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SESSION NR 23

MULTINATIONAL RISK MANAGEMENT PRACTICES : A DEBATE

LAURA L. MARKOS



Omer Leroy
UNILEVER
Conference Co-Chairman...



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etra Pak
Conference Co-Chairman

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MULTINATIONAL RISK MANAGEMENT PRACTICES:
A DEBATE

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October 18, 1989

Laura L. Markos, CPCU, ARM, Avery International Corporation, U.S.A.
Ronald P. McCartney, Johnson & Johnson, U.S.A.
Terry E. Sparkes, F.C.I.I., F.I.R.M., CMB Packaging (UK) Ltd.

Is there a right or wrong way to structure a multinational risk management program, or does the answer depend on the structure of the organization itself? Is the organization centralized or decentralized? Should insurance be purchased on an admitted, or non-admitted, basis, or some combination of the two? Two risk managers of large multinationals will present the reasoning behind each of their firms' decisions. We will focus not so much on how these multinational programs are run, but why they are structured that way, and how these decisions, and the programs themselves, have evolved to best fit the organizations they serve.

As an introduction to the issues, first we will look at the parameters of a multinational risk management program. Exhibit B.1, attached, demonstrates the variations in management control, staffing, program details and cost which can occur, depending upon the degree of centralization or decentralization which is achieved.

Next, it is helpful to keep in mind the goals of the organization itself, and the markets it serves, to determine how best to achieve those goals. The focus and objectives of a manufacturing organization, for instance, will be quite different than those of a sales or service organization. Exhibit B.2 attached outlines these differences, as respects broad areas of risk management concern.

To complete our opening perspective, Exhibit B.4 illustrates a matrix of possible risk management communication channels. It is communications, perhaps more than any other factor, which will affect the daily shape and style of the risk management program within a multinational. [There is no Exhibit B.3]

With these parameters in mind, we will now turn to the risk managers to examine the logic, thought process, and advantages, and possible shortfalls of various risk management options. Again, we will focus on why each decision was made, and how it fits the organization it serves, more so than how the program itself is structured.

The questions we seek to answer, for each of these organizations, are:

- Is there a right or wrong way of multinational risk management?
- How does the organization itself define the method?

- Where does the authority for risk management decisions lie?
- Who are the risk manager's internal contacts?
- How much do local operations know, or want to know?
- What are the pros and cons of centralized vs. decentralized risk management for each organization?
- How is a transition from one to the other achieved?

Each of the following questions will be addressed, in turn, to Mr. Sparkes and Mr. McCartney:

- Brief outline of your organization's businesses and internal structure.
- Risk identification and analysis: What works best for you?
 - Sources of information, and local contacts.
 - Levels and degrees of communication with business units.
 - Risk manager travel.
 - Safety, protection, and exposure analysis.
 - Business unit interdependencies.
- Risk control: Centralized and consistent worldwide, or not?
 - Local regulations, practices and quality.
 - Availability of services and materials.
 - Autonomy of subsidiaries.
 - Same standards at home and abroad?
 - How are policies set - at units, or by corporate?
- Risk financing: Centralized, or not, or both?
 - Local admitted policies? Why are they used?
 - Local or corporate self-insurance decisions? Why?
 - Local or corporate insurance purchasing? Why does it work?
 - Who selects brokers and insurers? Why this approach?
 - Captive brokerage or insurer? How does it meet company needs?
- How does the overall program work for this organization, and why?
 - How was the program structured in the past?

- How, and why, has it changed?
- What level of detail is communicated?
- What communications work? Written manual? Travel?
- Is there local competition against corporate programs? How is it handled, and why?
- Authority: Are business units told, or sold?
- What are the problems? Certain operations? Countries? Regions? How are they handled, and why?
- How are acquisitions handled, and why?
- If you could do it over again, what would you change? What lessons in multinational risk management were learned the hard way?
