignments are given to provide the opportunity for students to learn about the stock market and investing for retirement planning purposes.

The first assignment explores individual stocks and stock mutual funds, the Dow Jones Industrial Average, the NASDAQ Composite Index, the S&P 500 Index, certificates of deposit, common stock, preferred stock, bonds, mutual funds, and inflation. This assignment allows students to become familiar with financial markets and to research and examine stocks and mutual funds. This assignment is given early in the semester to allow for a discussion on speculative risk, and to examine investing within 401(k) plans throughout the semester. A recent article by Mark Coba, Senior Editor for CNBC titled, "Can't figure out your 401(k)? You're not alone" is assigned to the class to discuss how they will make educated decisions regarding their 401(k) plan. The first speculative risk assignment is the initial step in better understanding the markets and investments.

The second speculative risk assignment explores the strategy of asset allocation within the context of a 401(k) retirement account. Students construct portfolios of mutual funds and examine how asset allocation changes over the lifetime of an investor. This assignment prepares students to make choices when constructing their own retirement portfolios in the future. The third speculative risk assignment examines mutual funds and target date retirement funds as an application of an asset allocation strategy. Students review a stock mutual fund, a bond mutual fund, and a money market fund to compare their characteristics, holdings, and returns. Then, students compare a target date retirement fund with a date they construct themselves using asset allocation recommendations.

This article proceeds as follows: First, some recent pedagogical research is outlined. Then, each of the three speculative risk assignments is discussed in turn, with learning objectives and a short description. At the conclusion of the discussion of each assignment, the actual assignment follows. Those interested in incorporating these assignments in their courses are encouraged to contact the authors.

Recent Pedagogical Research

Several recent studies have examined risk management and education related assignments, concluding that their inclusion enriches the classroom experience and enhances student learning. For example, Baranoff (2001) uses "risk balls" as tangible objects representing the concepts of both risk and insurance, inducing risk-related feelings of anxiety and the desire to reduce it among students. Eckles and Halek (2007) utilize a simulation to introduce the concept of adverse selection to risk management students, showing how it can influence insurance markets. DePaolo and Mikolaj (2007) outline a method of teaching enterprise risk management using quantitative modeling to senior-level students.

Others have used stock market simulations to introduce discipline-based concepts. For example, Seo, Goldfarb, and Barrett (2010) observed how simulated stock market decisions and results impacted students' feelings about risk-taking. More traditionally, finance courses have used investment simulations to enhance student experience. Lekvin (2005) outlines how courses using this approach may have an assessment advantage.

While exercises and assignments investigating pure risk remain a key part of introductory risk management and insurance courses, the opportunity to examine speculative risk in the context of retirement planning is worthwhile introducing, especially since there is no guarantee that students will eventually encounter exposure to the financial markets and their risks later in their academic careers. An explanation of the three speculative risk assignments that are used in the course follows, and the actual copy of the assignment follows each discussion in turn.

Stock and Mutual Fund Portfolio Assignment

Learning Objectives

1. Students will research and choose a stock and stock mutual fund and track price changes throughout the semester and report a mutual fund objective, its stock, bond, and cash composition, and a mutual fund's top ten holdings.

2. Students will explain the definitions of the Dow Jones Industrial Average, NASDAQ Composite Index, and the Standard and Poor's 500 Index and report current trading levels and track changes in the indices throughout the semester.

3. Students will demonstrate an understanding of certificates of deposit, common stock, preferred stock, bonds, mutual funds, and inflation.

These objectives will allow students to better understand financial markets and become better informed in their decision-making process regarding their investment choices.

Each student has $100,000 to invest in at least one stock and one stock mutual fund. Students are limited to investing $50,000 in one stock and $50,000 in one stock mutual fund. A stock mutual fund was chosen as part of the assignment since a stock mutual fund will have more volatility during the semester than a bond fund or money market fund. Further research on a bond fund and a money market fund is part of the third speculative risk assignment to examine additional mutual funds later in the semester.

The simplest possibility is that the student could choose a single stock and stock mutual fund; however, most students distribute their capital among a few stocks and stock funds. Students who choose more than a couple of stocks and mutual funds are generally the more advanced students in their investment knowledge.

Students track their portfolios throughout the semester and record and turn in their portfolio value at the beginning and end of the semester for assessment and points. As part of this assignment, students are required to define certain investment terms, define common indices, and report their portfolio values. For the first report, students report on the mutual fund objectives, profile, and composition of assets within the fund (stocks/bonds/cash). Within Yahoo Finance, these can be found under Profile and Holdings for the mutual fund.

Near the end of the term, points are awarded for tracking their portfolio performance, the indices, and providing additional information for the stock mutual fund. In addition, the students report on the top ten holdings for one of their mutual funds. After understanding the mutual fund's objective and composition, the top ten holdings will provide additional information regarding the top ten companies that the mutual fund is investing in. The top ten holdings are companies that are often recognizable to students. The actual stock and mutual fund portfolio assignment follows below.

Stock and Mutual Fund Portfolio Assignment
Each student has $100,000 to invest in at least one stock and one stock mutual fund. The limits are $50,000 invested in one stock and $50,000 in one stock mutual fund.

Track your portfolio throughout the semester and record and turn in your definitions and portfolio value on August 29th (for 10 points). In addition, turn in your portfolio on November 19th (for 10 points). The November report will consist of your values for the last week of September, the last the week of October, and the week leading up to turning in the assignment on November 19th with the total investment amount listed.

For the first report, list the mutual fund objective and composition (stocks/bonds/cash). For the November 19th Report, you need to list the top ten holdings in at least one mutual fund.

Example	Stock Name	Symbol	Price	# of Shares	Total Investment
August					
September					
October					
November					

	Mutual Fund Name	Net Asset Value	# of Shares	Total Investment
Aug.				
Sept.				
Oct.				
Nov.				

	Total Stock and Mutual Fund Investment			
<u>Define</u> and **<u>report the number</u>**	August	Sept.	Oct.	Nov.
Dow Jones Industrial Average				
NASDAQ Composite Index				
S&P 500 Index				

Define the following terms
certificates of deposit
common stock, preferred stock
bonds
mutual fund
inflation

Investing Within a 401(k) Retirement Plan Assignment

Learning Objectives

1. Students will distinguish between stock, bond, and money market mutual funds and understand different asset allocation recommendations for different ages.

2. Students will demonstrate how to allocate their investments within a 401(k) plan. They will also explain how and why their asset allocation should change over time.

These objectives will allow students to better understand choices within their 401(k) plan and asset allocation recommendations for given ages, and become better informed in their decision-making process regarding their asset allocation decisions within 401(k) plans.

Within the employee benefits and retirement planning section of the course, students are required to choose investments within a company 401(k) plan. Students are given a list of investment choices, along with a chart showing each mutual fund's returns. The chart is created each semester by going to Fidelity.com, then Research, then Mutual Funds and typing in the name of the fund. This takes about thirty minutes to an hour to complete.

Students are required to allocate their investments according to the following the guidelines: Age 20-49 (80% stocks, 20% bonds); age 50-59 (60% stocks, 40% bonds); age 60-74 (40% stocks, 40% bonds, 20% cash); and age 75+ (20% stocks, 60% bonds, and 20% cash). We discuss that these are asset allocation recommendations from one source, can be used as a guide, and individual asset allocation may differ depending on each person's situation. For the final part of the assignment, students choose a group of mutual funds based on their risk tolerance, understanding of the financial markets, and personal preference.

An interesting note is made to students about the Balanced and Puritan growth and incomes funds regarding the asset allocation within each fund. For example, the students need to be aware that the Balanced Fund consists of 68% stocks and 31% percent bonds and Puritan has an allocation of 66% stocks and 33% bonds as of November 2013. So, if a student chooses an allocation of 50% into the Balanced Fund, it would mean that 34% is going into stocks and 15.5% is going into bonds. The actual assignment is below.

Investing Within a 401(k) Retirement Plan Assignment

Students work in groups of 2 or 3 to create a portfolio based on the asset allocation recommendation for the four age categories. Each team member has to construct an individual portfolio. The individual portfolio is constructed based on individual preference. For example, for age 75+ (Stocks 20% (10% Contrafund, 10% Low Priced Stock), Bonds 60% (20% Intermediate Bond, 20% Investment Grade Bond, 20% Mortgage Securities), and Cash 20% (20% Retirement Money Market).

The description of and historical returns of the possible funds in which students can invest follow below.

Following the recommendations of asset allocation below, create a portfolio for someone aged:

20-49 (80% stocks, 20% bonds);
50-59 (60% stocks, 40% bonds);
60-74 (40% stocks, 40% bonds, 20% cash); and
75+ (20% stocks, 60% bonds, and 20% cash)

Age 20-49

50-59

60-74

75+

Individual Portfolio

For their individual portfolio, students can take more risk or less risk than the 80% stocks and the 20% bonds recommendation for ages 20-49.

Cash - Money Market Funds

Retirement Money Market – Portfolio consists of high quality money market instruments of all kinds.

Retirement Government Money Market - Portfolio consists of obligations issued or guaranteed as to principal and interest by the U.S. Government and its agencies and in repurchase agreements secured by those obligations.

Bond Funds

Intermediate Bond Fund – Portfolio consists of high and upper-medium grade, fixed-income obligations with intermediate maturities.

Investment Grade Bond Fund – Portfolio consists of a broad range of fixed income securities, including bonds, debentures, notes, equipment trust certificates, government securities, and fixed income securities convertible into or exchangeable for common stocks.

Mortgage Securities Fund – Portfolio consists of a broad range of mortgage-related securities issued by governmental, government-related and private organizations including Ginnie Mae, Fannie Mae, Freddie Mac and other highly-rated obligations.

Stock and Bond Funds

Balanced Fund - Portfolio consists of common stocks, convertible securities and bonds. As of November 2013, the fund consists of 68% stocks and 31% bonds.

Puritan Fund – Portfolio consists of common stocks, convertible securities and bonds. As of November 2013, the fund consists of 66% stocks and 33% bonds.

Stock Funds

Contrafund - Invests primarily in the common stock of companies whose value Fidelity Management & Research Company (FMR) believes is not fully recognized by the public.

Growth Company –Portfolio consists of common stocks and convertibles of smaller, emerging growth companies.

Growth and Income Fund - Portfolio consists of common stocks, convertible securities and bonds. As of November 2013, the fund consists of 99% stocks and 1% cash.

Low-Priced Stock Fund –Normally investing at least 80% of assets in low-priced stocks (those priced at or below $35 per share)

Magellan Fund –Portfolio consists of common stocks or securities convertible into common stocks.

OTC Portfolio – Portfolio consists of securities traded over-the-counter (NASDAQ)

Overseas Fund – Portfolio consists of foreign securities whose principal business activities are outside of the U.S.

Spartan U.S. Equity Index Portfolio – Portfolio consists of common stocks approximately duplicating the composition and total return of the S&P 500.

YTD, Through 11/8, Annual through October 31, 2013.

Name	YTD	1	3	5	10
Retirement MM	0.01%	0.01%	0.01%	0.52%	1.75%
Retirement Govt MM	0.01%	0.01%	0.01%	0.12%	1.62%
Intermediate Bond	-0.51%	0.08%	3.02%	7.35%	4.28%
Investment Grade Bond	-0.52%	-1.15%	3.43%	7.51%	7.51%
Mortgage Securities	-1.24%	-3.40%	3.10%	5.91%	4.03%
Balanced 68/31	16.31%	17.31%	11.53%	13.51%	7.67%
Puritan 66/33	15.97%	17.18%	11.53%	13.18%	7.26%
Growth and Income 99/1	28.52%	29.67%	18.46%	14.14%	3.48%
Contrafund	27.01%	29.92%	15.80%	16.12%	10.12%
Growth Company	30.28%	33.98%	18.73%	19.60%	10.31%
Low Priced Stock	29.49%	34.48%	17.71%	20.50%	10.92%
Magellan	28.18%	29.82%	12.92%	14.46%	5.11%
OTC Portfolio	38.11%	43.94%	18.42%	22.23%	10.48%
Overseas	19.98%	28.17%	10.03%	11.27%	6.84%
Spartan U.S. Equity Index	26.31%	27.06%	16.47%	15.11%	7.39%

Mutual Fund, Retirement Asset Allocation, & Target Retirement Date Fund

Assignment

Learning Objectives

1. Students will be able to explain the definition of a Target Retirement Date Fund and demonstrate understanding of the asset composition within the fund.

2. Student will compare an asset allocation recommendation to a Target Retirement Date Fund based on their current age and make a decision on whether they will choose selecting their own asset allocation or the Target Retirement Date Fund.

The mutual fund assignment consists of researching information on three mutual funds; one stock, one bond, and one money market fund. For the stock mutual fund, students are required to identify the fund manager, returns for 1, 5 years, 10 years, and life of the fund, the top ten holdings, the fund's asset allocation (stock/bond/cash) and the fund objective. Students can report on the stock mutual fund they have been tracking throughout the semester if they choose, or they may select a different one. For the bond mutual fund, students must identify the fund objective, fund manager, and returns for 1 year, 5 years, 10 years and life of the fund. For the money market fund, students identify the 1, 5, and 10 year returns. This assignment provides an opportunity for students to research bond and money market funds, and an opportunity for additional research on stock funds.

The next part of the assignment consists of completing research on a recommended asset allocation for their given age. The students are then asked to provide an asset allocation between stocks, bonds, and money market mutual funds for their 401(k) plan. The students are asked to conduct research on a Target Retirement Date Fund close to the year when they would like to retire and list the asset allocation within the fund. For example, if a student would like to retire in forty years, the 2055 Target Retirement Date Fund would be selected. Students are asked if they would choose a Target Retirement Date fund or actively manage their own asset allocation within their retirement plan. The actual assignment is below.

Mutual Fund, Retirement Asset Allocation, & Target Retirement Date Fund Assignment

List three mutual funds (one stock, one bond, and one money market fund). For the stock mutual fund, identify the fund manager, returns (1, 5, and 10 year), top ten holdings, and the fund objective. Identify the fund manager and returns for the bond fund. For the money market, identify the returns. Allocate your retirement funds between stock, bond, and money market mutual funds. List one Target Retirement date fund and list the asset allocation. Will you choose a Target Retirement Date fund or choose your own asset allocation?

Summary

Pure risk assignments are an essential component of an introductory RMI course. However, because most students will encounter retirement planning issues throughout their careers and because some students may not experience future courses examining financial markets, a discussion of speculative risk as it relates to retirement planning is also useful. This paper outlines three assignments examining speculative risk in a Principles of Risk Management and Insurance course relating to retirement planning. Students are required to define certain investment terms, to allocate investment dollars to individual stocks and stock mutual funds, and explore the strategy of asset allocation within a retirement plan. Students report benefiting from this approach in understanding the general concept of speculative risk and the specific concepts of investments and retirement planning.

References

Baranoff, Etti, 2001, “The Risk Balls Game: Transforming Risk and Insurance into Tangible Concepts”, *Risk Management and Insurance Review,* 4(2): 51-58.

DePaolo, Concetta, and Mikolaj, Peter, 2008, “Teaching Enterprise Risk Management: A Modeling Approach”, *Journal of Risk Education,* 2007: 20-28.

Eckles, David L., and Halek, Martin, 2007, “The Problem of Asymmetric Information: A Simulation of How Insurance Markets Can Be Inefficient”, *Risk Management and Insurance Review,* 10(1): 93-105.

Lekvin, Brent J., 2005, “Some Evidence Regarding Computer-Based Financial Instrument Trading Simulations and Their Use as an Assessment Tool”, *Journal of Financial Education,* 31(1): 23-33.

Seo, Myeong-Gu, Goldfarb, Brent, and Barrett, Lisa Feldman, 2010, “Affect and the Framing Effect within Individuals over Time: Risk-Taking in a Dynamic Investment Simulation”, *Academy of Management Journal,* 53(2): 411-431.