In 2003 the RMI Department faculty approved a bold new Strategic Plan calling for (1) an unparalleled commitment to cutting-edge research and (2) a critical examination and upgrade of the department’s curricula and standards.

Implementation of the plan’s core elements is well underway with the hiring last fall of three exceptional scholars: Anastasia Kartasheva, Ajay Subramanian, and Shaun Wang. This fall, the department was fortunate to add four young, first-rate scholars to its faculty, as featured in this issue of the RMI Report: Zhiyong Liu, Shinichi Nishiyama, Adam Speight, and Eric Ulm. All four enter as tenure-track faculty at the assistant professor level.

The rankings provide a comparative measure of the overall quality of an institution’s risk management/insurance program, and are derived from surveys completed by deans and senior faculty members at business programs accredited by the Association to Advance Collegiate Schools of Business (AACSB).
Since I last reported to you, the department has made impressive strides in continuing the implementation of the strategic plan.

First, we succeeded in recruiting four outstanding new faculty members. Professor Eric Ulm, who’s PhD is actually in physics from Ohio State University, is a Fellow of the Society of Actuaries and worked for Nationwide Insurance for seven years before returning to academia. Eric has broad research interests, spanning finance and actuarial science, particularly in modeling the risk of insurance products. Professor Adam Speight completed his doctorate in mathematical finance at Carnegie Mellon, and has a broad range of interests, ranging from economic and financial modeling to developing numerical methods to solve large and complex problems. Professor Shinichi Nishiyama earned his PhD from the University of Pennsylvania and spent several years at the Congressional Budget Office before joining us. Shinichi is an expert on evaluating the effect of policy changes in social insurance programs such as social security. Professor Zhiyong Liu received his doctorate from the Kellogg School at Northwestern University. His research interests are in industrial organization and applied microeconomics, and he also works at the intersection of law and economics, particularly the role of optional remedies in contracts. We are delighted to have them on board.

In other faculty news, Professor Shaun Wang, who joined us last year as the Director of the Actuarial Science Program, has been appointed Editor of the Astin Bulletin, one of the premier journals in Actuarial Science. Perry Binder, assistant professor of legal studies, received a Robinson College Faculty Recognition Award for teaching excellence. Another legal studies professor, Joan Gabel, received the Kay Duffy Memorial Award for Distinguished Service to the Academy of Legal Studies in Business.

Second, we have completed the restructuring of the undergraduate and doctoral curricula that I described in my last report; these were implemented in the fall. The final changes to the Actuarial Science and Mathematical Risk Management programs were completed this fall.

You can find information about the new opportunities we offer our students at the department web site (www.rmi.gsu.edu).

We celebrated the 25th anniversary of the Munich Re International Visiting Fellows program (H. K. Jannot Scholarship) by planting commemorative trees on the Georgia State campus and the Munich Re offices in Germany.

The department has established two research-related annual awards: the Harold D. Skipper Jr. Best Paper Award for Global Insurance (APRIA) and the GSU ARIA Award for Best Paper in Risk Management. Professor Christian Gollier received the first GSU-ARIA award. Incidentally, he will be visiting the department in the spring and will teach a doctoral seminar.

Of course, this report would not be complete without mentioning our rise in the U.S. News and World Report rankings; we are again the top risk management program among public universities and only second to Wharton among all universities.
FROM THE EFI BOARD CHAIRMAN

As an alumnus of the RMI program (M.IN. 1978) at Georgia State University, I am excited and proud to be serving this year as Chairman of the Board of Educational Foundation, Inc., the fundraising arm of the department. This is an opportune time to be chairman of this outstanding group of volunteers, who are working hard to help move the department toward achieving its vision of being the world’s leader in risk management scholarship and education.

With your help, the Board raised nearly $200,000 during the 2004/2005 academic year in support of the program. This year, our goal is to raise over $300,000. With this year’s addition of four new young and bright tenure-track RMI faculty, who have very strong credentials in both research and teaching, and with the addition of another two next year, the department is poised to reach its goals. I hope you are as proud as I am of the progress and the status the department has achieved.

I also hope that you will help us share the news about the growing strengths of the RMI Department. Please share this newsletter with company executives. Help us to let the world know that Georgia State’s RMI program is a world-class program and probably the most unique of its kind. We want your company to hire more excellent graduates as well as to financially support excellence in risk and insurance education.

RMI alumna Dr. Lorilee Schneider is now Director of Student and External Affairs and is working to grow departmental relations with the industry. Please contact her at schneider@gsu.edu to find out how to get your company involved with the RMI program. Thanks to all of you who have joined the effort to support the RMI program.

RCB HONORS RMI ALUM DAVID STONECIPHER

David A. Stonecipher—Chairman of the Board, Jefferson-Pilot Corporation, RMI alumnus (M.A.S. 1967) and EFI Trustee—was recognized by the Robinson College of Business as recipient of the Alumni Leadership Award for Lifetime Achievement. The Robinson alumni awards acknowledge extraordinary individuals who have distinguished themselves through career achievement and community service. Mr. Stonecipher was one of eight of Atlanta’s most respected business leaders honored at the 3rd Annual 2005 Alumni Awards Celebration held on November 15 in Atlanta’s Fernbank Museum of Natural History.

Stonecipher began his career as an actuary with Life of Georgia in Atlanta. He steadily advanced to President and Chief Operating Officer of the firm. He then joined Jefferson-Pilot in 1992 as CEO-elect and became President and Chief Executive Officer of both the Jefferson-Pilot Corporation and Jefferson-Pilot Life Insurance Company in 1993 and Chairman of the Board in 1998. He is a member and Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. He serves on the Board of Trustees for the McCallie School and on the Board of Bassett Furniture Industries, Inc.

EFI ESTABLISHES PUERTO RICO SCHOLARSHIP FUND

Through the leadership of EFI Trustee Ramon Perez, President of First Insurance Group, Inc. and RMI alumnus (Ph.D. 1979), the Puerto Rico Insurance Industry Masters Degree Fellowship and Insurance Development Fund was established to attract talented and qualified individuals into any of the graduate degrees offered by the RMI Department. The fund also provides support for the development of the country’s insurance industry.

Eligible Fellows will be drawn from residents of Puerto Rico or their descendants, or those individuals interested in pursuing an insurance career in Puerto Rico.

Contact Dr. William Feldhaus, Associate Professor and Graduate Program Advisor, at 404.651.2727 or feldhaus@gsu.edu for additional information. You may also visit www.rmi.gsu.edu.
IN MEMORIAM:  Dugald W. Hudson
Professor Emeritus of Legal Studies and Insurance
July 25, 1919—November 8, 2005

Dugald Walker Hudson, age 86, Professor Emeritus of Legal Studies and Risk Management and Insurance, died on Tuesday, November 8, 2005. He joined the RMI Department faculty in 1958 where he had a distinguished career for thirty years until his retirement in 1988. Dr. Hudson founded the department's Legal Studies program and brought national recognition to the program for the breadth of law related courses offered at the university. The Legal Studies program he founded continues to be uniformly recognized as one of the outstanding programs in the country. Dr. Hudson taught thousands of students in the College of Business over the course of his career. He earned a law degree and LLM at George Washington University and a Doctorate of Jurisprudence at the University of Virginia. He also studied foreign relations at American University.

Professor Hudson was well known and highly respected among business law academics throughout the country. He provided years of dedicated service to both the Southeastern Academy of Legal Studies in Business, serving as President in 1962, and to the Academy of Legal Studies in Business, serving as President in 1967. He also served as the first Executive Secretary of the Academy, and he was the national academy’s representative to the American Assembly of Collegiate Schools of Business for many years. His mentoring, his influence, and his wise counsel benefited generations of young faculty in the legal studies discipline.

At Georgia State University, Professor Hudson was committed to effective faculty representation in university governance. He actively served on the University Senate for most of his academic career and chaired numerous university committees during a time of great change and tremendous growth at Georgia State.

Dr. Hudson was born in Greenville, South Carolina, on July 25, 1919. He graduated valedictorian of the class of 1940 at Presbyterian College where he was active in the ROTC program and the debate team. After college, he joined the FBI and was a special agent for four years, serving in South America for one year. He entered the U. S. Army in 1944 as an infantry officer in Germany, France, and Austria. After World War II, Dr. Hudson was assigned to the Judge Advocate General Office in Heidelberg, Germany, trying cases for four years in Germany, France, and England. He also served in Korea from 1956-1958 before joining the faculty at Georgia State University. Dr. Hudson was a member of the ex-FBI Agents Society, a life member of the Military Order of World Wars, an active member of Alpha Kappa Psi, and a member of the District of Columbia and Georgia Bar Association.

Dr. Hudson is survived by his wife of almost 60 years, Leona Strickland Hudson of Atlanta, Georgia.

ROBINSON NEWS...

EMBA MOVES UP IN COLLEGE RANKINGS

The Financial Times 2005 Survey of Executive MBA (EMBA) Programs ranks the Robinson College of Business among the top 40 programs in the world (37th) and among the top 20 in the U.S. The College also ranked among the top half of all schools surveyed for alumni salary, salary increases, and career progress. Robinson has advanced seven positions in one year and 31 spots since its first appearance on the list in 2003. We are one of only two schools (Emory University) in Georgia ranked in the survey. BusinessWeek ranks the Robinson EMBA Program among their top 25.

OTHER RANKINGS

The College’s overall undergraduate program ranked among the top 50 in U.S. News and World Report’s 2006 annual survey of America’s Best Colleges.

In other ranking news, the College was among the top 20 part-time programs listed in Forbes magazine’s 2005 survey which ranks schools based on return-on-investment.
Hurricane Katrina—State Offers a Helping Hand

How they came to Atlanta and Georgia State’s Robinson College of Business varies. But for six eager Tulane graduate business students, the chance to continue their education provides them with something special—a sense of normalcy. Using a Tulane database to connect with each other and other displaced Tulane students, these six are finding lodging, friendships, and a place to call home—at least for now.

On September 6th, these six students, the first to enroll as a result of the University’s policy to accept students from New Orleans schools for a $100 admission fee, attended orientation at Robinson. For some, classes began that evening.

As of September 9th the College had admitted 17 graduate students from Tulane, The University of New Orleans, Southern University of New Orleans, and Xavier University.

In addition, over 500 undergraduates, many of them business majors, have enrolled at Georgia State. (Reprinted from Robinson in Review)

Robinson Launches Professional MBA Program

The College is expanding its program offerings with the introduction of a weekend MBA. The Professional MBA (PMBA) will launch its first class in January 2006 at the Alpharetta Center, with another class launching at the downtown campus in Fall 2006.

The 24-month PMBA program is designed for working professionals with at least three years of experience. Students will be able to maximize their time by attending classes on Saturday with one weeknight meeting and online coursework. Visit www.robinson.gsu.edu for more information.

Robinson News...

HURRICANE KATRINA—STATE OFFERS A HELPING HAND

RCB DEAN NAMED TO CHINA BOARD

Dean H. Fenwick Huss has been appointed to the Board of Directors of the Georgia China Alliance, a professional association devoted to increasing commerce between Georgia and the People’s Republic of China by building relationships, opening doors, and generating business opportunities with China’s growing economy.

www.robinson.gsu.edu
Catastrophe Risk and Insurance Research Program

Dr. Robert W. Klein, PhD
Associate Professor of Risk Management and Insurance
Director, Center for Risk Management & Insurance Research
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OVERVIEW

Since the mid-1990s, Georgia State University, in coordination with other institutions, has been conducting research on catastrophe risk and insurance issues. This research has incorporated additional dimensions following the severe hurricane season of 2004 and associated developments in insurance markets. Hurricane Katrina and other damaging storms in 2005 have further propelled the significance of this research and its examination of insurance market responses and public policy. This outline briefly describes Georgia State’s research program and plans. A list of Georgia State catastrophe risk publications may be obtained by visiting www.rmi.gsu.edu.

INCREASED CATASTROPHE RISK AND INSURANCE MARKETS

Prior to 2004, it appeared that home insurance markets were approaching some degree of equilibrium (albeit imperfect) in terms of pricing and the supply of coverage. However, several damaging hurricanes in the Gulf region in 2004 appeared to have had a destabilizing effect on insurance markets and Hurricane Katrina and other storms in 2005 have exacerbated market pressures. A number of insurers are reconsidering their hurricane exposures and pricing structures and beginning to make adjustments. Some insurers are publicly questioning the “insurability” of hurricane risk in the Southeast and calling for some form of federal financing of this risk. These developments motivate several important research questions that we are seeking to examine in a progressive series of working papers and articles. These questions include:

- What were the direct financial effects of recent hurricanes on insurers?
- How has the supply of insurance changed and how is it likely to continue to evolve?
- How are insurers’ perceptions of the viability of offering home insurance and wind coverage changing and influencing their market strategies?
- Is there evidence of significant market “dysfunction” and what are its causes?
- What can be done in terms of private (business) and governmental actions to remedy market problems and help to secure an adequate supply of insurance and other forms of risk financing in an efficient way?

EVALUATING ALTERNATIVE APPROACHES TO INSURING FLOOD RISK

The extensive flooding associated with Hurricane Katrina and other recent storms have restarted an intensive discussion of the efficiency and adequacy of the National Flood Insurance Program (NFIP) and other approaches to insuring flood risk. The fact that a large proportion of homes that were flooded did not carry flood insurance has prompted significant concerns and questions. Some have suggested that the flood peril should be included in homeowners multiperil insurance to expand coverage. Solving the flood insurance problem is not a simple matter and a thorough assessment of the issues and policy options is warranted. As an important component of catastrophe risk, we will be examining several research questions associated with flood insurance and potential reforms. These questions include:

- What are the factors that influence the “take-up” rate on flood insurance and its penetration in areas subject to flood risk?
- How well have flood risk mapping and mitigation kept pace with the exposure to flood risk?
- How has the federal flood insurance program performed overall and particularly with respect to several key aspects, such as its underwriting, pricing and effects on incentives to build and rebuild in flood-prone areas?
- What changes in the terms and management of flood insurance have the greatest potential to improve its efficiency and outcomes?
- What are the options and issues involved with “privatizing” flood insurance and how might they be resolved?

RESOURCES TO SUPPORT CATASTROPHE RISK AND INSURANCE RESEARCH

Fulfilling our research agenda will require two types of resources: (1) information and (2) funding. Some of the data and other information needed to answer the research questions outlined above are readily available from public sources, but there is a considerable amount that is not. Some data are available for purchase from proprietary sources. There are other data and information that are not in the public domain that will require the voluntary cooperation of its owners to access and use it to probe deeper into the workings of insurance markets. Funding also will be needed to support the expenses and time commitment of the researchers.

RESEARCH TEAM

The principle members of the Georgia State research team are Dr. Martin Grace, Dr. Robert Klein and Dr. Zhiyong Liu. Grace and Klein have amassed considerable experience in studying catastrophe risk, insurance markets, and public policy and Liu brings fresh perspectives to the issues. Other researchers inside and outside Georgia State may be engaged in the research effort as its momentum builds and scope expands.

CONTACT US

People and organizations who are interested in learning more about our Catastrophe Risk and Insurance research program should contact Dr. Robert Klein (contact information provided at the top of this page).
I am currently very interested in the types of options, both real and financial, embedded in insurance products. My primary focus is on the options embedded in variable annuity products, although I am also interested in corporate pension plans. Variable annuities are issued by insurance companies, and are in some ways similar to private 401(k) plans. The policyholder places money into the annuity, which then accumulates until the policyholder wishes to withdraw it. The policyholder may either take a lump sum, or may buy a payout annuity that guarantees a fixed life income much like a private pension. The policyholder can usually invest the annuity money in a variety of fund choices. I focus on two typical investment choices, a fixed fund earning a fixed interest rate and a variable fund invested in a broad stock market index with asset fees withheld.

In order to differentiate their products, companies began adding guaranteed minimum death benefit options (GMDBs) to their policies. These options act like put options at the moment of death. If, at the time of death, the account has fallen below the initial premium then the full premium is returned, rather than only the account value. I have been able to derive some analytic results for the value of these financial options under some simple mortality laws.

However, I am more interested in the way policyholders exercise the “real” options implicit in the contract. For instance, the policyholders are free to transfer money back and forth between the fixed and variable accounts whenever they like, and this affects the value of the GMDB options. I am looking into the effects of these transfers on the contract value. I am interested both in what the policyholders should optimally do, as well as what the policyholders really do in practice. If the transfer decisions of policyholders are not random, but depend in some systematic way on fund performance, this will cause a systematic error in the valuation of the GMDB, as well as a systematic bias in any hedging strategy that does not take these transfers into account.

I’m also looking into the effect of hedging on the reported GAAP income of insurance companies. Hedging the economic value of the GMDB options will stabilize the economic income of the company by canceling against the change in economic value of the option. Hedging will not, except by coincidence, exactly balance the change in the accounting reserves. Therefore, hedging could have unexpected results on reported income. It appears, in most cases, that the GAAP reserves for GMDBs would be overheded. This would lead to unexpectedly low reported earnings in good economic times, and unexpectedly high reported earnings in bad times. The hedging strategy would have to be well understood by the market in order to avoid incorrectly valuing an insurance company that was hedging its GMDBs.

Over the past several years, I have been investigating the assignment of insurance and credit ratings by the major statistical rating organizations. My research has led to some interesting insights into the behavior of rating agencies and the incentives they have to provide accurate and timely information to market participants about the financial strength of the firms they follow.

I first became interested in this topic when my coauthor, Neil Doherty (Wharton School) and I set out to explain why the dominant insurance rating agency, the A.M. Best Company, was systematically downgrading more insurers than they were upgrading during the 1990s. Best’s behavior was curious to us because property-liability insurers added unprecedented levels of capital to their balance sheets during the 1990s, suggesting they should have been receiving upgrades—not downgrades. In our paper, we developed an econometric model identifying the factors Best’s used to assign insurer ratings over this period, and then we used that model to investigate whether the standards Best’s employed changed over time. The bottom line result was striking. According to our research, a company that had the same risk profile in the early 1990s and the early 2000s could expect to be rated at least one letter grade lower due solely to an increase in the standards employed by Best’s.

Why did Best’s change their standards? Although there are many possible answers, one may be because Best’s was reacting to the new competitors (Standard and Poor’s, Moody’s, and other rating companies) that came into their market during the late 1980s and early 1990s. For example, in 1992, Standard and Poor’s (S&P) provided ratings for companies that represented only 33 percent of the assets of the industry. By 1996, this number had grown to 67 percent.

In a second paper, Professor Doherty and I sought to document the strategies S&P used as they expanded coverage of insurers. Our analysis suggested S&P engaged in a “cherry picking” strategy. That is, they identified high financial quality insurers and assigned them ratings as high as their Best rating only if the insurer had substantially higher financial quality than the average Best-rated company in the same category. In addition, conditional upon a rating category, we showed that the range of the predicted probabilities of default for S&P-rated insurers was significantly smaller than for A.M. Best rated companies. These two results are consistent with S&P having adopted a strategy that allowed high quality insurers a new way to signal their financial strength and to do so in a convincing way. Interestingly, and consistent with our original paper, we also found evidence that A.M. Best reacted by adopting more stringent rating standards as S&P’s presence grew over time.

Our first two papers raise an interesting question about the assignment of ratings. Namely, how do the rating agencies determine the standards they will use to assign companies to different letter categories? In a third paper I am writing with a former Ph.D. student (Puneet Prakash, class of (continued on page 12)
NEW FACULTY  (continued from page 1)

ZHIIYONG LIU, PhD

Zhiyong Liu specializes in industrial organization, applied microeconomics, law and economics, economics of information, and contracts and organizations. His secondary specialties include business strategy and public policy. Prior to his arrival at Georgia State, he taught in the School of Economics & Management at Tsinghua University in China. He was also a member of China’s State Council of Economy and Trade, producing economic reports and summaries.

Impressed with Liu’s potential for expanding the department’s breadth of knowledge, RMI Department Chair Sanjay Srivastava recently commented, “Zhiyong’s research, with its focus on informational and contractual issues, deepens our capability in understanding their impact on risk management.”

Dr. Liu graduated from the Kellogg School of Management at Northwestern University with a Ph.D. degree in managerial economics and strategy. He also received an M.A. degree in business economics from Peking University and a B.A. degree in economics from Wuhan University in China.

SHINICHI NISHIYAMA, PhD

Shinichi Nishiyama is an expert on the application of dynamic general equilibrium models, especially as related to problems in a household’s risk sharing and social insurance. His research specializations include macroeconomics, quantitative theory, public policy, and social security. His work has appeared in widely-recognized journals such as the Journal of Political Economy and Review of Economic Dynamics.

Srivastava said, “Shinichi’s governmental experience coupled with his deep quantitative skills, bring a new dimension to our faculty mix, particularly in the area of policy analysis.”

Before joining the Georgia State faculty, he was a principal analyst of fiscal policy studies for the U.S. Congressional Budget Office (CBO), specializing in the dynamic macroeconomic analyses of the president’s budget and Social Security reform. He received the CBO Director’s Award in 2004 and 2005 for these analyses.

Professor Nishiyama received a Ph.D. degree in economics from the University of Pennsylvania and a B.A. degree in economics from Keio University in Japan.

ADAM SPEIGHT, PhD

Adam Speight is an expert on the development of computational techniques appropriate for solving large, complex models in financial engineering, risk management, and asset pricing. The focus of his current research is understanding the interaction between insurance and financial markets, especially relating to catastrophe risk, securitization, and mortgage insurance.

Srivastava is excited about the value and experience that these new faculty members bring to the department. Commenting on Dr. Speight, he said, “Adam’s range of skills allow him to tackle a wide range of difficult problems in risk management.

Professor Speight graduated from Carnegie Mellon University with a Ph.D. degree in mathematical finance. He also received B.S. (magna cum laude) and M.S. degrees from the University of Colorado where he studied applied mathematics and operations research. While at Carnegie Mellon, he received the prestigious National Science Foundation’s VIGRE fellowship for graduate study.

ERIC ULM, PhD, FSA

Eric Ulm’s expertise focuses on modeling and hedging the risks in insurance products and the application of stochastic calculus and financial mathematics to the pricing and valuation of those products. He also specializes on the effects of hedging on corporate income and value.

Before his arrival at Georgia State, he was a visiting assistant professor of actuarial science in the department of statistics and actuarial science at the University of Central Florida.

After receiving his doctoral degree in physics from Ohio State University in 1995, Dr. Ulm spent 7 years in the corporate actuarial department of Nationwide Insurance in Columbus, Ohio, involved with the practical issues of modeling the cash flows and hedging the embedded options in variable annuity and pension products.

Srivastava said about Ulm, “Eric adds tremendous depth to our actuarial faculty and also adds a lot of practical experience to our faculty mix.”

Professor Ulm also holds M.S. and B.S. degrees in physics from Ohio State University. He is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries.

RMI DEPARTMENT ESTABLISHES TWO RESEARCH PAPER AWARDS...

The RMI Department, in conjunction with the Asia-Pacific Risk Management and Insurance Association (APRIA), established the Harold D. Skipper Jr. Best Paper Award for Global Insurance last spring, honoring the former RMI Department chair and a founder of APRIA. The first ever winning paper, entitled “The Distribution of Policy Reserves Considering the Policy-Year Structures of surrender Rates and Expense Ratios,” was coauthored by Chengsien Tsai, (associate professor, National Chengchi University, and RMI alumnus—Ph.D. 1998), Weiyou Kuo (associate professor, National Chengchi University), and Derek Mi-Hsii Chiang (associate professor, National Chengchi University).

The GSUARIA Award for Best Paper in Risk Management was founded by Georgia State University, in conjunction with the American Risk and Insurance Association (ARIA) earlier this year. Professor Christian Gollier, University of Toulouse, France, received the first award for his paper, “Optimal Portfolio Management for Individual Pension Plans.” Dr. Gollier will be teaching an RMI doctoral seminar at Georgia State University in spring 2006.

Award recipients were recognized during the 2005 World Risk and Insurance Economics Congress Awards Luncheon in Salt Lake City, Utah.
SAUDI STUDENTS PURSUE MS-RMI AT GEORGIA STATE UNIVERSITY

Through a special program of the Saudi Arabian Monetary Agency (SAMA), the central bank of Saudi Arabia, three Saudi students are pursuing Master of Science degrees in Risk Management and Insurance (MS-RMI) at the Robinson College of Business. Thamer Alessa, Abduaziz Alsewiah, and Mohammad Alyoufem—all employees of SAMA—have been tapped by the agency to help develop and implement the country’s new insurance regulations, upon completion of their Georgia State degrees.

SAMA’s education program entails sending select employees to schools in Canada and the U.S. to complete graduate degrees in specialized business disciplines. With new insurance markets opening up in Saudi Arabia and the development of a new regulation structure, SAMA needed a comprehensive insurance education program like that offered by Robinson’s top-ranked risk management program.

Alessa, Alsewiah, and Alyoufem are already in the U.S. becoming proficient in the English language, something they must accomplish before they can be accepted for study at Georgia State. Sanjay Srivastava, RMI Department Chair, is confident that the students are adjusting well to their new surroundings.

“They have a long commitment to international risk management education and a large percentage of our students come from abroad,” said Srivastava. “Having the Saudi students join our program helps us continue this effort.”

Although the students are looking forward to the opportunities that await them back home, they plan to make the most of their time at Georgia State. Said Alessa, “Initially, it was a culture shock, but we are quickly making new friends and taking advantage of all the activities the school has to offer. We have found the people here to be even friendlier than we thought. This experience has opened our eyes to a new world and we are glad to have this opportunity.”

While these three are the first Saudi students to enroll at Georgia State, several others are already planning to join us in the near future. Robinson expects to graduate approximately 40 Saudi students through the SAMA program.

(Source: RCB State of Business, Vol. XVII, No. 5, Fall 2005)

Georgia State University’s Actuarial Science Program 2006 Exam Preparation Seminars

The Actuarial Science Program at Georgia State University is offering preparation seminars for the 2006 professional actuarial examinations. The seminar courses are taught by actuarial science faculty of the J. Mack Robinson College of Business at Georgia State University and selected practicing actuaries who have expertise in the seminar topics. Classes are held at sites conveniently located in the Metro Atlanta area.

The following courses will be offered:

SoA Course M
SoA/CAS Course C

Visit our website for more detailed information:

www.rmi.gsu.edu

RMI DOCTORAL DEGREE RECIPIENTS PURSUE ACADEMIC CAREERS

James Tyler Leverty, a recent graduate of Georgia State’s doctoral program in risk management and insurance (Ph.D. 2005), has been appointed to the faculty at the University of Iowa Henry B. Tippie School of Business as an assistant professor of finance. Professor Leverty specializes in the economics of insurance markets, public policy issues in insurance, and financial institutions and markets. While still a student at Georgia State, he received the 2004 State Farm Companies Foundation Doctoral Dissertation Award for his work on the measurement of property-liability insurer efficiency. He recently received the 2005 Casualty Actuarial Society Best Non-Life Paper Award for his paper “Property-Liability Insurer Reserve Error: Motive, Manipulation, or Mistake,” coauthored with Martin Grace, RMI Department professor of risk management and insurance.

Recent doctoral recipient Punit Prakash (Ph.D. 2005) was appointed to the faculty of the Risk Management and Insurance Studies Center at Virginia Commonwealth University School of Business. His research interests include credit risk, financial institutions (including banking) and insurance, property & liability insurance, and the economics of terrorism.

RMI CAREER FAIR - A SUCCESS

The 2005 RMI Career Fair was held this year in conjunction with the Robinson College Career Expo. The fair hosted employers from 20 leading insurance/financial services companies and 120 Robinson College students. All indications suggest that it was very successful for employers and students alike. Planning is well underway for next year’s fair, to be held in September 2006. For additional information contact Tess Monsanto at tmonsanto@gsu.edu.
Perry Binder, J.D., assistant professor of legal studies in the RMI Department, was honored by the Robinson College of Business as recipient of the 2005 Faculty Recognition Award for Teaching Excellence.

Throughout his career at Georgia State University, Professor Binder has received exceptionally high scores for teaching effectiveness, as rated by his students—scores that consistently exceed Robinson College averages. He describes his classroom style as “teaching law in an optimistic and practice-oriented manner,” a method that resonates positively with his students. He was a finalist for the university’s Innovative Teaching Award in 2004, and for the prestigious National Academy of Legal Studies in Business (ALSB) Master Teaching Competition in 2005.

Since the establishment of the Robinson Faculty Recognition Awards in 1985, RMI Department faculty have received 13 excellence awards: 8 for teaching, 4 for service, and 1 for research. We are very proud of that record.

**CATASTROPHE RISK IN THE NEWS**

Hurricanes Katrina and Rita—along with their devastating effects on many communities—left a trail of questions about how such catastrophes affect the insurance industry. RMI Department experts Robert Klein, associate professor and director of the Center for Risk Management and Insurance Research, Martin Grace, James S. Kemper Professor of Risk Management and Insurance and associate director of the Center, and William Feldhaus, associate professor, offered their expertise on these issues to a variety of media outlets including, the Business Chronicle, Journal-Constitution, New York Newsday, media outlets including, the Atlanta Journal-Constitution, the Atlanta Business Chronicle, the Times-Picayune, the Palm Beach Post, and Tulsa World.

Professors Klein and Grace participated in a panel discussion hosted by The American Enterprise Institute for Public Policy Research addressing whether insurance companies’ flood exclusion clauses are unenforceable under interpretations of the “valued policy law.” They also discussed other Hurricane Katrina liability issues that will impact the Gulf States for many years to come. The discussion was televised by C-SPAN.

**COSTS OF SECONDHAND SMOKE HITS BILLIONS**

Don Behan, senior research associate in the Center for Risk Management and Insurance Research, completed a study (cosponsored by the Society of Actuaries) on the economic effects of secondhand smoke. He found that the annual cost of excess medical care, mortality, and morbidity from exposure to secondhand smoke in the United States tops $10 billion. The study has been featured on National Public Radio’s Marketwatch, CNN, the Wall Street Journal, and Reuters.

**PERRY BINDER**

Perry Binder, assistant professor of legal studies, was a finalist in the national Master Teacher Competition sponsored by the Academy of Legal Studies in Business (ALSB). His presentation was on the ethical and legal implications when company employees post comments on blogs and similar gripe sites.

Professor Binder was quoted by the Associated Press (“Legal Experts: Trouble Brewing for Former Wal-Mart Exec Coughlin”) and the Minneapolis Star-Tribune (“N.Y. Sues Guidant Over Its Defibrillators”). He appeared on the ESPN Classic show “Who’s #1–Most Controversial Athletes” commenting on Tonya Harding/Nancy Kerrigan (#15) and O.J. Simpson (#1). He was featured on several clips in between Brian Williams, Barbara Walters, and Larry King.

**CONRAD CICCOTELLO**


**JOAN GABEL**

Joan Gabel, associate professor of legal studies, received the prestigious Kay Duffy Memorial Award for Teaching Excellence, as quoted by the Minneapolis Star-Tribune.

**RMI FACULTY JOIN DFA CAPITAL MANAGEMENT ADVISORY BOARD**

DFA Capital Management Inc., a leading provider of enterprise risk management solutions, announced the formation of an Insurance Industry Advisory Board. The Board is composed of leading academics and business leaders in the fields of quantitative finance and insurance management, including RMI Department faculty members, Samuel Cox and Shaun Wang.

The Advisory Board is charged with providing DFA with input on current market trends and critical business needs. Markus Rohrbasser, Chairman and President of DFA Capital Management Inc. said, “We are delighted to have this esteemed group join us in an advisory role during this critical stage of our growth. Their vast experience, industry knowledge and established reputations in the insurance industry will help us to build upon our current capabilities and to solidify DFA Capital Management Inc.’s position as the market leader in enterprise risk management for insurance companies.”
WANG APPOINTED EDITOR OF PREMIER ACTUARIAL SCIENCE JOURNAL

Shaun Wang, associate professor and director of the RMI Department’s Actuarial Science Program, has been appointed as editor of the ASTIN Bulletin, the internationally renowned refereed scientific journal of the actuarial profession. This premier journal, which is published semi-annually, devotes itself to the mathematics of insurance and specializes on topics related to general insurance (as opposed to life insurance) or on topics related to financial risks with a specific insurance focus. The primary audience of the ASTIN Bulletin is comprised of practitioners working in financial institutions with interests in insurance, as well as academics specializing in insurance related research. ASTIN stands for Actuarial Studies In Non-life insurance.
have propelled me to success. Coupled with strong ethics and morals, my talents will separate me from the pack and get me hired.” Throughout the season, he remained true to his philosophy and talents by showing a high degree of professionalism, integrity, and honesty, something that seemed lacking in many of the other contestants.

Graduating from Georgia State's Robinson College of Business magna cum laude and near the top of his class with a B.B.A. in risk management and insurance, Adam was highly involved in the activities of the RMI Department, including serving two successful terms as president of the Zeta Chapter of Gamma Iota Sigma, the national risk management student organization. After being asked by NBC what he thought was more important, a college education or “real-world” experience, he replied, “A college degree is the result of hard work and determination. That drive for success cannot end after completing this milestone but must continue throughout your life in order to reach the pinnacle of success.”

As a young, 19-year-old, Adam's business career took off at Marsh & McLennan Companies in their investment banking division, while still a student. By the time he was 20, Adam was offering tailored risk management solutions at Marsh USA, Inc., managing a $3 million portfolio of blue chip companies. Recently, he moved to New York City to work for KPMG, one of the “Big 4” accounting/advisory firms. Adam credits much of his success to a strong business ethic and entrepreneurial spirit derived from managing his parents’ multimillion-dollar real-estate company—once a small start-up that has flourished into a lucrative metro Atlanta firm. Congratulations, Adam, we are very proud of you.

**CREDIT RATINGS AND STANDARDS**

2005, now an assistant professor at Virginia Commonwealth University) we test the theoretical prediction that rating companies will employ standards that are relative and contingent upon the distribution of default risk across all firms in the economy at the time of assignment versus the alternative hypothesis that rating standards are absolute and the agencies employ a fixed range for the probability of default to assign ratings. Using data on bond credit ratings, we find evidence consistent with the relative standards hypothesis. Specifically, our research suggest that the median probability of default for companies assigned to a particular rating class varies positively and significantly with the median probability of default for all companies in the economy.

This result has important implications as it calls into question the use of historical ratings information for regulatory and/or portfolio management purposes. For example, the new Basel II regulatory accord requires banks to hold risk capital based upon credit ratings assigned by a nationally recognized statistical agency. Consider what happens if the economy goes into a recession and there is a uniform increase in the probability of default for all companies? Logically one would expect that banks would be required to set aside more capital to protect against potential losses due to bankruptcy. However, if the agency assigns ratings based upon relative standards, and the banks use those ratings to determine required capital levels, then the amount of regulatory capital the bank is required to set aside to cover default risk may not change even though the probability of losses due to bankruptcy has gone up.

