The challenges of risk management

Collection
KEEP IT SIMPLE
MDS

English Version

AN INTERVIEW WITH

Jorge Luzzi

MDS Publications

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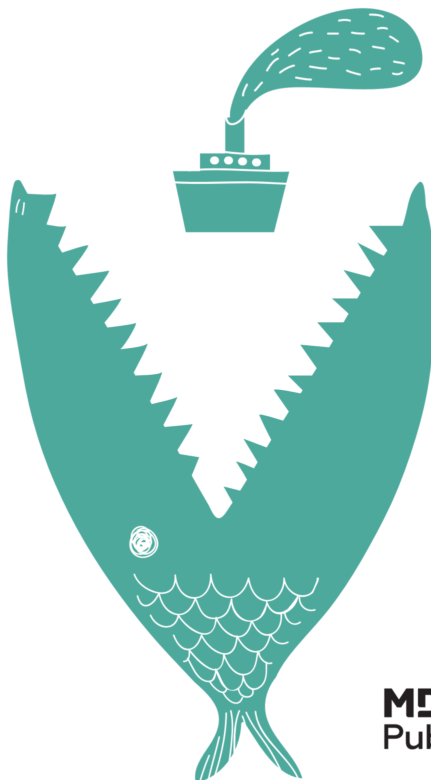

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Jorge Luzzi

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This book was based on an interview that Jorge Luzzi, Global Executive President of RCG Powered by Herco, gave to RISCO magazine issue 6 (Fall 2017). Jorge Luzzi now complements that interview with some topics relevant to the study of Risk Management.

We would like to thank the interviewer and head of RISCO magazine, Álvaro Mendonça, for his kind collaboration.

"RISK MANAGEMENT IS FUNDAMENTAL FOR COMPANIES; RISK CAN LEAD TO SERIOUS TROUBLE, AS IT DID WITH UNION CARBIDE OR WORLDCOM," JORGE LUZZI EXPLAINS.

The job of a risk manager is challenging; you need analytic insight as, when you put in place a prevention plan, you have to think of often unimaginable risks that could happen anyway — says Jorge Luzzi, widely regarded as one of the world's foremost risk management experts.

Jorge Luzzi also serves as global president of RCG Powered by Herco, a company with a 50-year history specializing in risk consulting and Enterprise Risk Management (ERM). Herco provides a wide variety of services, such as inspection and monitoring, project threat analysis and security audits. Additionally, the company assesses protection and security systems for insurable and uninsurable risks.

And finally, Luzzi leads the risk management aspect of Brokerslink, a global broking company based in Switzerland.

I. Risk analysis

Does risk management vary based on geographic location?

Risk management has a technical aspect that doesn't vary based on geographic factors. The general concept is similar all over, as are people's ideas on risk. For example, directors & officers liability, covering a factory or ensuring health coverage, are risks with a technical component that does not vary. However, geographic and political realities do differ a lot from region to region. There are parts related to national legislation. You have states where liability statutes are more demanding than in other countries and regions. This happens in the US, for instance.

You have states where liability statutes are more demanding than they are in other states

As a rule, large multinationals develop a worldwide liability framework and adjust it to US demands. For the rest of the world, they go with a separate policy. This is done because actuarial calculations vary a great deal based on the likelihood of a given risk (or smaller-scale impact) taking place.

In the US, for example, sexual harassment is taken very seriously. In Latin America, you have coverage for that, but the number of claims is much smaller. Europe is halfway between the two.

Regardless of existing coverage, someone traveling to Africa faces greater health risks than when they travel to Europe or the US. Risk variation happens based on your options for quick service, among other factors.

Thanks to the principle of mutuality, a larger insurance pool makes insurance more affordable to everyone. Hence the notion that we could devise worldwide coverage programs and also risk management programs for uninsurable risk, with larger pools, taking into account differing situations and guaranteeing the best prices. Years

Thanks to the principle of mutuality, a larger insurance pool makes insurance more affordable to everyone

ago, we would take the concrete situation of each country into account. Now, large multinational corporations prefer to offer global coverage through primary local policies that cover most claims or events. However, you need careful situational analysis to avoid unpleasant surprises.

A sad example is what took place in Bhopal, India, in 1984. Union Carbide had two major business activities: they made batteries and agricultural products.

At the time, the company experienced a disaster in Bhopal at their agricultural product plant when 40 tonnes of noxious gases got released into the atmosphere. To Union Carbide, Bhopal was less than 1% of their turnover. The gas leakage, which was later determined the product of sabotage by a laid-off employee, caused serious respiratory issues among the locals and the birth of children with disabilities. A real catastrophe.

It was Union Carbide's procedure to purchase local policies for an amount equivalent to ten million dollars in each country. For India, at the time, ten million dollars was an immense amount of money and it covered all the costs estimated for eventual, normal indemnity pay-outs. However, that amount proved insufficient and the company had to sell their battery division to address the claims brought forward. So, because of a factory that represented less than 1% of the company, they

had to sell a business area to a new owner who also took over the liability for the claims.

If Union Carbide had purchased a global insurance scheme, rather than a number of local policies, it would probably have benefited from wider risk coverage yet not increased expenditure. This means that the concept of mutuality, under certain circumstances, could be horizontal to several companies of a given country, but disadvantageous to companies that do not leverage their negotiation power at a global scale with insurers and reinsurers. Therefore, learning the ins and outs of each market is fundamental to a multinational company, for the specifics of each country vary greatly. At the end of the day, it's the same owner facing claims, whether the risk is covered by a local policy or a worldwide coverage scheme, but the best use of existing resources and risk analysis could mean the difference between failure and success for an entire operation.

Do these differences reflect reality?

Factors like your outlook on life, your values and ways of thinking could reflect very differently on risk analysis. For example, Brazilians are generally optimistic. They will put in place preventative measures different from those a German person would. Germans are known for their careful planning. In some cases, that's really good. In others, quite negative.

Someone who's excessively optimistic doesn't worry a lot about prevention, meaning, they don't devise policies to mitigate events, they don't anticipate crises, maybe they don't even think to purchase an insurance policy. On the other hand, they don't just quit when faced with damages and they will fight for business continuity. Asians see reality much differently than Europeans, Latin Americans or North Americans do.

I'll give you an example. It's something I went through when I was in charge of the North American market for a large European multinational. The company had a factory in Germany where

they experienced five fire scares a year, of which only one would in fact turn into a fire of sizable proportions. On a factory in north-western Brazil, they had 30 to 40 fire-related incidents a year, but none turned into a major fire. So in Germany they followed all their procedures and all preventative measures were taken. When a fire broke out, they would deploy their firefighting procedures. In Brazil you had less diligence, but also fewer fires. This stemmed from cultural differences.

At the time, cultural differences made me question whether procedure manuals for Brazil were in English and hadn't been translated into Portuguese and therefore Brazilian workers couldn't read the manuals. But, even with low compliance, this factory, located in the state of Bahia, presented fewer fires. To understand the situation, I started interviewing employees. They explained that the town only had four companies and they employed 95% of the population. If one of the factories were to burn up, it would probably get rebuilt in the state of São Paulo. That would mean unemployment or migration, it would mean separation from your family. To avoid that, workers were willing to risk their lives in order to combat fires and keep the factory from going up in smoke. The real reason for such a low number of fires wasn't the prevention manual and its rules, but the sociocultural motives in place.

Earlier you commented on global coverage mitigating regional components. Is that what it's about?

The concept of global coverage should ponder the concrete realities of each country. Many states permit local coverage on foreign soil. In Europe, for example freedom of services makes it possible for a Portuguese risk to be covered in Germany, considering the differences in taxes owed in each country. Yet a factory in Argentina or Brazil can only benefit from locally-purchased coverage.

A global programme, at the end of the day, comes from global negotiation

A global programme, at the end of the day, comes from global negotiation, but it must abide by the coverage rules, legislation and tax framework in each country. In addition, you already have worldwide coverage, the DIC DIL — *Different in Conditions*, *Different in Limits*, and these let you level coverage through a master policy.

That could change in time. Consider for example that, 30 years ago, terrorism was a major risk in Peru. They had Sendero Luminoso. The same in Colombia, with the FARC. While London or New York were at zero risk. That has changed radically.

In the United States, everything changed after the events of 9/11 in New York. Previously, quotes would place factory accident rates in Texas or Georgia above rates of workers' compensation in major cities, as the most crucial element was the number of doctors in place to help the people affected. For that reason, rates were worse inland than they were, say, in New York, where people have access to hospitals and get high-quality treatment. After 9/11, everything changed. Working in a high-rise became a major risk, even if the building stood near a hospital.

Any residual risk that can't be transferred to an insurer will demand that an impact-mitigation strategy be put in place so that the business won't come to a grinding halt.

Risk managers need to look into a company's current situation, ponder future scenarios and try to transfer to an insurer all the threats they can and do this with the market in mind. Any residual risk that can't be transferred to an insurer will demand that an impact-mitigation strategy be put in place so that the business won't come to a grinding halt.

Among the risks that can't be transferred to the insurance market is reputational risk. Currently, some policies cover this kind of damage, but the thresholds are low and claims are very hard to establish. Ten or fifteen years ago, a large food processing multinational received a threat, in writing, from a terrorist group. They said they would poison a milk product for nursing children, produced in an African country. Three or four times, they proved able to get past security on some of the company's factories. They demanded millions not to poison the milk.

The harm done to the company's reputation, if they sold bad milk in Africa, would make it look like they had no quality control. The problem was so serious that the company's managers recommended that milk processing be stopped altogether in the country. This was the only way to solve the problem and avert reputational harm. Paying attention to uninsurable risk is risk management as well.

Does the worldwide complexity of risk force risk managers to band together in global organizations?

There are different realities from a cultural and geographical standpoint. Some places in the world face the threat of terrorism, while others, like California, Chile or Peru face greater danger from earthquakes. In places like Brazil or Argentina earthquakes are unlikely. At any rate, the risk management community has learned to share techniques for handling less common risk. That's important, because the world is changing, and natural disasters grow worse and more frequent.

Italy is an example. They would have earthquakes in the South while the North presented no seismic activity. However, over the past five years, the risk seems to have moved toward central Italy. Apparently, the European and African tectonic plates clashed and that's causing the quakes.

You also had kinds of risk that used to be common but have gone away or become much less serious. Others have in the meantime emerged and become more relevant. They force managers to keep up and specialize.

A risk manager's job is a challenging one. When we design a prevention plan, we have to come up with risk that has never occurred at a given location, but could occur in the future.

How does that happen? If a risk is new and the actuarial calculation is based on historical records, how can one assess that risk?

If risk changes, the first thing we need to do is determine whether insurance covers it. If the possibility is there, then the risk manager should transfer the risk to a third party, the insurer. The broker's role is to help design a coverage plan. You need to think about ways to handle risk so that the company won't have to stop its ordinary business and may continue to produce the goods it takes to market.

In the company, the risk manager should use Enterprise Risk Management (ERM) methods. This is a dynamic, risk-oriented framework that relies on a specific committee in which all company departments can enter into dialog so as to identify risk. This kind of management stems from knowledge pooled and coordinated

across the company, top-down, beginning with the chairman themselves.

Your risk management committee could find out, for instance, that the entire formula for a given product is known only to three engineers who could, at any moment, leave for another company, or run into some kind of fatal hazard. One preventative measure would be to disseminate the technical specifications among a limited number of specialized engineers, taking a chance on this information leaking out. We establish thresholds for insurance, which is a limit of the technical term “risk appetite” which generates the retention of own risk, though always based on an in-depth analysis of each individual case.

So right now the major priority for comprehensive risk management is to get the board and the managers involved. Whoever runs an in-depth analysis of a company’s potential problems will

get the best results. Publicly-traded companies are required to have Enterprise Risk Management or a comprehensive risk management framework.

The risk manager is the team's technical advisor, and the players are the company leaders

After Worldcom went under in US, many people who had invested in the company lost everything. The company's managers, who were compensated for performance, did not take a hit. This led to the creation of the Sarbanes-Oxley Act, which made managers accountable for their actions and led to changes and evolution in ERM.

The concept of ERM can be explained through an analogy: the risk manager is the team's technical advisor, and the players are the company leaders. The team should be coordinated and everybody ought to familiarize themselves with the concept of risk management.

The results of ERM could have a side effect on the insurance market, as one could identify risks that matter to insurance buyers that the market has not yet seen as a business opportunity and so has not yet come up with solutions for them. ERM can then serve as a tool to translate the policyholder's new needs into something that brokers and insurers understand.

How important are international risk management associations and federations like FERMA or IFRIMA?

They are very important. Normally, risk coverage activities are led by insurance brokers and insurance companies; each one of these players has their own interests and viewpoints, while risk managers and risk management associations have the advantage of neutrality. This happens because the first are interested in management itself, not publicizing a brand; whereas the second advance benchmarking among all the players and participants.

Risk managers and their associations have the advantage of neutrality

Our group participates in both spheres and so can provide comprehensive services. That's the reason why MDS became a world-class insurance broker and a transferor of risk to the insurance and reinsurance markets, and RCG Powered by Herco established its position as a company dedicated to risk management *per se*.

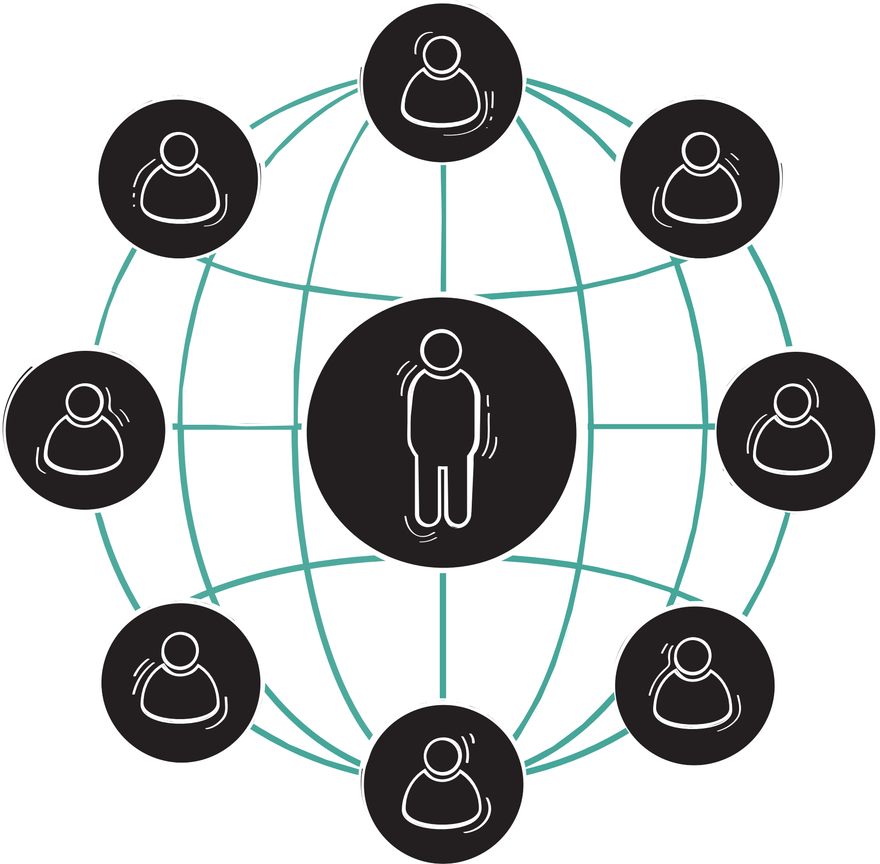
Basically, there's an organization that works as a world forum, IFRIMA, the International Federation of Risk and Insurance Management Associations. It has a head office in New York and it congregates all international associations and federations, like FERMA (Federation of European Risk Management Associations), RIMS from the USA and Canada, ALARYS from Latin America and the Caribbean, and PARIMA, a regional association for Asia and Oceania.

FERMA, which congregates risk management organizations in Europe, is a strong federation with highly relevant national associations in its member roster, such as those from Germany, France and the UK. It has a head office in Brussels, as many of its activities require contact with European Union authorities, be it to discuss its vision or serve as an advisory when new legislation is drafted. On IFRIMA, you'll find ALARYS, the main Portuguese and Spanish-speaking risk management association, which covers Ibero-American and Bermudan associations. One should emphasize that Spanish associations, AGERS and IGREA, as much as the Portuguese association, APOGERIS, share their activities with FERMA in Europe, because of their continental geography, and

FERMA, which congregates risk management organizations in Europe, is a strong federation with highly relevant national associations in its member roster

with ALARYS, because of the two languages, Portuguese and Spanish, spoken by most of their members.

In Asia and the Pacific, PARIMA stands out — an association that brings together several countries in the region. The territory has other, historical local associations.



II. Enterprise Risk Management

What is ERM?

Recent research has updated notions about the main risks that markets have identified across the world. Findings show that insurable risks aren't the cause for greatest concern. Companies still have to pay attention to them and find risk mitigation or risk transfer solutions, even if the market doesn't offer insurance coverage.

With regard to insurable risk, high accident rates and lack of treatment were generating high costs. As a consequence, the yields for some policies became negative, so premiums grew, or coverage shrank.

The greatest risks singled out by the market were:

- Political instability (global and national), political risk and corruption
- Business interruption and risk to the supply chain (logistics and transportation)
- Market fluctuations
- Natural disasters

- Reputation loss or brand value loss
- Fires and explosions
- Changes in laws and regulations
- Lack of talent and workforce aging
- Increase in competition
- Environmental damage and pollution
- Low quality and manufacturing defects
- Market stagnation or drop
- Currency collapse, foreign exchange risk, credit and completion bonds
- Alternative Risk Transfer (ART)
- Reinsurance and captive management (tools)
- Losses or damages with vendors and buyers

In the US, and some European countries, companies have tried to come up with innovative alternative solutions to handle their risk, which led to a new, specific Enterprise Risk Management area. The idea is to provide whatever services are necessary to face new realities in the market and specifically the new realities their customers contend with.

For each of the risks identified there are strategic planning rules and methods that take into account the identification, the handling, mitigation, transfer or retention of risk. They also consider what we call a company's risk appetite (total or partial retention capacity, such as premiums, maximum thresholds, captives, and more), preventative measures, analysis of supply chain risk, reputation-shielding policies, Business Impact Analysis (BIA) and Business Continuity (BC).

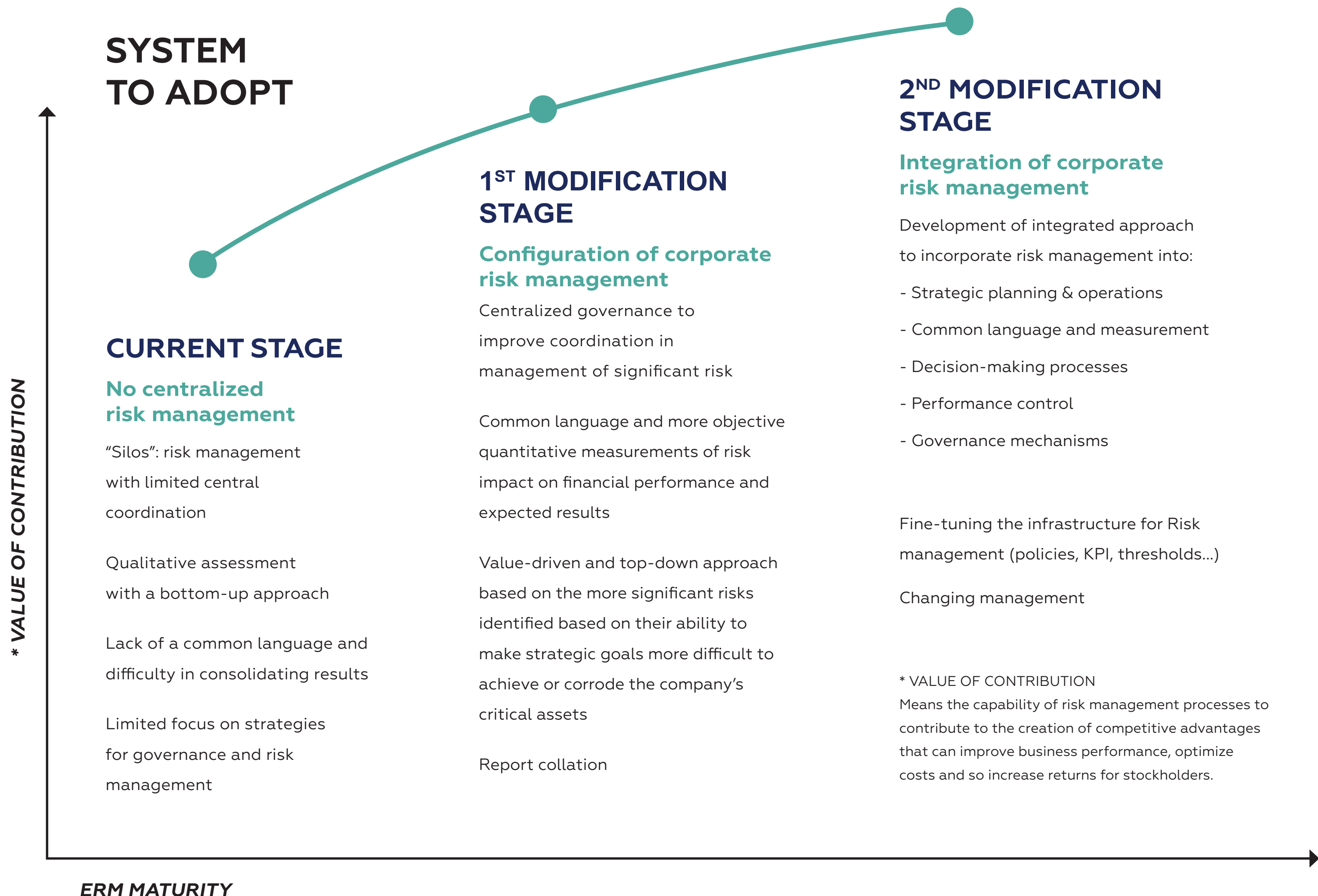
Handling, mitigation, coverage and other kinds of transfer for all risks that our customers face will always be of interest to us. Our services will unfold along two axes:

a) Insurable risk based on coverage analysis and integration, prevention policies, post-claim business continuity, and more.

b) Uninsurable risk based on risk assessment, potential impact analysis of accident rate, mitigation and contingency plans, as well as the activities mentioned above. If possible, we should also collaborate to develop new coverage addressing the customers' needs.

There are strategic planning rules and methods that take into account the identification, the handling, mitigation, transfer or retention of risk

A company's ERM unit should be multidisciplinary, including engineers, lawyers, accountants and other specialists. Its importance lies in the fact that it can come up with solutions to handle all sorts of risk, without exception or limitation, showing that you don't have to limit yourself to products that exist in the insurance market, which are still the main risk transfer tool.


SYSTEM
TO ADOPT
CURRENT STAGE
No centralized
risk management
"Silos": risk management
with limited central
coordination
Qualitative assessment
with a bottom-up approach
Lack of a common language and
difficulty in consolidating results
Limited focus on strategies
for governance and risk
management
1ST MODIFICATION
STAGE
Configuration of corporate
risk management
Centralized governance to
improve coordination in
management of significant risk
Common language and more objective
quantitative measurements of risk
impact on financial performance and
expected results
Value-driven and top-down approach
based on the more significant risks
identified based on their ability to
make strategic goals more difficult to
achieve or corrode the company's
critical assets
Report collation
2ND MODIFICATION
STAGE
Integration of corporate
risk management
Development of integrated approach
to incorporate risk management into:
- Strategic planning & operations
- Common language and measurement
- Decision-making processes
- Performance control
- Governance mechanisms
Fine-tuning the infrastructure for Risk
management (policies, KPI, thresholds...)
Changing management
* VALUE OF CONTRIBUTION
Means the capability of risk management processes to
contribute to the creation of competitive advantages
that can improve business performance, optimize
costs and so increase returns for stockholders.
* VALUE OF CONTRIBUTION
ERM MATURITY

What kind of risk should ERM deal with: strategic, operational or process risk?

All of a company's risk, insurable or not, should be analysed and dealt with. In some ways, ERM serves the insurance market, because it already handles many of the current risks faced by companies. Those that aren't covered, ERM marks down for later analysis, processing and quantification, if insurers signal their interest in that.

CROSING RISK

STRATEGIC RISK

Compliance with laws and regulations

Privacy

Corporate criminal liability

Regulations on publicly-traded companies

Taxes and duties

Work laws and regulations

Money laundering

Internal legislation

Others

Business Continuity

Information Technology (IT)

External context

Economic cycle

Country risk

Competitors

Future regulation

Client's desires

Relationship with the financial market

Technological innovation

Financial

Exchange rate

Capital availability

Cash flow and liquidity

Tax planning

Value of financial instruments

Financial compensation

HR/Organization

Development and management of HR

Sector relationships

Organizational structure

Internal communication

Directors

Ethics and integrity

Management and coordination

Authority and limits

Reputation and brand image

Decision-making

Strategic planning

Management reports

Financial reports

Center of process

Logistics

Incoming logistics

Supply and Outsourcers

Raw material and commodities

Operations

Industrial investment

Point of sale

Production (capacity/ efficiency)

Products (quality/ adequacy)

Markets

Supply chain

Outbound logistics

Pricing policy/sales

Customers

Brand reputation

Innovation and development

Joint venture/ M&A

Partnerships

Products and process innovation

Brands, patents and know-how

Key driver value

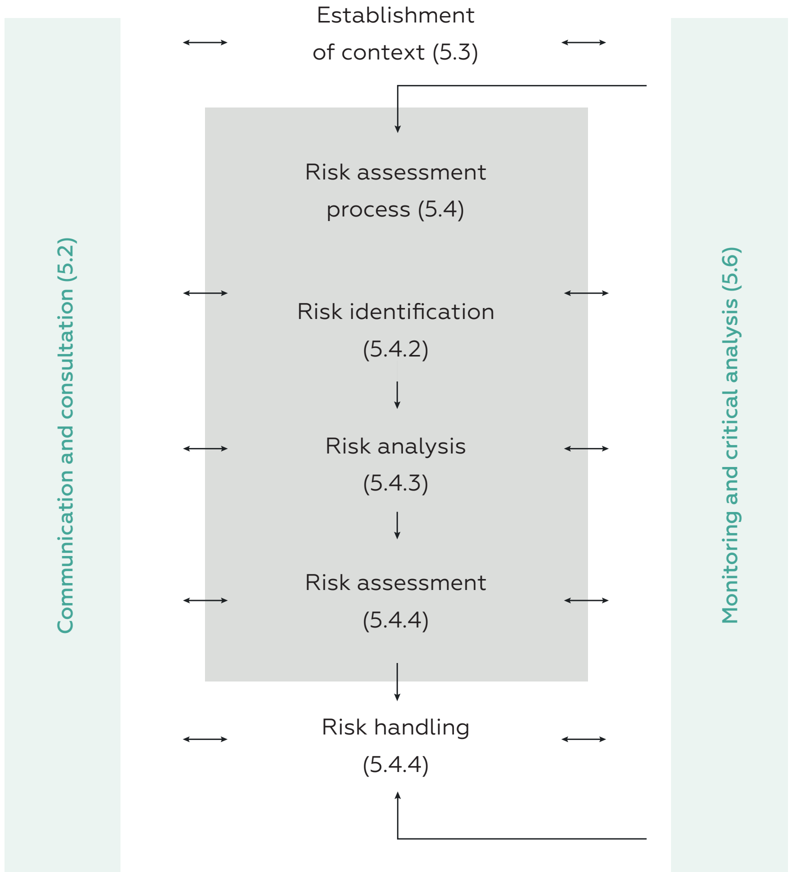
Objectives of the 3-year plan, strategic guidelines, key business assets

ENVIRONMENT, HEALTH AND SAFETY

Has any international body set down parameters for the risk management process in a company?

A graphic from ISO 31000 (International Standard Organization 31000) can quickly illustrate this design.

ISO 31000
RISK MANAGEMENT



III. Risk management in logistics and transportation

How important is risk management to a company's transportation processes?

As would happen in any other business, risk is inherent in transportation, so it needs to be dealt with. There's no such thing as zero risk, for we consider risk as a company's uncertainty about meeting its goals. Among all the tasks involved in logistics, the main one is the timely delivery of goods, in perfect condition, to an end customer. There could be detours along the way. You could have theft, accidents, malfunctions, and other circumstances requiring constant attention from logistics and risk management teams. It's up to managers to deal with these and to have the capacity in place to solve these problems without disrupting the supply chain.

In many cases, transportation risk can be estimated based on a history of events and the management of decision-supporting processes. However, and notoriously, losses caused by logistics have the potential to be much more devastating and relevant, in that they affect the company's entire supply chain. This is especially true when product innovation is involved. Making up for losses via insurance is not enough. Losses have a direct effect on a company's profitability and demand innumerable corrective actions to restart and realign the entire procedural flow.

Transportation risk can be estimated based on a history of events and the management of decision-supporting processes

A company should have adequate resource management to address this problem at all times. It should be flexible and resilient enough that it would adapt to a naturally unstable environment.

Risk management in transportation should be seen as something that brings benefits, like process improvement, resource optimization and reputation-building. It is fundamental for companies to adopt structured processes to face risk in their operations.

How should risk management planning be carried out within companies? Where should planning start, and what are the stages to preventing and guaranteeing safety for all parties involved?

Historically, Brazilians have opted for correction over prevention and, when it comes to transportation risk management, we note they've done no different. The problem is, when something happens, you face an emergency. And then you have to try and to recover your goods, but you forget that the same problem could reoccur, and there are so many other costs involved that generate loss themselves, and such losses go well above the value of the goods in transit. We see that, although preventative measures exist, as well as preparation for times of organizational

instability, employees still feel reluctant about implementing them on their day-to-day. Many times you have to overcome this barrier, the non-existence of a culture of planning within the company.

Mapping out logistics and all the risks, establishing processes, defining protection measures and having rules of conduct are the main pillars of a successful risk management framework. But it's not enough to have well-designed processes. They need to fully coordinate and undergo constant audits. What often happens in companies is that each individual expert interprets how risks should get dealt with. When they can't agree, the organization lies exposed, without standards and procedures for everyone to follow.

It's not enough to have well-designed processes, they need to fully coordinate and undergo constant audits

What are the planning stages?

Planning in risk management should follow a structured method governed by the following stages: ASSESSMENT, PROJECT, IMPLEMENTATION and MANAGEMENT.

For the first stage, you should conduct a thorough ASSESSMENT of financial losses within the logistics process, be they caused by theft, accidents, malfunctions, botched deliveries, or more. It is important to note that you don't just have financial loss. There are hidden losses that can prove more devastating, such as environmental and social damage, brand reputation, hindered productivity or even breach of contract for failure to deliver.

Next, one should describe logistics through an overview of all the sources for transportation, the entities that make up the chain and the quantity of loading operations, operation volumetrics, amounts, risk management practices and performance indicators.

Now, on the PROJECT stage, you should identify where losses occur, and the greatest or more frequent losses need to be prioritized. For example: theft during overnight stays at supply depots. Can we map out and identify the more secure points, or do we need to hire a redundancy asset? If the problem is

accidents over long hauls, we have to understand why they happen by analysing contributing causes and factors , and then develop a specific approach.

During IMPLEMENTATION, the challenge for a risk manager is to know how to apply remedies in the right proportion. To that end, he or she must rely on protection resources based on three pillars: PEOPLE, PROCESSES and TECHNOLOGY. It is fundamental, at that stage, to maintain your focus on techical, economic and operational viability analyses when you select and apply your resources.

Deviations should be corrected as part of a continued process of improvement and feedback on the project

At the MANAGEMENT stage, you should run constant audits to determine whether all that you've planned is being executed. Deviations should be corrected as part of a continued process of improvement and feedback on the project.

In short, the work is identification, analysis and recommendation of preventative measures and systematic mitigation of risk inherent in an operation.

Study should be based on the principles and directives of ISO 31000:2009, which defines "Risk Management" as the architecture (principles, structure and process) of risk management in an effective manner, an architecture which then governs the application of principles, structure and process to a specific risk. Whatever model you propose should lay out risk management activities for the entire supply chain.

IV. Captives

There's much discussion about using captive insurers and reinsurers in risk management. What are they?

These are companies that only insure or reinsure risk for businesses under their parent company. That's the traditional and primary definition of a captive reinsurer. However, in time, several new captives appeared. They began to work with companies outside the purview of their parent company and so made it difficult to describe them technically.

Is there a tax-based rationale for companies to start a captive?

There were tax-related motives long ago. Nowadays, captives have other reasons to exist. Firstly, because they permit better risk administration, as well as participating in the benefits of loss prevention, which reduces risk for the policyholder. We also need to consider that it lets the policyholder have direct contact with the international insurance and reinsurance market. That doesn't mean they don't need the local market anymore, as brokers will accompany them on their forays into the world and they will always need a fronting insurer; and they will also help risk be better managed in the policyholder's world.

Another reason for captives to exist could be to reduce price cycling.

The difference in a company open to the general market is that a captive could have its own actuarial costs, different from the general unevenness of the market, only carrying those connected with its own accident/claim rate. There will be times when costs are low, at market prices, or just a bit higher. In the long run,

premiums administered by a captive will be relevant if the company gets serious about preventing losses and thus improves their risk quality.

Premiums managed by a captive will be relevant if the company gets serious about preventing loss

If captive management is focused on the long term, and good returns are managed correctly, in little time it will have generated more capital through its positive yields and be better equipped to increase retention on its own risk. As risk-related cost drops because it is insured by a price cycling captive, the possibility arises of bringing prices down.

What decisions should be factored in when a client wants to start a captive?

The customer should look into their premium volume and accident/claims rate and conduct a feasibility study. Their calculations would be based on loss ratio and the premium-claim relationship. That formula permits the actuarial calculation of expected accident/claims rates for the next three to five years. Initial capital should accommodate this, as an accident might happen in the first or last years, and market regulators wherever the captive is based will demand payment capacity on the first year. For that reason, the captive's participation in the business should grow along with the revenue increase.

The captive's participation in the business should grow as your returns do

What are the reasons to create a captive?

Briefly, we can mention:

1. Bringing down the total cost of insurance
2. Improving existing coverage, including those that aren't insurable at present
3. Meeting risk financing needs
4. It clears the company's balance sheet of the funds necessary to cover losses, funds which will then be transferred to the captive company through a duly regulated insurance policy (and not as self-insurance).
5. Developing multinational insurance programmes for the same group
6. Improving cash flow
7. Helping to implement a risk management and risk financing strategy for the whole group
8. Diversify the company, whereby brokers and insurers will become the company's risk partners and thus an important part of the company's risk retention policy, and not just third parties.

When the moment arrives where all objectives are clear, what would the preconditions be for a company to start a captive?

Any company desiring to start a captive should prepare for it based on a policy incorporating the following technical elements:

- Loss control
- Management commitment
- Retention capacity
- Premium volume
- Co-participation in the market (brokers and insurers as partners)
- Technical skills in captive management or consulting and risk analysis.

Does the captive market provide any options to companies that would like to partake in the benefits offered by captives, without taking on the entirety of the equity and management risk of a traditional captive?

Yes. Protected Cell Companies (PCC) are a new alternative to creating a captive, especially for small and mid-sized companies that need insurance and reinsurance solutions. This risk transfer model works with independent cells for each client and guarantees that the cell owner is protected, at reduced cost and risk, retained proportionally to the size of the company.

It's worth noting that, to work with this model, a Risk Manager in an organization will require support from a broker or a specialist PCC.

V. In Conclusion: the future of Risk Management

In your opinion, what is the future of Risk Management as a profession in the coming years?

I believe that in the future companies from every sector, including government-run companies, will resort to valid management solutions to face all kinds of risk, and not just for risk that can be transferred to the insurance market as the main recipient of this type of risk transfer. In parallel, risks that cannot be transferred will necessitate carefully-developed contingency plans, as well as previously identified crisis teams.

1) Initially, risk will be measured and processed. Loss prevention strategies will be studied to reduce the impact and ultimately the frequency of the threats on the map.

2) Once they have been processed, such risks may generate reliable analytics and accident histories. Such histories will

contribute to examination of identified threats by the insurance sector (Brokers, Insurers and Reinsurers) so that new coverage possibilities can be purchased from the market.

3) After this stage, risk that cannot be transferred will be moved onto a different level of study and management and, following that, will need their own funds or partner financial institutions to draw up contingency plans making business continuity viable.

In addition to maintaining educational standards for insurance coverage, Risk Management associations tend to expand their knowledge to the benefit of risk analysis in general. Risk Management has become an area in which several professionals, like lawyers and engineers, among others, seek to specialize. In the future, more universities will offer curricula in this sector and, consequently, train new specialists for it.

Risk Management associations tend to expand their knowledge to the benefit of risk analysis in general

One also expects that industrial, civil and commercial organizations will put in place systems comprised of Risk Management Directors or Enterprise Risk Management Directors accountable to company boards. Beneath that structure, the area will segment into three divisions — Engineering, Transfer, and Retention, whose responsibility will lay in managing, transferring or mitigating threats.

Risk Management as a profession is here to stay

In short, I firmly believe that Risk Management as a profession is here to stay. For that reason, service providers (like RCG Powered by Herco) and other specialists prepared to play a role in this area will be able to make companies more resilient, with better handling of risk, and subject to fewer unpredictable events.

Who is Jorge Luzzi

Jorge Luzzi, global president of RCG Powered by Herco, began his career in the insurance market with Marsh, and Risk Management with Ciba Geigy. In 1988 he joined Pirelli and, in 2005, became the group Global Risk Management Director, staying until 2013. Jorge Luzzi's track record shows a sustained contribution toward the development of new skills in Risk Management, as skill development is key to grow the profession at a global scale. His involvement with sectorial associations began in Brazil, where he led the Brazilian and South-American Risk Management Associations. He also presided over IFRIMA — International Federation of Risk and Insurance Management Associations; and, between October 2011 and October 2013, FERMA — Federation of European Risk Management Associations.

Among the awards he has collected, a few stand out: a São Paulo congressional honour award for his contribution to the development of Risk Management in Brazil, the RIMS Goodell Award for Lifetime Achievement 2002 in Risk Management and the Alarys Award for Outstanding Achievement in Risk Management.

Jorge Luzzi holds a degree in Administration from the University of Belgrano, a BA from ECEA, a post-graduate diploma from Saint Gallen and is a fellow at the *Academia Nacional de Seguros e Previdência* (National Academy for Insurance and Welfare). He completed specialization courses at Mapfre and the Milan Polytechnic. Recently, he was elected chairman of Apogeris, the Portuguese Association of Risk Management.

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