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"RISK MANAGEMENT : AN INTERNATIONAL PERSPECTIVE"

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In order to clearly understand the importance of the international approach to risk management for a group like SAINT-GOBAIN, it is necessary to give you some facts and figures on our group. Don't worry I will be as brief as possible in this "advertising" session of my presentation.

Saint-Gobain in 1992 *[slide 1]* :

* A french group, a strong european basis, a world presence
* More than 290 consolidated companies
* Operations in over 35 countries
* 74 billion French francs net sales
* 100.000 employees (2 out of 3 outside France)

Saint-Gobain is *[slide 2]* :

* Worldwide or european leader in its activities
* 1 out of 2 cars in Europe is built with Saint-Gobain windows
* Saint-Gobain Insulates 1 out of 2 houses in Europe
* Over 80 capitals and 1000 major cities are equipped with PONT-A-MOUSSON pipes
* Over 9 billion bottles, flasks and jars par year

One aspect peculiar to our group is its decentralized management structure.

[Slide 3] With 9 different business activities and 9 geographical areas, each under the general responsibility of a distinct manager, we really apply a matrix structure management style.
This type of arrangement inevitably leads to conflicting situations and this is certainly one of the biggest internal challenge facing the risk manager trying to implement a global strategy.

Controlling this structure is a holding company limited to some central functions : strategy and planning, finance, personnel, legal and research and development. Our president's objective is clearly to limit the number of this "very select" group to a minimum and adding a new person in its staff is as difficult as obtaining permission for a 10 million dollars investment in one of the divisions !

The risk management department belongs to the holding company and reports to the CFO *[Slide 4]*. No wonder that it is only composed of 3 professionals. Outsiders are usually surprised by the small number of our staff for a group of this size. Certainly this is because we are very efficient ! But more seriously it is because we try to be coherent with our management structure and have a corespondent, or if you want, a deputy risk manager in each of the business unit and each of the geographical delegations.

We are limit our missions to what we consider to be strategic issues for the group :

* Propose to our management and implement in the group a Risk Management strategy on a worldwide basis,

* Develop global loss prevention and insurance programs to protect the group financial results from major losses resulting from accidents,

* Act as coordinators and consultants to the subsidiaries our a need basis.

We very rarely get involved in day to day operations, but try to stay on the top of what is going on. This why we monitor and maintain on our computers a large data base on sites, main exposures, loss history, insurance values and so on. This proves very useful to control and manage our risks on a global basis and overview a premium volume of approximately 50 millions US dollars per year.

[Slide 5] Our corporate philosophy since 1988 can be summarized in 3 messages : "*The most effective way to reduce our insurance costs is to reduce our losses*". In other words it is cheaper other the long term to prevent losses from happening rather that accepting continuously increasing insurance premiums. This is why, the "Highly Protected Risk" concept has been developed to reduce property and business interruption losses. This implies a complete survey of all facilities by loss prevention engineers with recommendations to upgrade them as needed to a high level of risk awareness and risk prevention and protection. The human aspect is extremely important and implies regular inspections, training of emergency crews, good housekeeping and maintenance and management involvement. Investments for sprinklers at strategic locations have also been recommended and are either in process or completed.

The second messages is that "*Insurance is only part of the risk management process*". In the past too much emphasis has been put on insuring what was considered to be traditional risks such as fire. What is really important is to ask : what are our risks ? How can they impact our organization ? What can we do to prevent them ? Can we finance them internally or should we insure them ?

All these questions related to risk identification, risk quantification risk control and risk financing, describing the risk management process as it is known today, need to be answered first in modern organizations before thinking of insurance as the only means to protect a corporation.

Along the same line, our philosophy is that we should try "*to control our total cost of risk (TCR) over the long term*", and not only insurance costs. *[Slide 6]* The TCR represents all expenditures related to accidents before or after they have occurred. It is the sum of four types of costs :

* Insurance premiums
* Loss prevention expenditures
* Administrations costs
* Non insured or retained losses.

These costs are interrelated. For example, you could eliminate all insurance premiums by deciding to self insure all your risks. If you decide to take such a daring decision, you would, over several years, significantly increase you retained losses line.

Based on available resources and by adequately allocating them between the four expense categories listed above, the objective is to reduce the total cost of risk other the long term.

Studies made among large industrial groups show that the cost of risk of companies with similar activities, run between 0,5 % and 1 % of their turnover. For a group of our size, this means about 600 Millions FF or 100 Million dollars a year! With this kind of money , there is room for imagination and constant improvement.

These three messages summarize our corporate philosophy. Implementing it is the real challenge. It requires for upper & middle management changing attitudes towards risks, ways of handling problems, general approach to security, loss prevention and insurance. It is a major cultural change in itself !

Let us go now to the core of our presentation : what are the reasons for a global strategy ? Many of them have already been outlined by my predecessors.

[Slide 7] The main reason is that any successful corporation whatever its size has to become international to grow and survive. It is now common to say that the world is becoming smaller. In the age of fax machines, global telecommunications systems, reduced air fare tickets and other means to help mankind communicate faster all around the globe, more and more entrepreneurs are going outside of their borders than ever before, products are flowing between production centers located in different countries. Each one of them becomes an critical component of a large international production network. Marketing strategy is now global and customers are expecting the same new products with the same quality standards in any major country of the world at the same time. Finally to respond to the present economic situation each of our corporations is now evaluating closely the need to relocate its production facilities to Eastern Europe or Asia where labor costs are low and markets are growing.

Competition is turning global and is increasingly intense.

Managements have to take into account shifting public priorities such as the need for stringent environmental standards. Large new markets are growing at a rapid pace, while in established markets new ground rules are evident. All this is happening at a time of recession, or stagnation in most industrial countries.

As a result, companies are forced to improve their quality all round. They have smaller "windows of opportunity" for introducing new technologies. Failures are likely to be punished quicker.

In management terms, companies need to build up a global presence and to improve their flexibility. New ways of organizing and running operations are apparent, such as just-in-time logistics. Resources are being reallocated to respond to disappearing borders, shrinking demands and escalating margin pressures.

As management have adapted to the new environment, so has the risk profile changed. For example, acquisitions and new joint ventures increase risks as the number of production facilities expands, but it also reduces risk as markets are served from local rather than foreign sources as alternative production units come on steam.

In turn the risk manager's function has became more important and now require greater expertise.

This expertise will be used to handle such risks as *[Slide 8]* :

* Property risks and contingent business interruption with large consequence on lost income in case of a disruption in production, including natural catastrophes (hurricanes, flood, earthquake).

* Liability risks wether they result from operations, particularly if some dangerous materials are involved (asbestos, chemicals), or from finished products themselves,

* Environment issues : with constantly changing regulations in all countries of the world, industrial firms have difficulties in eliminating what can be called historical pollution (pollution resulting firm past operations, at times when no specific rules were available) and preventing new pollution resulting from modern processes.

* Political risks : financing international projects, selling goods to foreign customers increase the risks of non payment, confiscation, nationalization and other "faits du prince".

* Protection of persons : employees of exporting companies are facing many risks themselves : accident, sickness, kidnap, personal and professional liabilities.

* Protection of know how : how do you protect your "savoir faire" all the technical knowledge which was very expensive to develop through years of research ? When involved in joint-ventures, when showing your products in international trade show when staying at hotels and/or travelling by air, sea or rail ? We all know stories of secrets which were easily let go ...

These are some of the major risks facing a corporation willing to do business on an international basis. I am only limiting myself to what we call in our jargon "pure risks" in opposition to the entrepreneurial risks such as commercial risks, financial risks and so on ... which can also be very important, but not traditionally within the responsability of the risk manager.

Are the risks similar in each of the geographical areas ? Yes and No. On one hand our plants are very similar in most countries where we operate. Processes are Saint-Gobain technology, using the same raw materials, similar equipment and producing almost identical finished products. The risks involved with these processes are well known and ways to prevent them also. Therefore if, for example, a float glass facility is located in Spain, Germany, Brazil or China, similar measures must be taken. In fact, it is important that all our facilities wherever they are located, receive the same quality of loss prevention or we would be in bad shape after a major loss. This is a lesson which was learned after the Bophal would be tragedy and the troubles faced by Union Carbide.

On the other hand each country is very different. History, language legal systems, authorities and regulations have a major impact on the way you can or should implement risk handling. Most important of all people play a critical role and different cultures impact all aspects of risk management, even if belonging to a large multinational corporation like Saint-Gobain creates a culture in itself which sometimes goes beyond national characteristics.

Therefore flexibility and an open mind should always be available.

Are all countries very different ? Everyone has been made aware of liability exposures in the United States, earthquake risks in Japan, environmental issues in Germany and so on ... Particular precautions should therefore be taken.

But my experience has shown that no areas of the world should be underestimated :

* The most difficult environment problems we have to face are in Italy

* A multi million dollar liability claim was received by one of our subsidiary in Brazil after a car accident involving one of its employee when we were told that liability was not a problem in this country.

* A recent earthquake in the center of India occurred in a zone considered as safe and almost hit one of our facilities.

* The largest product liability claim our group has ever received, involved customers in France, Italy and Germany and not the U.S.

All this indicates the need for a global approach clearly evaluating potential risks and developing adequate treatments.

The most effective strategy for a multinational involve risk control and risk financing.

On the risk control side, there is a need for global standards, for consistency of audit/reporting and, as we have seen, of up to date information centrally available to monitor risks.

On the risk financing side corporations should definitely endeavour to establish global insurance programs.

[Slide 9] The benefits expected are :

* Consistent catastrophy coverages
* Information management
* Consistent loss prevention programs
* Savings
* Implementation of corporate risk management philosophy.

[Slide 10] For the Saint-Gobain group, we have established three major programs for property, casualty and D &O. These programs very similar in concept, have been adapted for Europe, Germany, Scandinavia , North America and Brazil. They have two things in common : coverages on an "all risks" form and loss prevention programs based on standards developed and approved by Saint-Gobain. We are using a limited number of insurers for quality of service and security reasons. These programs are coordinated and managed with the help of one broker network.

This arrangement provides the flexibility, the quality of service and the financial protection we want.

This is particularly important, since we operate in a decentralized organization. This means that we do not impose the corporate Risk Management policy to anyone, nor is participation in our insurance programs mandatory. We have to sell our ideas and convince subsidiaries of the merits and benefits of the group programs. We have the right to audit policy contents and if they meet corporate standards on coverages and all major risks are covered at a responsible price, we do not force anyone to join our programs.

We are very pleased however to note that over 90 % of the subsidiaries have decided to benefit from them.

One point of interest : Saint-Gobain is one of the only remaining group of its size, not to have established a captive insurance company. Although we perfectly recognize all the potential benefits of a captive, particularly in the control of global programs, we have not yet considered that this was an essential tool in our risk management strategy. However this may change in the future.

Finally, I will conclude my presentation with a few words on the critical role of the risk manager. He obviously is a "jack of all trays" who is supposed to be familiar with legal, financial, personel and technical issues on a global basis. Naturally this is impossible, but he should know where to obtain the information usually from outside sources including his broker or his insurance companies.

At the recent Risk Management Forum in Monte Carlo, in his keynote address, Dr. Thomas Gasser, Deputy CEO of Asea Brown Bovery noted that the most frequent internal criticisms made of risk managers are than they do not understand business, they cannot communicate, and they are pre-occupied with their own technical problems. It is essential for risk managers to understand the corporate environment of their companies he said, "Sensitivity to and ability to adapt to the work practices and the management style prevalent in an organization is a must".

The main challenge is to control communication channels within the company as well as outside. This is an example of what we had to put in place to monitor our programs *[Slide 11]*. Site visits, adequate reporting, organization of seminars and a good networking system within the company and outside with his colleagues is essential to his success.

To finish, I would like to share with my colleagues who wants to be successful in the international arena, a list of 10 rules based on my own experience which were very useful to me :

[Slide 12]

1. Be familiar with your company strategy and business
2. Be competent
3. Be a good communicator
4. Delegate responsability/authority
5. Develop standards/guidelines

[Slide 13]

6. Don't hesitate to travel
7. Act as consultant/coordinator
8. Be firm with service providers
9. Don't underestimate complexity
10. Give yourself time

I really enjoyed talking to you on this subject and thank you very much for your kind attention.

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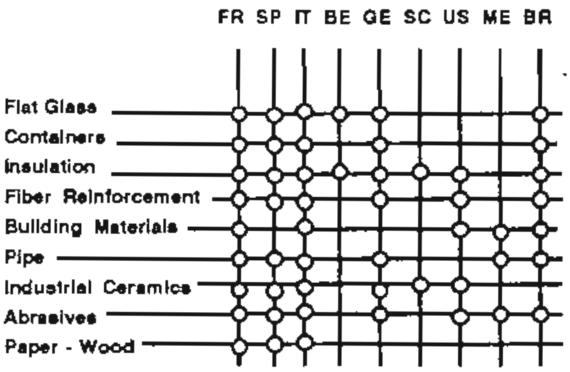
SAINT - GOBAIN MATRIX STRUCTURE



SAINT - GOBAIN RISK MANAGEMENT DEPARTMENT

* Reports to CFO
* 3 Professionals & network of correspondents
* Missions
  - propose and implement RM strategy w.w.
  - develop global loss prevention & insurance programs
  - assist subsidiaries
* Monitors a budget of approx. $ 50 Million

SAINT - GOBAIN RISK MANAGEMENT POLICY

* The most effective way to reduce our insurance costs is to reduce our losses
* Insurance is only a part of Risk Management
* Our goal is to minimize the total cost of risk over the long term

TOTAL COST OF RISK :

* Insurance premiums
* Loss prevention expenditures
* Administration costs
* Non insured or retained losses

REASONS FOR GLOBAL STRATEGY

* Smaller world
* Intercountry product flows / interdepency of production centers
* Global marketing strategy
* Delocalisation of production facilities

MAIN EXPOSURES

* Property / business interruption
* Liability
* Environment
* Political risks
* People
* Protection of know how

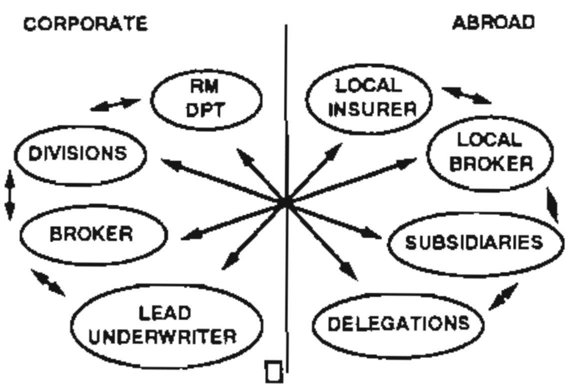
GLOBAL PROGRAMS :

* Consistent catastrophe coverages
* Information management
* Consistent loss prevention programs
* Savings
* Corporate R.M. philosophy

CARACTERISTICS OF GLOBAL PROGRAMS

* Property / Casualty / D & O
* Multipliers : Europe, Germany, Scandinavia, North America, Brazil
* Similar coverages and loss prevention programs
* Limited number of insurers
* One broker network (with exceptions)

COMMUNICATIONS CHANNELS



KEYS TO SUCCESS 1 / 2

1. Be familiar with your company strategy and business
2. Be competent
3. Be a good communicator
4. Delegate responsability / authority
5. Develop standards / guidelines

KEYS TO SUCCESS 2 / 2

6. Don't hesitate to travel
7. Act as consultant / coordinator
8. Be firm with service providers
9. Don't underestimate complexity
10. Give yourself time

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