AAMGA PLEDGES $1 MILLION TO ESTABLISH DISTINGUISHED CHAIR IN THE RMI DEPARTMENT

The American Association of Managing General Agents (AAMGA) has pledged $1 million to fund an endowment for the establishment of a Distinguished Chair in Risk Management and Insurance (RMI) at Georgia State University. The endowment—which will be held in the Georgia State University Foundation—provides for the study of the global dynamics of the insurance industry and how they impact AAMGA members. The chair will support the research activities of a risk management scholar, while the RMI Department will deliver educational programs targeted to the needs of AAMGA members. AAMGA members will have ongoing access to top ranked academic experts and premier educational programs. With the addition of this chair, the RMI Department will house 3 fully endowed research chairs, 2 fully endowed program chairs, and 3 endowed professorships.

The AAMGA is an international trade association comprised of the insurance industry’s premier wholesale property and casualty agents and companies. The AAMGA Board of Directors selected Georgia State based on the strength, focus, and leadership role of its undergraduate and graduate programs in insurance and risk management. These programs have been consistently ranked among the nation’s top ten by US News & World Report.

“AAMGA is proud and excited to continue its efforts as a leader in providing wholesale insurance education by forging this relationship with Georgia State and the Robinson College,” said Wes Duesenberg, AAMGA Treasurer, along with AAMGA University Chancellor Rob Giles. “The members of AAMGA will have available a continuously expanding set of learning opportunities.”

GAUNT CHAIRS GOVERNOR’S TASK FORCE

Larry D. Gaunt, Professor Emeritus Risk Management and Insurance, served as Chair of the Governor’s Commission for the New Georgia’s Risk Management Task Force. The Commission was created to bring ideas and initiatives from the private sector to state government in order to improve efficiency and reduce costs. The task force was charged by the Governor’s Commission with reviewing the operations of the Risk Management Services (RMS) Division of the Department of Administrative Services. Dr. Gaunt headed a team of prominent Georgia risk managers who recently presented their findings and recommendations to the commission and Governor Sonny Purdue. The committee was comprised of David A. Paulk, Director of Risk Management, Association of County Commissioners of Georgia; J. Gary Meggs, Director Risk Management, Southern Company Services, Inc.; and Art Kirchoffer, Executive Director-Risk Management, AT&T (Bell South). Meggs (BBA 1974, MBA 1978, MIN 1983) and Kirchoffer (MBA 2001)—both RMI alumni—also serve on the Board of Trustees of Educational Foundation, Inc, the RMI Department’s fundraising arm.

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For over fifty years the Department of Risk Management and Insurance has been among the best academic risk management and insurance programs in the world. So, in 2004 when we set in motion a plan to redesign the program, we were not surprised to hear some words of trepidation along with the words of encouragement we received. After all, there is much history behind this program and our past accomplishments are well known in the communities we have traditionally sought to serve and influence.

Now, three years later, the results of our strategy are beginning to pay off in substantial ways. In this issue you will read about exciting research being conducted by our faculty, significant enhancements to our curriculum, and increased visibility for the department’s faculty and students both nationally and internationally.

On the research front, RMI has never been more influential than we are right now. Among the most visible projects currently underway is an external grant we received in partnership with the Brookings Institute and the American Enterprise Institute to investigate the merits of federal vs. state regulation of the U.S. insurance industry. Led by Professors Robert Klein and Martin Grace, RMI faculty will work with academics from other universities and policy experts from around the country to debate this issue over the next year. The policy experts from around the country to debate this issue over the next year. The policy experts from around the country to debate this issue over the next year.

A second large scale research effort focuses on the development and implementation of economic capital models for the insurance industry. In addition to numerous faculty focusing their own research agendas on this topic, there are at least two prominent projects, involving several RMI faculty, addressing these models. One of those projects involves a team of faculty who are conducting a high level review of the economic capital methodology used by one of the world’s largest insurers – the American International Group. The goal of the project is to review AIG’s current methodology and to provide recommendations for improvements. I am particularly excited about this project as we are likely the only academic institution in the country that has the depth of expertise in insurance economics and actuarial science as well as the breadth in quantitative finance necessary to conduct an investigation for a global financial services firm exposed to so many different risks.

Other RMI faculty are also enjoying research successes. Examples include Professor Nishiymata receiving a grant from the University of Michigan that allows him to continue his work investigating the optimal design of social security systems and Professor Ulm receiving one from the Society of Actuaries to better understand and model policyholder behavior. Also, I am certain you will read with interest the recent research of Assistant Professor Zhiyong Liu highlighted in this newsletter on page 6.

The state of RMI’s undergraduate and graduate academic programs is strong and growing. For the 10th consecutive year RMI was ranked among the top 10 programs nationally as judged by SAT and GMAT entrance exams scores, is the highest of any major in the world’s leader in risk management education.

The 2006-2007 academic year also was a milestone fundraising year for RMI in many ways. First, the American Association of Managing General Agents (AAMGA) agreed to endow the AAMGA Distinguished Chair in Risk Management and Insurance at the $1 million level. The money will be donated, in part, honoring the accomplishments of RMI alum and current EFI Trustee Wes Duesenberg. Second, EFI’s annual campaign raised 50 percent more funds than the previous year and more money than in any year in EFI’s history. Alumni and industry support of our program is critical to our continued growth and we greatly appreciate the generosity our supporters.

Finally, I am pleased to introduce to you our newest faculty member – Professor Daniel Bauer. Dr. Bauer recently obtained his Ph.D. in Mathematical Finance specializing in actuarial mathematics from the University of Ulm in Germany. Dr. Bauer will be teaching both graduate and undergraduate courses in our actuarial science and quantitative financial risk management programs. Professor Bauer’s research specialty is developing mathematical models for the valuation and risk management of insurance products and insurance-linked securitizations. A German national, Daniel is among the most junior members of the German Society for Actuarial and Financial Mathematics. More detail on Professor Bauer’s research and teaching interests can be found on page 8.

Thank you for your continued faith in and support of our efforts. We look forward to working with you in the months and years ahead to achieve our vision to become the world’s leader in risk management education and scholarship.
FROM THE EFI BOARD CHAIR

I am very proud of my service on the Board of Trustees of Educational Foundation, Inc. (EFI). While I have served in the past as Vice Chairman and Chair of the Development Committee, my current tenure as the 2007/2008 Board Chairman has been the most challenging as well as rewarding experience. I hope I can count on your support as we continue our work to increase the assets of the RMI Department, broaden the geographical and knowledge base of the Board, and work to increase department visibility in the region, the country, and the world.

Several trustees finished their terms and rotated off the Board this year. We acknowledge their work and commitment and give grateful thanks to Dave Culley, Erroll Kendall, Art Kirchoffer, Sanjay Srivastava, James Wech, and Teresa Winer—we will miss you. We offer a special welcome to our new trustees: Randall Buhlig, John Fenton, Dave Holland, Rob Huber, Chris Kiah, Andrea Sellars, Dorn Swerdlin, and Scott Thompson.

The Program Liaison Committee, under the leadership of RMI alum J. Gary Meggs (BBA 1974, MBA 1978, MIN 1983), has again had a busy year working with department personnel, students, and alumni. We now have several active student organizations—Gamma Iota Sigma, Actuarial Student Association, and the Mathematical Risk Management (MRM) Club—and have partnered with the Georgia State University Alumni Association to reactivate and grow the RMI Alumni Club.

The Investment Committee is under new leadership, thanks to Michael Yates of Assurant Group who is successfully chairing this effort. Largely through the efforts of this committee, the RMI Department’s combined assets (in both GSUF and EFI) are at $10 million.

At the end of October, we held our Fourth Annual Bermuda Scholarship Fund Walk, again led by Gary Meggs, which raised over $15,000 in support of Bermudian students who wish to study at Georgia State. This year’s fun in the sun was sponsored by JLT Park in Bermuda and McGriff, Seibels & Williams of Georgia. We hope to see a few more of you next year. Look for that date and other RMI events in the departmental calendar at www.rmi.gsu.edu.

We had a record fundraising year in 2006/2007, raising over $300,000, and anticipate an increase in that amount this year. We are most grateful to all of you who have helped us and will help us achieve that goal. Please know that your contributions are being used to significantly enhance the quality of the department’s programs and increase the value of your Georgia State education.

“T” IRVIN HONORED WITH RCB ALUMNI AWARD

Tinsley “T” Irvin (BBA 1955) was recognized by the Robinson College of Business as recipient of the 2007 Alumni Award for Service to the College in a ceremony of the 5th Annual Robinson College Alumni Awards Celebration at the New World of Coca-Cola in Atlanta. T was joined by nine other prominent alumni and business leaders who comprise this year’s impressive group of honorees.

T has been a tireless volunteer for Georgia State University and the RMI Department for many years. He served as Chairman of the Board of Trustees of Educational Foundation, Inc. and was responsible for raising millions of dollars in support of insurance programs in the Robinson College. He played a large role in the establishment of the RMI Department’s Kenneth Black Jr. Chair of Insurance, an endowment that honors his mentor and founder

(continued on page 11)
The Department of Risk Management and Insurance undertook an extensive self-study of its undergraduate programs during the 2003-2004 academic year. This initiative was motivated by both actual changes taking place in the risk management environment, and by what those in the department perceived to be indicators of continued change. A core group of RMI personnel sought input from faculty members, student leaders, EFI Board members, and industry leaders. The effort resulted in substantial and exciting changes to the department’s undergraduate programs in both actuarial science and risk management/insurance.

The new undergraduate programs of study, effective January 2008, require that RMI majors take a broad and rigorous perspective on risk by completing a foundations course in risk modeling at the start of their coursework, as well as a capstone course in enterprise risk management at the end of their coursework. Both of these courses focus on the quality of critical thinking within a risky decision environment, and are taken together by actuarial and risk management majors. This ensures that students within both programs understand one another’s roles in the analytical process. Furthermore, the enterprise risk management course is writing intensive, and thus places additional emphasis on effective professional communication skills. The new curriculum design also affords students a choice of major electives within their respective programs to concentrate on areas of risk management in which they are most interested individually (e.g., financial risk management, life-health insurance, and property-casualty insurance).

We are confident that future graduates of the RMI Department’s BBA programs will be equipped for a broader set of employment opportunities than those coming out of traditional insurance programs. The increased quantitative emphasis and enterprise-wide approach of the new curriculum allows for insurance-related placements plus opportunities as risk analysts within the banking, consulting, and other financial sectors.

The RMI Department believes the curriculum revisions are wholly in line with their mission “to be the best in risk management education, worldwide,” and as such, are excited about these changes.

Visit rmi.gsu.edu for details of these new programs of study, and please share your thoughts, as all of RMI’s degree programs continue to evolve and add value to your Georgia State University degree.

The RMI Department recognizes the Class of 2007 Munich Re Visiting Fellows, under the auspices of the Horst K. Jannott (HKJ) Scholarship Program. This year marks the program’s 27th anniversary.

Under the direction of Dr. Larry Gaunt, Professor Emeritus, the program brought ten Fellows from seven different countries to Georgia State University to study the U.S. insurance system.

While at Georgia State, the Fellows participated in a two-month long rigorous program that closely examined U.S. risk management institutions and practices. The curriculum included daily seminars taught by top Robinson College faculty, field visits to some of Atlanta’s leading companies, and outstanding collection of individual research projects and presentations.

The HKJ Scholarship Program has been very successful through the years in helping participants reach executive and leadership positions within their respective companies. There is no doubt that the Class of 2007 will continue this impressive trend. They are:

- STEFANIE ANGERBAUER Germany
- ALEXANDRA BORLEY England
- JORG BRUNRCKI Germany
- JUAN ESCOBAR Colombia (RMI–MAS 1998)
- BIRGIT FREUND Germany
- KARSTEN JENSEN Denmark
- KEDONG LI China
- BENSON LIN China (Taiwan)
- WOLFGANG PETSCHKO Austria
- V. DANIEL VACCARO Canada
CONGRATULATIONS TO THE 2007 HONORS DAY AWARD RECEPIENTS

Congratulations to the outstanding group of students who represented the RMI Department in this year’s Honors Day Celebration at the Rialto Center for the Performing Arts. Judging by their impressive academic achievements, we have no doubt that this group will make significant contributions to their chosen professions.

RMI Alumni Club Undergraduate Student of the Year Award
YELENA VERETENNIKOVA

Outstanding Personal Financial Planning Graduate Student of the Year Award
JEFFREY S. HOWARD

Outstanding Risk Management and Insurance Graduate Student of the Year Award
MELISSA NICOLE BROWN

Robert W. Batten Actuarial Science Award
SAYALI JAYANT JOSHI

Floyd S. Harper Actuarial Science Award
TAMARA LEIGH CANTRELL

Eli A. Zubay Actuarial Science Award
STEPHANIE J. BILAL

Gamma Iota Sigma Leadership Awards
YELENA VERETENNIKOVA
CHRISTOPHER M. JONES

Gamma Iota Sigma Service Awards
NIBEDITA TULJA GANTA
SHUENN TENG NG
DANIELA VALENCIA

GIS ZETA CHAPTER RECEIVES CPCU EXCELLENCE AWARD

Georgia State University’s Zeta Chapter of Gamma Iota Sigma (GIS)—the national student organization that promotes interest in risk management and actuarial science as professions—received the 2006-2007 Excellence Award given by the GA-CPCU Chapter for service. GIS members were recognized for their active participation and volunteer efforts in several CPCU events including Insurance Day, the American Heart Walk, and CPCU’s national conference.

BERMUDA EXECUTIVE VISITS GEORGIA STATE

The RMI Department was delighted by the recent visit of Elspeth Brewin, Senior Vice President at Thomas Miller Company in Hamilton, Bermuda. She served as a guest lecturer in one of our graduate RMI classes, sharing with students the historical development of the Bermuda insurance marketplace as well as her insights on the market’s prospects for the future.

RMI DEPARTMENT RANKED IN THE TOP TEN, AGAIN

For the ninth consecutive year, U.S. News & World Report has ranked the Department of Risk Management and Insurance in the J. Mack Robinson College of Business at Georgia State University among the top ten insurance education programs in the country. The department’s undergraduate program is ranked seventh best overall in U.S. News’s 2008 annual survey of America’s Best Colleges released in August. Earlier this year, the publication ranked the Robinson College’s Flexible MBA program among the top ten programs in the nation for the 12th consecutive year.

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Do Optional Remedies for Breach Better Deal with Contractual Risk?

Zhiyong Liu, PhD
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People often sign contracts despite the fact that they may have incomplete information about the value of the contracts. For instance, manufacturers may sign supply contracts with retailers when the cost of producing the goods is uncertain and/or the demand and retail price are unknown. Furthermore, the information learned post-contracting is often asymmetric between parties. As an example, after signing the supply contract, a manufacturer privately observes the cost of producing the goods, but to the retailer, the cost information is unobservable and unverifiable. Similarly, the retailer may have the superior information about the market price and demand. The information asymmetry is an obstacle to efficient contract renegotiation, as proven by Myerson and Satterthwaite (1983). Rationally anticipating this inefficiency of bargaining and renegotiation after the contract is signed and parties learned their private information, the parties may wish to pre-design renegotiation schemes or contract remedies for breach to reduce the contractual risk and increase their joint payoff.

The question then becomes, what remedies for breach better deal with the contractual risk when there is uncertainty and asymmetric information in contracting? By “remedies for breach,” I mean ways to compensate the non-breaching party. Expectation damages remedy refers to the damages that will restore the non-breaching party to the state as if the contract was fulfilled. Liquidated damages compensate the non-breaching party according to the damages written in the contract, while a specific performance remedy enforces the original contract. These are the most commonly used remedies for breach.

Most of the current literature assumes that the remedies are exclusive, that is, only one of the remedies, not a combination of them, will be applied to a contract. In reality, contract law provides the non-breaching party with a variety of remedies to choose from and parties often write contracts with such optional remedies. For instance, parties might write a contract with the following clause: “upon breach, the non-breaching party can choose from expectation damages or specific performance as the remedy.” Our research found that in many circumstances, optional remedies are more efficient in reducing contractual risk than exclusive remedies, particularly when there is uncertainty and asymmetric information.

In Avraham and Liu (2006), we studied the contracting efficiency of optional remedies between liquidated damages and specific performance, and compared it with exclusive remedy contracts with only liquidated damages. We identified conditions under which the optional remedy contract is superior to exclusive remedy contract.

Because the optional remedy contracts provide the non-breaching party with a menu of remedies to choose from in case of breach, they effectively defer the actual remedy choice from the enter-contract stage to the interim stage when the parties learn new information after signing the contract. Thus, the non-breaching party would be able to incorporate new information when choosing the actual remedy. This flexibility (compared to the rigidity of exclusive remedies) is efficiency-enhancing when the risk satisfies certain distribution conditions.

Consider the following scenario:

Seller proposes a breach. Buyer can either accept damages or reject damages and insist on performance (possibly with paying a higher price to the seller). If buyer chose performance in the last round, seller can revise his damages offer to breach in the current round (if you allow me to breach, I am ready to pay you a higher damage). Then buyer again can either accept the new damages offer or insist on performance with a revision on price offers, and so on.

Our research shows that this type of multiple-round optional remedy contract can approach the first-best efficiency, i.e., when buyer’s value exceeds seller’s cost performance would be chosen, otherwise, parties would agree on breach. Thus, the contractual risk is totally circumvented in this case. The multiple-round optional remedies contract simply copies the efficient renegotiation outcome but does not encounter the asymmetric information problem. This is because when parties sign the contract, the information is symmetric (i.e., the parties are equally uninformed about the uncertain future circumstances which will affect the value of the contract to them). It is worthwhile to notice that this type of multiple-round optional remedy contract effectively excludes the inefficient breach or inefficient performance, thus maximizes the parties’ joint payoff. Meanwhile, these contracts are simple to enforce with fixed terms written in the contract.

In a related project, we demonstrated that when the optional remedies menu is composed of specific performance and court-imposed damages, optional remedies contracts effectively mitigate the parties’ strategic behavior that leads to inefficiency under certain conditions. We also have shown that with optional remedies contracts the court’s Bayesian updating in belief when determining damages may pay off, in the sense that determining damages in that way would
motivate more efficient breach decision from parties, and hence parties’ joint payoff would be increased.

Our research explains why some contracts include optional remedies for breach, while other contracts take exclusive ones. In practice, the conclusions are helpful to guide the contracting parties or transactional lawyers writing contract remedies for breach—under what circumstances they shall write optional instead of exclusive remedies. Our research can also be informative to judges when they interpret and/or enforce contracts with optional remedies.

In future research, we would like to further explore the importance of such optional remedies. For instance, what is the strategic effect of optional contract remedies to third parties, such as potential competitors to buy or sell the good? Could optional remedies be used as a commitment device for the contracting parties to extract surplus from potential competitors? It would also be interesting to see the effect of optional contract remedies on the investment efficiency when the parties invest to enhance the value of the contracting relationship.

Zhiyong Liu’s research interests are industrial organization, law and economics, the management of contract risk, and the economics of information and organization. He graduated from Kellogg School of Management at Northwestern University with a Ph.D. in Managerial Economics and Strategy (2005). He also holds a M.A. degree in economics from Beijing University (1996), and a B.A. degree in economics from Wuhan University. Dr. Zhiyong Liu taught at School of Economics and Management at Tsinghua University in Beijing before he came to USA for his Ph.D. studies.

The Risk Foundation awarded Robert Klein, professor and director of the Center for RMI Research at Georgia State University, and Martin Grace, James S. Kemper Professor of Risk Management, a $200,000 grant that allows the RMI Department to partner with the Brookings Institution and the American Enterprise Institute to conduct a year-long study focusing on the future of regulation of the U.S. insurance industry.

**INSURANCE REGULATION**

This project on “The Future of the U.S. Insurance Regulatory System” addresses hotly debated issues and proposals regarding changes to the structural framework for insurance regulation and the reform of regulatory policies. Although there has been a fair amount written on these topics, the current literature has failed to pierce through the cacophony of conflicting opinions and address a number of questions posed by policymakers. The proposed project fills the analytical and information gap by commissioning a series of high-quality, in-depth papers that would be subject to rigorous peer review. The authors of these papers will not only include well-known insurance economists, but also include economists with significant reputations in regulatory economics and in political science. The papers will be presented and discussed at a high-level conference in Washington, D.C. and would be widely disseminated through a book, via the web and through other distribution devices. Background papers dealing with more detailed, technical aspects of the current system and proposed changes would also be developed and disseminated to assist analysts advising policymakers on proposed legislation.

The Risk Foundation also awarded a $100,000 grant to Professor Grace and Richard Phillips, RMI Department Chair and Bruce A. Palmer Professor of Risk Management and Insurance, to identify the aspects of enterprise risk management that lead to the greatest creation of shareholder value, using the insurance industry as a testing laboratory.

**VALUE CREATION IN ERM**

As the Risk Foundation notes, there is a great interest regarding the possibility of using enterprise risk management as a value creation tool for insurers. However, while many insurance company executives publicly suggest their organizations are actively implementing ERM programs, privately many of these same executives are unsure what constitutes best practices in ERM and whether the ERM initiatives they have undertaken will provide the greatest benefits given the costs involved. For example, considerable debate exists about who should be principally responsible for the ERM process. Some firms employ risk committees which report to the Board of Directors, while others appoint CRO’s who report directly to the CFO or CEO. The outcome of this research project will not only allow us to answer questions like this, but also provide estimates of the value increases insurers could expect by adopting best practice.
DANIEL BAUER joined the RMI Department this fall as a visiting lecturer and will become a permanent member of the faculty in the spring. He received his PhD in mathematics from Ulm University, Germany in December. He is a specialist in developing new mathematical models for the valuation and risk management of insurance products and insurance-linked securities. Some of his other research interests include the economics of annuitization and computational finance. Dr. Bauer also holds a master’s degree from San Diego State University where he studied statistics as a Fulbright scholar. He is among the first junior members of the German Society for Actuarial and Financial Mathematics and an immediate candidate of the German Society of Actuaries.

Dr. Bauer authored a paper entitled “Risk-Neutral Valuation of Participating Life Insurance Contracts in a Stochastic Interest Rate Environment,” which is forthcoming in Insurance: Mathematics and Economics.

PERRY BINDER, assistant professor of legal studies, wrote an opinion editorial for the Atlanta Business Chronicle (May 4, 2007) entitled “Let Your Employees Write Blogs.” Binder suggests that employees should be allowed the freedom to discuss their firm online, on their own time, without the risk of being fired. His reasons for this position are twofold. First, it makes good financial sense. The blogging audience is huge and will not be reached with traditional advertising methods. Second, he suggests that blogging is good for employee morale, by building a strong sense of community not commonly seen in the workplace. Binder goes on to say that employers who permit blogging must develop strong policies to avoid the posting of trade secrets, harassment, discrimination, or defamation.

CONRAD CICCOTELLO, associate professor and director of the personal financial planning program, has been invited to become a TIAA-CREF Institute Fellow. As a Fellow, he will be helping the Institute achieve its mission of fostering and conducting objective research, building knowledge, demonstrating thought leadership, and enhancing understanding of strategic issues that are of importance to TIAA-CREF and its client institutions and participants. Membership in the TIAA-CREF Institute Fellows Programs is exclusively restricted to nationally prominent thought leaders with interests in research, teaching, and policymaking in areas of employer-sponsored pension plan design, management and funding; retirement savings, wealth management and the process of retirement; retiree health insurance; financial education; and strategic management in higher education. As a specialist in the areas of law and finance, financial intermediation, and organization and contracting, Dr. Ciccotello’s research interests are congruent with the needs of the Institute.

MARTIN GRACE, James S. Kemper Professor of Risk Management and Insurance, and ROBERT KLEIN, associate professor and director of the Center for RMI Research, coauthored an article, “Facing Mother Nature,” which appeared Regulation (Fall 2007). The article focuses on the issues surrounding post-Katrina changes in Florida’s insurance regulation.


On a related note, Robert Klein participated in a congressional staff briefing on Optional Federal Chartering (OFC) issues in Washington, D.C. last October. He was the only expert on insurance markets and their regulation on the briefing panel. Martin Grace spoke about the Optional Federal Charter on A.M. Best’s BestDay.

Martin Grace was interviewed on National Public Radio’s Marketplace segment on October 23 about the California fires and their possible impact on the state’s insurance markets.

ZHINYONG LIU, assistant professor of RMI, coauthored a paper, “Incomplete Contracts with Asymmetric Information: Exclusive vs. Optional Remedies,” (with Ronen Avraham) which is forthcoming in the American Law and Economics Review.

SHINICHI NISHIYAMA, assistant professor of RMI, received a $100,000 grant from the University of Michigan’s Retirement Research Center for his research proposal entitled “The Optimal Design of Social Security.”
Georgia State University awarded HAROLD SKIPPER, former RMI Department chair and professor, who retired in 2005, the title of Professor Emeritus of Risk Management and Insurance. Congratulations Skip!

Congratulations to AJAY SUBRAMANIAN who was promoted to associate professor of RMI last summer. He coauthored a paper, “Switching Costs, Dynamic Uncertainty and Buyer-Seller Relationships” (with Nagesh Murthy and Shrikhande Milind) which is forthcoming in Naval Research Logistics (2007). He also authored “Optimal Liquidation by a Large Investors,” which will appear in a forthcoming issue of the SIAM Journal on Applied Mathematics.

ERIC ULM, assistant professor of RMI, was awarded a $15,000 grant by the Society of Actuaries for the purchase of data necessary to complete a current project. He also coauthored a paper, “Does Privatizing Social Security Produce Efficiency Gains?” (with Kent Smetters) which is forthcoming in the Quarterly Journal of Economics.

Several studies being undertaken by the Center for Risk Management and Insurance Research at Georgia State University on the insurance related impact of Hurricane Katrina were used as a basis for the New York Times article entitled “Who Will Pay for the Next Hurricane?” by Howard Kun Kunreuther (August 25, 2007).

The RMI Department says goodbye to former faculty members JOAN GABEL, who accepted a faculty position at Florida State University, to DAVID RICHARDSON, who will return to private industry, and ANASTASIA KARTASHEVA, who has joined the faculty at the University of Pennsylvania’s Wharton School. We wish them well in their endeavors.

SAM COX RETIRES
After 13 years of distinguished service to Georgia State University and to the RMI Department, internationally renowned researcher and educator Samuel Cox retired last May as professor of actuarial science and holder of the Thomas P. Bowles Chair of Actuarial Science. While he continues to do research in the United States and Canada, his invaluable expertise in loss modeling, stochastic processes, and financial engineering will be missed in the classroom.

As a Fellow of the Society of Actuaries (SOA) and past member of the SOA’s Board of Governors, Dr. Cox was instrumental in the development and evolution of the professional examination process. He has served as editor of the North American Actuarial Journal (the premier academic journal of actuarial science), co-editor of The Asian Pacific Journal of Risk and Insurance, associate editor of the Journal of Risk and Insurance (the premier academic journal of risk management and insurance), and has been on the editorial board of The International Journal of Mathematics and Computer Science. Dr. Cox has published scholarly papers in mathematics, actuarial science, insurance, and finance.

Prior to joining Georgia State, he was on the faculty at Michigan State University, University of Nebraska-Lincoln, University of Texas at Austin, and University of Puerto Rico (Rio Piedras). He holds BA and MS degrees from Texas Christian University and a PhD from Louisiana State University, all in mathematics.

Sam was honored last summer by his friends and colleagues at a gathering graciously hosted by former EFI Trustee Teresa Winer. In attendance were Robert Batten, former professor and director of the Actuarial Program, and former AS faculty members Don Behan and Tom Tredway.

from left to right: ROBERT BATTEN, DON BEHAN, SAM COX, ERIC ULM, and TOM TREDWAY, former and current Actuarial Science professors in the RMI Department
Nineteen Georgia State University students are participating this academic year in the RMI Industry Mentoring Program. The program—initiated by Atlanta-CPCU and RIMS with the cooperation of the risk management programs from both Georgia State and the University of Georgia—is now in its fourth year. Dr. Lorilee Schneider serves on the program’s steering committee and coordinates Georgia State student participation. Jane Sandler (BBA-RMI 1996) serves as the current chair of the steering committee.

Over 40 companies and over 125 students participated in this year’s AS-RMI Career Expo held on the Georgia State campus last September. Eight companies attended for the first time. More than a dozen of the participating companies have already conducted follow-up interviews with students.

DOCTORAL STUDENT NEWS

The Geneva Association awarded a $10,000 grant to Jeung Bo Shim (PhD 2007) while he was a doctoral student in the RMI Department, to support his dissertation research. He also received funding to attend the 2007 Annual Meeting of the International Insurance Society to present his findings last summer in Berlin. Dr. Shim received his PhD in August and has accepted a position on the faculty at Illinois Wesleyan University.

Yuan Yuan, who also received her PhD in the summer, was awarded the Robinson College GTA Teaching Excellence Award this year for her outstanding performance in the classroom. She has accepted a faculty position at the University of Wisconsin at Whitewater.

RMI doctoral student Chayanin Kerdpholngarm received her PhD in December. She plans to return to her home country of Thailand to pursue several research opportunities.

GAMMA IOTA SIGMA NEWS

Six members of Gamma Iota Sigma (GIS) Zeta Chapter, along with faculty advisor Dr. Lorilee Schneider, attended the Surplus Lines Symposium in Birmingham, Alabama last November. The six students were: Rachael Adondakis, Atyia Avery, Pedro Barros, Diadra Griffin, Akilah Hunte and Bryan Ruiz. Seventeen surplus lines brokers and insurers and more than 20 schools were represented at the two-day event that included educational seminars as well as a career fair. GIS is the premier national student organization that promotes interest in risk management and actuarial science as professions.

Five GIS members attended the Gamma Iota Sigma National Management Conference in Washington, D.C. on October 11th. Atyia Avery, Pedro Barros, Tashiba Chism and Camille Kyte shared ideas with representatives from other schools and met potential employers during the three-day conference.

GIS once again participated with the Atlanta Chapter of CPCU in the American Heart Walk held on November 3rd. Six students walked, raising over $2,000 for the AHA.

Eighteen students from the RMI Department served as volunteers at Atlanta I-Day, held October 4th at the Cobb Galleria Center.

ALUMNI NEWS

The Geneva Association awarded its Ernst Meyer Prize to Dr. Yijia Lin (PhD-RMI 2006) for her excellent dissertation on “Mortality Risk Management.” Congratulations to Dr. Lin, who is an assistant professor in the Department of Finance at the University of Nebraska-Lincoln.

Nidhipon Wityatem Tritiptawin (MBA-RMI 1998) was appointed as Vice President of the Thailand Insurance Institute (TII), an insurance academic organization founded in 1980 to develop and manage examinations in Thailand for the Insurance Institute of New Zealand and the Australian Insurance Institute.

The RMI Department welcomes Rodolfo J. Vaupel (MBA-RMI 2002), President and CEO of the Vaupel Insurance Agency, a member of Lloyd Insurance Group, who is joining the department as a part-time instructor. He will be teaching An Introduction to Risk Management and Insurance (RMI 3500) in the spring. Mr. Vaupel is a member of the Board of Directors of Georgia State University’s Alumni Association as well as the current President of the Atlanta Chapter of the National Society of Hispanic MBAs.

The Robinson College recognized Tinsley “T” Irvin (BBA-RMI 1955)—former EFI Trustee and a long-time friend of the department—as recipient of the 2007 Alumni Award for Service to the College. T retired as Chairman and Chief Executive Officer of Alexander & Alexander Services Inc. (A&A) and has the recognition of being was one of the first five graduates of Georgia State’s insurance program. Read more about T on page 3 of this issue.

WE WANT TO HEAR FROM YOU . . .

Calling all alums and students . . . send us your news! Do you have a great new job or internship? Have you won any awards lately? Are you involved in an interesting community service or professional project? Contact Ellie Diaz, Publications Marketing Coordinator, at ediaz@gsu.edu or 404.413.7465.
GOVERNOR’S TASK FORCE (continued from page 1)

SIZE AND SCOPE OF RISK MANAGEMENT SERVICES
With a budget of $138 million (FY 07), RMS is responsible for managing various programs including a workers’ compensation program covering state employees, a liability program covering general, automobile and professional liability, and a property insurance program covering all state owned property and two smaller programs. The state’s exposure to loss under the above programs includes 129,000 employees, 22,000 vehicles, and over $20 billion in property values. The three largest programs result in over 13,000 claims per year, with estimated claim payments during the fiscal year of $105 million.

The size of the state’s exposure to loss, number of claims, and budgetary demands are indicative of the importance of the responsibilities placed on RMS. The size and scope of this program is comparable to the risk management and insurance programs of the very largest corporations in the United States.

RECOMMENDATIONS
The task force compared RMS to public and private organizations of similar size and scope of operations. What is considered “best practices” today by professional risk managers was the basis for comparison and the task force’s recommendations. A comprehensive set of recommendations and implementation actions were detailed in the report. Of major concern to the task force were issues related to personnel, risk financing methods, performance metrics, and loss control.

ORGANIZATIONAL STRUCTURE AND PERSONNEL
The task force discussed with Governor Perdue the need for a major restructuring of the division and its operations. Overall the RMS Division needs professionally educated, trained, and experienced personnel to manage the large, complex, and increasingly technical risk management and insurance programs of state government. The personnel changes required include a director of risk management, claim manager, loss control manager, and several technical positions.

The risk management organizational model that has proven to be successful in both the public and private sectors and recommended by the task force is one with professional personnel and support staff, while outsourcing a number of lower level functions in order to achieve efficiency and productivity. The reorganization will result in a smaller, more professional, higher level, management oriented division.

COST ALLOCATION
RMS lacked an equitable, responsive, and incentive-based cost allocation and budgeting system for distributing the cost of claims, insurance costs, and administrative overhead to state agencies. The cost allocation formulas were archaic, not actuarially based and in need of substantial revision.

To the extent that cost allocations were not risk and exposure based, cross subsidization of state agencies created the unintended consequences of providing disincentives to control costs, as well as hiding a segment of the real cost of operating the agency.

PERFORMANCE MEASUREMENT
The division lacked performance measures that were accurate, consistent, and meaningful. Many of the metrics used by the division were not meaningful and did not give an accurate picture of results. Our research also indicated that few metrics or benchmarks regarding losses based on claim data were being provided to state agencies for management purposes. The task force recommend a series of performance measures that would be more meaningful.

LOSS CONTROL
The greatest cost reductions for the state are possible, as in the private sector, by controlling losses through effective loss control programs. However, there was no state-wide coordination and support of loss control activities of state agencies.

The operating units of state government have the primary responsibility for preventing and controlling losses. However, this has resulted in no coordination in sharing information and best practices among state agencies or their subdivisions (e.g. units of the University System), except on an ad hoc basis. The task force recommended personnel and structural changes to address loss control needs.

The key, however, to loss control success is integrating loss control more fully into the risk financing program. The task force recommended financing approaches designed to create incentives for preventing and reducing losses.

The task force’s complete report is posted on The Commissions web site at www.newgeorgiacommission.gov.

IRVIN HONORED (continued from page 3)

of the department. T enjoys the distinction of being one of the first five graduates of Georgia State’s insurance program in 1955.

T retired as Chairman and Chief Executive Officer of Alexander & Alexander Services Inc. (A&A), the second-largest insurance brokerage company and largest retail insurance broker in the world, after having served as the firm’s Executive Vice President and President. He is a member of the Board of Directors of Equifax Inc. as well as the Advisory Board of the British American Chamber of Commerce.

The other 2007 honorees are Kathy T. Berry, Georgia Press Association (retired); W. Frank Blount, Jordan International Ventures, Inc.; Michael A. Braswell, SouthStar Energy Services LLC; Kimberly P. Goff, Hands on Georgia; Jesús León, CIENA Corporation; B. Hamilton McDonald Jr., Parsons Brinckerhoff; Wayne D. Reid, Frazier & Deeter LLC; Herman J. Russell Sr., H.J. Russell & Company; and Joseph D. Sansone, Pediatrics Healthcare LLC.
ECONOMIC CAPITAL MODELING FOR INSURERS
A PROFESSIONAL EDUCATION SEMINAR FOR ACTUARIES AND TREASURY/ACCOUNTING PROFESSIONALS

As insurers search for better ways to identify, price, manage and exploit profitable market opportunities, the topics of portfolio based risk management, economic capital modeling, capital allocation, and market-consistent pricing become increasingly relevant to the insurance industry. This course, taught by internationally recognized faculty from Georgia State University’s Department of Risk Management and Insurance, will demonstrate how concepts from both actuarial science and financial economics can be integrated and used by insurers to build enterprise-wide economic capital models. A simulated case study will demonstrate the value of the information generated by going through the modeling exercise.

WHEN: April 22 & 23, 2008
WHERE: Robinson College’s Buckhead Educational Facility
REGISTRATION: www.rmi.gsu.edu

AAMGA (continued from page 1)

opportunities, enabling them to establish a lasting reputation as the best providers of products and services to the wholesale excess and surplus lines insurance sector.”

RMI Department Chair Richard D. Phillips said, “The new Distinguished Chair in Risk Management and Insurance will be an internationally recognized academic on topics relevant to the risk management and insurance industries.” He also suggested that the distinguished chair will play a vital role in assisting other Robinson College officials in creating executive educational offerings targeted to the needs of AAMGA members. “The distinguished chair will assist in the development of strategies designed to improve the structure, processes and curriculum of AAMGA University, the educational arm of AAMGA that offers members professional development opportunities and member certification,” said Dr. Phillips.

H. Fenwick Huss, Dean of the Robinson College of Business, also noted, “We are honored that AAMGA has chosen the Robinson College and our Department of Risk Management and Insurance to further its educational initiatives. We believe that the AAMGA Distinguished Chair, working in partnership with members of our world renowned Robinson College faculty, will make significant contributions to the preparedness of AAMGA membership for global challenges of the 21st century.”

The pledge will be fulfilled over a three-year period. The RMI Department’s search to fill the new distinguished chair position will begin as soon as the endowment is fully funded. A steering committee comprised of AAMGA members will work with the chairholder and the RMI department chair to ensure that goals and objectives are achieved.

For additional information about the AAMGA Distinguished Chair in Risk Management and Insurance, contact Charles Edwards, Assistant Dean of Development, Robinson College of Business, at 404.413.7061.

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