

Ali Hauser

PEMEX RISK AND INSURANCE
MANAGER

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Declares Ali Hauser; and it will continue to do so, now that the oil company is taking the steps necessary to become a state producer. Within risk control, an important role is played by its captive company Kot, which “aims mainly to facilitate the participation of PEMEX in joint ventures with regard to insurance”

Risk and Insurance Management (hereafter, R&IM): **Petróleos Mexicanos (PEMEX) is the largest company in Mexico and the eighth crude oil producer in the world. What degree of risk aversion exists in the company and how may Risk Management have contributed to achieving this position?**

Ali Hauser (hereinafter A.H.): Our company's degree of risk aversion has traditionally been total. Over the past 76 years, PEMEX has been a semi-state company, where decisions have been made by civil servants. In this context, the actions of civil servants have a significant impact on the assets of a national company and, therefore, there is heavy pressure to ensure that each decision avoids damage to the assets of the company of all Mexicans.



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In this regard, PEMEX has traditionally been one of the greatest insurance and reinsurance purchasers. In Mexico, the insurance company that wins our integral program becomes, de facto, the country's largest insurance company. In reinsurance, we are also one of the greatest buyers with Third-party Liability and physical injury limits above the average purchased by our counterparts, which shows our high risk aversion.

R&IM: What is going to happen now, after the constitution of the new Board of Directors?

A.H.: Indeed, a new PEMEX Board of Directors was constituted last October, which will be responsible for taking the company from a model based on monopoly — focused on providing all of the products and services connected to hydrocarbons — to being a productive state company, focused on generating economic value and concentrating on activities that generate the greatest performance for the company. PEMEX stops being a synonym for the “power sector in Mexico”, and becomes another player — with significant competitive advantages, of course.

Risk appetite is something that PEMEX will define at the heart of a Risk Committee dependent on the Board of Directors and which will be the engine for the Enterprise Risk Management system, which will aim to provide PEMEX with tools for improving its exposures.

Therefore, the contribution of Risk and Insurance Management at PEMEX has been key through Kot, our captive reinsurance company, for directly accessing international reinsurance markets in order to provide the cover limits required by the company, given its high risk aversion.

Management is currently formed by several sub-management areas that work in coordination and in parallel fashion to meet the goal of management itself and of PEMEX: to be acknowledged as a reference point in the insurance industry. How? Implementing industry best practices.

On the one hand, we have the Sub-management area of Insurance and Guarantees that works hand-in-hand with our captive company Kot Insurance Company — which belongs to the sub-management area of Insurance Strategy — to define the terms and conditions that must be covered locally and that, at the same time, Kot must be able to reinsure and protect. On the other hand, there is the Loss Prevention sub-management area, which is key for evaluating, assessing and inspecting assets.

In short, we are dealing with achieving the PEMEX mission of being amongst the best oil companies in the world.

ERM SYSTEM

R&IM: Broadly speaking, how is the Risk Management system implemented in your group?

A.H.: Currently, the Risk Administration Sub-Division is found within the Corporate Finance Division. This sub-division is now responsible for PEMEX assets and financial risk control.

As a consequence of the transformation of PEMEX, from being a semi-state company to being a productive state company, the new organic structure will also increase the responsibilities of the Risk Administration Sub-Division — now called Risk and Insurance —, which will be formed by four management areas: insurance, reinsurance, financial risk administration and business risk administration.

R&IM: What place does the Risk Management Department occupy within PEMEX?

A.H.: Risk Management is part of the Insurance

and Risk Administration Sub-Division that reports directly to the PEMEX Corporate Finance Director, who promptly tracks matters of risk to subsequently transmit the information to the General Manager of PEMEX.

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Over the past 20 years, PEMEX has evolved, adopting best risk administration practices, emphasizing the essential role of our area within the company. Currently, under the new company structure, it will play a fundamental role in the adoption of Enterprise Risk Management strategies.

R&IM: What other units within the oil company participate in risk control?

A.H.: There are Risk and Insurance units within subsidiary organizations, such as claims units and units for managing these claims.

Other participants in Risk Control are the Sub-Division of Auditing, Integral Security and Environmental Protection (SASIPA), the Sub-Division of Operational Discipline, Safety, Health and Environmental Protection (SDOSSPA), and Maintenance Management for each business unit. Lastly, one of the main players making Risk Administration actions a priority is the Management Team, who ensures that the operational areas comply with Risk Administration proposals.

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RISK AWARENESS

R&IM: Is there real risk awareness within the organization?

A.H.: There are constant risk awareness campaigns as part of Safety, Health in the Workplace and Environmental Protection (SSPA), for example: the “Exploration and Safety — Administering Risks” initiative. These campaigns are spread by the company as a reminder that our ultimate goal is for every worker to return home in good health. Within performance evaluations, promotion of risk awareness is highly weighed within the work of each collaborator, and also his/her responsibility regarding the prevention of losses of any type within the company.

R&IM: How does Risk Management fit into the PEMEX business plan in coming years?

A.H.: Risk Management will continue to be strengthened and will become much more dynamic with the potential joint ventures and operating agreements allowed by the new legislation derived from the Energy Reform.

Besides its insurance duties, the management will be centrally responsible for claims.

As I mentioned previously, the management will be divided into “Insurance Management” and “Reinsurance Management”, to completely exploit the full potential of the captive company, tied to an integral risk focus within the parent company.

R&IM: PEMEX also has influence outside Mexico. How is Risk Management applied in these cases?

A.H.: For the moment, besides chartering tankers to deliver the product to Mexico, PEMEX operations are limited to a couple of pipelines in the south of Texas and storage in that region. This requires that we purchase third-party liability



policies throughfronting with local companies; and subsequently transferring the captive company's reinsurance.

Some fundamental risk administration items are the identification, evaluation and transfer of the same, and this work is performed alongside the captive reinsurance company, which is why the participation of Insurance Management is essential for this risk identification, evaluation and transfer inside and outside Mexico.

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RISKS

R&IM: PEMEX performs the industry's entire production chain: exploration, distribution, marketing end products and petrochemical sector. Which of these activities is or are most vulnerable from a risk perspective?

A.H.: Company risk is spread out over all business lines.

R&IM: Which risks currently concern you the most? Terrorism, natural disasters, environmental pollution, a drop in the price of crude oil...?

A.H.: The first two areas concern us the most, from an insurance perspective. In each cycle, Risk and Insurance Management ensures that the PEMEX group has sufficient and appropriate cover to deal with natural disasters.

Events such as environmental pollution by Ixtoc in 1979 (an exploration well burst in the Gulf of

Mexico) and, subsequently, the sabotage of some gas lines in 2007 have meant that we are constantly alert.

“In each cycle, Risk and Insurance Management ensures that PEMEX has sufficient cover to deal with natural disasters”

Separately, with regard to the price of oil, we are an oil company that knows the industry and we know that this business is cyclical. In this regard, what concerns us is the long term.

Nonetheless, as with any company in the world focused on profitability, we are dedicated to implementing greater efficiency into processes and to having a realistic view of the present under current conditions, to act consequentially so that we can support the dry periods.

R&IM: An especially important chapter when it comes to mitigating the effects of risk is, therefore, insurance cover. What are the basic lines of your insurance programs?

A.H.: Our lines are the usual ones for this type of industry: Physical damages, third-party liability, terrorism, sabotage, comprehensive, construction, environmental liability, fraud, management and executives, control of well, amongst others.

R&IM: What is the - past, present and future - role of your captive company?

A.H.: The essential role of Kot is to provide appropriate cover for the insured risk, and also to support insurance policy conditions 100 percent; and that is the role that it will continue to exercise in the future as a PEMEX captive reinsurance company.

Faced with the new challenges derived from the

Energy Reform, Kot's key goal is to facilitate the participation of PEMEX in joint ventures, as regards insurance.

“The main role of Kot is to provide appropriate cover for the ensured risk, and also to support insurance policy conditions 100 percent”

R&IM: What role does your department play in the management of crisis situations?

A.H.: Our area is another part of crisis management. The Sub-Division of Operational Discipline, Safety, Health and Environmental Protection (SDOSSPA), through the Emergency Service Center, performs all steps depending on how serious the incident is. At all times, the Risk Administration Area attempts to facilitate processes relating to insurance for PEMEX, guaranteeing cover as necessary, by means of the correct claim and compensation to the reinsurance market.

MEXICAN MARKET

R&IM: How is Risk Management developing in Mexico?

A.H.: It is important to mention that insurance culture in Mexico is still under development. A reflection of that is that it is unlikely that you will come across Risk Administration Management in small- and medium-sized enterprises as it is common to find their duties encompassed in some finance or administration area. They may even be in the Purchasing Area, thus limiting this important work to the purchase of insurance policies.

“At world level, the role played by the Risk Manager will become more and more important due to multiple factors”

Many larger companies are foreign and the Risk Administration Area generally has little decision-making power, as strategy in this area is defined corporately in these companies.

In the case of PEMEX, Risk Administration has evolved over the past 25 years. From being a small office belonging to the Finance Department and only purchasing insurance policies on the local market, the captive reinsurance company was created in 1993 with the role that it maintains today, and it was in 2001 when the Risk Administration Sub-Division was created, which Kot belongs to. Since then and up to now, new items have been incorporated into Kot that contribute to the integral development of PEMEX Risk Administration.

R&IM: Lastly, what future do you predict for Risk Management and managers?

A.H.: At world level, the role played by the Risk Manager will become more and more important due to multiple factors. I am essentially referring to the new exposures that come with technological progress and the new challenges and/or dangers that the world is facing, such as climate change and natural phenomena, which these professionals must face and be prepared for, and that is where their relevance comes from.

That is how the Risk Manager must maintain an integral vision of possible exposures that the company may face, how to identify them, analyze them, control them and transfer them, for example: the cyber risk and Cyber Liability cover; or search for new financing and transfer alternatives, such as Insurance Linked Securities or Alternative Risk Transfers, amongst others. Although these instruments are not new, they are not currently in common use.

Nonetheless, it is important, as Risk Managers, to firstly be aware of our exposure and secondly to understand which of these products will help us to best transfer the risks. In general, I see a future full of challenges, learning and innovation, across the industry. ■

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TWO CHALLENGES: CREATE A MORE SOLID ORGANIZATION AND ANALYZE THE STRATEGY

Over the past eleven years, Ali Hauser has led his professional career in diverse areas of PEMEX. Specifically, he spent three years in the commercial area of the company, working in petroleum product (diesel, kerosene and jet fuel) trading, where he had the opportunity to work with three Finance Directors in the Financial Assessment Areas.

Subsequently, he held the role of manager of non-productive assets, where he was responsible for selling products no longer of use to PEMEX. Since 2012 to date, he has held a dual role: PEMEX Risk and Insurance Manager and, simultaneously, General Manager of the PEMEX captive reinsurance company, Kot Insurance Company, AG, with registered address in Switzerland.

At the moment, Ali Hauser is working on a fundamental project: “creating an organization that is more solid in human capital, which adapts to changes and reacts timely to the challenges that the parent company will face”. Also, he adds “analyzing the Risk Administration strategy to ensure that it is consistent with structural changes derived from the Energy Reform that PEMEX is going to face”.

