

*«More and more clients, partners and stakeholder groups are asking us for an account of our risk management procedures»*

*«We at Abengoa think of risk management as an essential decision-taking factor and feel it our duty to apply, enforce and encourage it», says Rogelio Bautista. He adds, «we are convinced that insurance transfer is a key feature of doing business today».*

# Rogelio Bautista

ABENGOA'S RISK MANAGER

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***Could you please describe your duties as Abengoa's risk manager?***

Risk management in Abengoa has the following scope and functions: First and foremost, the analysis and quantification of the company's project and business risks, including drawing up product-based risk profiles and contingency methodologies, like Montecarlo; specific risk analysis methods for mergers and acquisitions, corporate social responsibility and projects impinging on sustainability and climate change.

The second area of responsibility is insurance management, which takes in the definition and management of insurance procedures and policies; establishment of contracting criteria and relationships with insurers, reinsurers and brokers; the contracting of corporate programmes and also liaison among the various insurance managers of Abengoa companies.

The third function involves special risks, where we are responsible for establishing expatriate protection systems and policies, protection of assets in high-risk countries and management of crisis situations.

As our fourth focus we are in charge of applying in-house and specific Enterprise Risk Management (ERM) software, allowing risk maps to be obtained online for strategic, operational, financial and legal risks.

Our final remit is risk management training, received as induction training by each new recruit (contents included in the Welcome Course). This is then kept up as top-up training throughout the employee's entire working life, under two arrangements, face-to-face learning and

e-learning, and in four languages (Spanish, English, Portuguese and French). In the last three years nearly 2,100 employees have been trained in risk management, and over 16,600 training hours have been given worldwide.

***Where does the risk-management department fit in within the whole company structure?***

Risk management is one of the company's corporate departments within the General Secretariate, and reporting directly to the group CEO and President. It stands at the same level as all the other corporate departments (economics and finance, strategic development, legal services, internal audit, etc.).

**AN ESSENTIAL FUNCTION**

***Abengoa aims to be a worldwide benchmark in the development of technological solutions for sustainable development. How can risk management contribute towards meeting this challenge?***

We at Abengoa think of risk management as an essential decision-taking factor and feel it our duty to apply, enforce and encourage it. In practice, risks have to be managed at all company levels without exception; the risk management system is fully integrated into the definition of business targets and the day-to-day operations in pursuit of these objectives. Management then supports, assesses, monitors and enforces all risk management directives and guidelines.

The system has been designed on the basis of an initial identification of risks in

**«OUR RISK MANAGEMENT SYSTEM WORKS FROM THREE BASIC PRINCIPLES: AWARENESS-RAISING, ANTICIPATION AND INVOLVEMENT».**



each area (finance, legal, human resources, IT, etc.). Working from this base, and with a specialist area manager, the necessary treatment and coverage procedures are then established for application throughout the business. Risk management and business management as a whole are therefore inseparably linked; the entire business is managed on the basis of a risk mitigation procedure, and business management therefore always involves risk management.

***Could you please describe in general terms how the risk management system has been set up in your group?***

Our risk management system works from three basic principles: awareness-raising,



anticipation and involvement; it is structured on three mainstays: management procedures, methodology and our inhouse ERM tool; and continual monitoring at all levels.

As for management procedures, these are based on the concept of risk owners, responsible for pinpointing specific risks in their areas and defining coverage procedures in day-to-day management. Procedures deal, on the one hand, with business risks and, on the other, with financial information reliability risks. This means that managing risks goes hand in hand with managing business.

The in-house ERM methodology and tool calculates in real time likelihood and impact of company risks: strategic, financial, operational and legal.

**«THE RISK MANAGEMENT SYSTEM IS FULLY INTEGRATED INTO THE DEFINITION OF BUSINESS GOALS».**

Finally, there is an across-the-board continual monitoring system with established committees to track the trend of each risk and, even more importantly, to detect any risks from the very start of each project or business.

***What are the risk management responsibilities of Abengoa's senior management?***

There are several. One of them is to drive home the sheer importance of the system and its value to all employees and services. Secondly, it is responsible for clear ring fencing of duties, attributions and responsibilities. Then it has to make sure the system is equipped with sufficient resources to work properly and it also

approves annual and multi-annual working plans and any changes in them. It is likewise responsible for monitoring activities, doing so in the form of weekly specific risk-management committee meetings, as well as for integrating risk management into the main periodical project or business committee meetings.

***How are you managing to get the whole organisation to take on the management of uncertainty as an inherent part of day-to-day tasks?***

We have a substantial qualitative advantage: senior management is absolutely convinced of the need for risk management to ensure the company's objectives are met. Working from that fundamental conviction, all the abovementioned systems make risk management inherent to the business so that the whole organisation assimilates these principles and the necessity of applying them in all day-to-day tasks.

Risk management is also enforced and encouraged by including it as a *sine qua non* in all strategic decision-taking and all significant business operations. Risk management is also imbued as an essential part of our company culture right from the day one of each new employee's career, with specific induction training included in all our training programmes: for managers, project managers, site foremen, technological managers, etc.

## PROJECT-TO-PROJECT ANALYSIS

***Abengoa specialises in two high-growth sectors: energy and the environment. How is risk management integrated into decision-making***

**«SENIOR MANAGEMENT IS ABSOLUTELY CONVINCED OF THE NEED FOR RISK MANAGEMENT TO ENSURE THE COMPANY'S OBJECTIVES ARE MET».**

***procedures or the definition of objectives in both businesses?***

We analyse particular risks on a project-to-project basis, looking at the big picture, from business risks to contractual and regulatory risks and risks in the physical environment. In this overall endeavour we involve the managers responsible for each of those areas. Furthermore, nothing is ever done without prior risk analysis, which thus becomes an essential decision-taking tool, after approval of the business in question by the whole management chain. Risk management also takes on the responsibility for vetting this risk analysis as a prior step to approval by the company's senior management. No decision is ever taken without having the approved analysis on the table.

***What are Abengoa's risk management goals?***

I would stress two: completing the process of our ERM methodology, fixing specific company-wide goals to be met in terms of the probability and impact of risks that directly affect it. Secondly, adding value by serving as a useful financing tool, integrated into the insurance market process with groundbreaking solutions.

We view risk management not only as a means of mitigation and protection; it should also give us a competitive edge. One other thing should be made clear: risk management cannot be done by sitting at an office table; you need to move around the company and keep track of events on the ground.

***Solana recently came on stream, the world's largest parabolic trough plant with a total installed capacity of 280***





***MW (gross) and the first in the United States with thermal energy storage. What did it mean for your department to take on this project?***

It's been a thrilling experience. I remember well when, several years ago now, our head of solar business in the USA came to present the idea with a Power Point explaining the structure. From that moment, we began to work on the risk analysis of the project and today the continual process is still underway, since the plant is now up and running and continual custom-built upgrades have to be phased in on an ongoing basis. Another milestone was to insure it; this transaction gave our risk management team an in-depth knowledge of the US market. I'm sure this project has made us one of the risk management departments with the best knowledge of US insurance and how it works. And it doesn't stop there; many years of operation are ahead of us and a business of this type calls for permanent monitoring.

**«IN EACH ACTIVITY WE FOCUS ON THE CHARACTERISTIC RISKS; VERSATILITY THEREFORE HAS TO BE AN INHERENT FEATURE OF RISK MANAGEMENT».**

***Does ISO 31000 certification give your firm a competitive edge?***

Increasingly so. For us it represents an external and structured validation of our risk management system. It is in our own best interests to subject the system to this periodic vetting and auditing. We have therefore been renewing this certification for the last four years and we have now introduced it not only at consolidated level but also for our most important companies and business groups.

There is also an ever-increasing number of clients, partners and stakeholders who are asking us to give an account of our risk-management procedures; ISO 31000 certification is the best and most dependable external validation of all Abengoa's own explanations.

## **RISKS UNDER CONTROL**

***How many potentially business-affecting risks have been identified?***

We analyse all risks on the basis of their probability and impact; in truth any risk might arise and affect the business. It is therefore the action plans that determine the mitigation priorities and measures. Right from the start our study includes all of the risks we have identified; it is then their systematic measurement that determines how each one is dealt with. Our ERM tool currently includes 56 risks.

***How often is Abengoa's risk model checked and overhauled? Who is responsible for this process?***

The model is continually revised and checked to keep it in line with real business needs and developments. Each area head of

our management procedures has to keep them up to date and design or modify the protection measures for the risks of his or her area. This exercise has to be carried out at least twice a year and all the actions and results of these updates are checked annually.

***Abengoa does business in 80 countries on the five continents. In which geographical areas has most risk exposure been detected?***

It depends on which risks we're talking about: political, regulatory, of environment... And the situation is always changing, sometimes at breakneck speed. We are always working to keep our finger on the pulse of events, knowing the risks as well as possible and working on how to mitigate them. This is precisely where the competitive advantage lies: finding the best way of mitigating the risk to enable us to trade in all areas. Risk management work largely consists of identifying protection formulae, so as to be able to give the go-ahead with all risks under control.

**«WITHOUT INSURANCE, MOST BUSINESS ACTIVITIES COULD NOT BE CARRIED OUT AT THE LEVEL OF THE UNDERTAKINGS WE ARE TALKING ABOUT HERE».**

***Abengoa's business revolves around three activities: engineering and construction, concession-type infrastructure and industrial production. Which is the trickiest activity in risk terms?***

Each one poses its own specific risks. In engineering and construction, in particular, we face risks with deadlines, technique or completion guarantees. With concessions we set out from the start to eliminate demand risk in the sale of energy or water, for example, doing so on the strength of firm, long-term contracts; special attention needs to be paid here to operational risks. In industrial production, special attention has to be paid to market-, price-, raw-material- and finished-product risk. So in each activity we focus on the characteristic risks; versatility therefore has to be an inherent feature of risk management.

***How are catastrophic, environmental and climate-change risks being tackled?***

To deal with catastrophic risk, our initial project risk analyses include a specific section on physical risk and nature-based risk, checking the catastrophic risk exposure of the project's exact site.

For environmental and climate-change risk we have a special risk analysis model to measure the potential impact we might suffer. This differs in terms of whether we are dealing with a desalination plant, a solar plant or a transmission line. The aim is twofold: not only to protect ourselves against risks of this type but also to ensure our activities cause no negative impact. It could hardly be otherwise in view of Abengoa's firm ongoing pledge to sustainable development.



## INSURANCE AND PREVENTION

### ***Do you consider insurance transfer to be a key tool for dealing with risk?***

Absolutely. For two main reasons: firstly due to the security that insurance gives to mercantile transactions. Put simply, without insurance, most business activities could not be carried out at the level of the undertakings we are talking about here. Secondly, we need insurance to protect our assets and prevent liabilities. We are convinced that insurance transfer is a key element of today's business procedures.

### ***What would you consider to be the main insurance challenges in terms of protecting companies like Abengoa?***

There are some clear examples at the moment. Firstly, making insurance an essential feature of financing arrangements but adapted to new requirements, even though this may stray from hitherto conventional techniques. Also, effective protection of the whole supply chain, which is global, and cannot be limited only to a few kilometres radius around the workplace. Finally, in terms of contingent business interruption, making it work for major projects.

### ***What role does self-insurance play in your company? Do you run any captives?***

We give clear priority to insurance transfer over self-insurance arrangements. We resort to the latter only in exceptional cases or because the insurance market does not cover the risk in question (although we always try to ascertain and obtain the latest insurance developments for our

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activity), or for very low-exposure risks after having painstakingly calculated the impact of any uncovered risk. We have no captives; we discussed this possibility a few years ago and decided in the end not to set one up.

### ***What value does prevention have in Abengoa?***

Our whole risk management system is conceived preventively. We believe you have to be proactive rather than reactive. Our procedures work from the principle of risk analysis and anticipation from the very first stages of any project or business. And this prevention activity is particularly noteworthy in terms of occupational risks and industrial safety, where we have specific procedures and systems and very specialised teams.

### ***What is the role of your department in the management of crisis situations?***

One of the remits of risk management in Abengoa is crisis management, defining the internal mechanisms to be set in motion and supporting the areas directly affected by the crisis situation. The management of these crisis situations is direct when dealing with safety matters (expatriates, projects under construction, assets in operation, evacuation plans, country risk, etc.) and support for departments or companies involved (cases of personal accidents, natural disasters, etc.). In both scenarios, this is done after having previously defined and implemented the best possible insurance-based protection arrangements.

## A RISK MANAGEMENT ADDICT



Rogelio Bautista defines himself as «a risk management addict» for many reasons: «I find it thrilling to gain a complete overview of each business or project and I love the constant challenge of finding and blending the various protection methods (contractual, insurance-based, financial, etc.). Another exhilarating aspect is the constant learning process with this profession (technical and legal aspects...). Finally the people you have to liaise and work with, both inside and outside the company, are your «allies» in the ongoing endeavour of doing all this well». In his opinion, «in Abengoa all these

challenges are dealt with comprehensively every day».

As the company's risk manager he has had to deal with numerous risks. «Two of the biggest ones in recent times were, firstly, ensuring that insurance is a genuine and practical financing instrument providing great value in project funding, mounting complex insurance/banking structures that meet guarantee requirements. Secondly, setting up and bringing on stream our ERM software, an in-house, totally customised system providing online risk maps not only at consolidated Abengoa level but also at of company and business unit level».

## ADDING MORE VALUE

*Are stakeholder groups (investors, suppliers, clients, etc.) becoming increasingly interested in finding out about companies' risk management systems?*

Yes they are, and the number of stakeholder groups interested in finding out about it is continually growing. We often attend meetings with these stakeholder groups to explain what we do to control the company's risks. Issues like

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corporate social responsibility, for which we have a particular methodology to measure the risk of not doing so properly, have been on the table for some years now.

Recently it has also become increasingly common for the clients themselves to ask us not only for the bid itself but also an account of the risk analysis we have carried out for the project or business with them. Risk management, in other words, is continually adding value and enhancing the company's relationships with its stakeholder groups. |