

in the opinion of...

«Insurance is a crucial partner and collaborator in successful risk management»

«Companies have come to realize that one of the best ways to protect their balance sheet is to protect themselves from the risks that may impact on it,» says de Sancha. In recent years, Navantia has made great progress in this area, and the challenge now is to achieve comprehensive risk management.

Eduardo
de Sancha

HEAD OF NAVANTIA'S INDUSTRIAL
INSURANCE MANAGEMENT DEPARTMENT

Text: ALICIA OLIVAS Photos: ALBERTO CARRASCO



Navantia is owned by the State Industrial Holding Company (SEPI), which owns 100% of the company's capital. How does being a public company's influence decisions on risk management policies and taking out insurance coverage?

First, I have to say that SEPI's new management team is very interested in managing insurance at a corporate level, not just for Navantia but for all its constituent companies, basically because taking out policies for the entire group would mean better economic conditions.

However, I believe that, except in the case of some very specific policies, such as general third-party liability, this will be very difficult to achieve because the activities pursued by the group companies vary considerably. We are working in this direction, but I don't think we can make it happen in the short-term.

Therefore, right now Navantia's policy on risk management and insurance contracts is internal, completely internal, and is implemented by the Industrial Insurance Management Department or, in the case of retirement planning insurance, by the Human Resources Department.

Who has the final say at Navantia with regard to risk control?

In the case of low and medium risks, the Industrial Insurance Management Department itself, or, failing that, the Finance Division, to which the department belongs.

For major risks and decisions involving intensive risk to the company's balance sheet, it is the management –the company's Executive Committee or even

the Board of Directors— as recommended, naturally, by the Industrial Insurance Management Department or the Administration and Finance Division.

COMPREHENSIVE, CENTRALIZED MANAGEMENT

In general terms, what is the risk management system at Navantia, Spain's leading company in naval-military technology?

Following the creation of the current Navantia in 2004, the first thing we did was to centralize risk management. Navantia is the successor to Astilleros Españoles and Empresa Nacional Bazán. Both these companies managed insurance and risk differently. While Bazán had a fairly centralized management system, it was the opposite at Astilleros Españoles. So our first job was to centralize the management of all insurance.

As we are a geographically decentralized company, we still have to cooperate with certain peripheral bodies that don't belong to our own department but are part of the Administration and Finance Division, but in any case nowadays insurance management is fully comprehensive and centralized. We also have the support of a broker.

Our aim is to improve industrial risk management by training our workers and professionals, providing technical support for program management, for the exploitation of the productive areas in our shipyards and plant management. In the areas of commercial activity, purchasing and subcontracting, where our aim is to identify and control risks from the initial phase of an operation, we are involved in

«AT NAVANTIA, RISK MANAGEMENT HAS IMPROVED TREMENDOUSLY IN RECENT YEARS»

preparing and reviewing tenders. Here we take special care over the negotiation of contracts and over all documents and internal company regulations that may affect or be directly or indirectly related to risk management. For example, we recommend standard specific clauses for the different methods of contracting and subcontracting to guarantee peace of mind in managing the risk associated with a particular operation... All of this, I believe, has positive results.

What are the challenges posed to your department by the company carrying out naval programs in over 19 countries and currently having offices in Australia, Qatar, India, Turkey and Brazil?

This is, indeed, one of our biggest challenges right now and one of our main concerns. Our naval programs overseas have brought us great international prestige and allowed us to penetrate some very attractive markets, such as Asia and Oceania as well as South America, where we have always been present, having taken part in the past in Chile's naval submarine program (in a consortium with the French DCN company) and in supplying patrol boats to Argentina, and, more recently, working with Venezuela. There is a great deal of interest now as certain countries in that hemisphere have ambitious plans to improve and expand their fleets, and in some cases that means we need to be established there permanently. That is what is happening in Brazil, where we have a branch that may, in the short term, become a subsidiary.

In the case of Australia, we have built two LHD class ships, similar to the Spanish



Navy's *Juan Carlos I*, as major subcontractors to a local shipyard, and now we are involved in another Australian Navy program as frigate designers. Consequently, we have also established a presence there by creating a subsidiary, which in the medium term will be the bridgehead for all of Navantia's commercial activity in the area.

For our company, these permanent establishments and branches are a way of enhancing customer loyalty and increasing Navantia's presence in geographical areas with great potential for economic development, but at the same time it obliges us to consider the need for creating an international insurance program. Internationalization is a core concept for the company and one of our goals is to

**«WE HAVE TO
MANAGE OUR RISKS
IN A WAY THAT
GUARANTEES THE
COMPANY'S
SOLVENCY AND
VIABILITY»**

organize an international insurance program.

How does your area respond to the company's new projects, such as offshore wind farms?

This is a very important project for Navantia because it is in an emerging market where we believe there is potential and where we can compete. That obliges us to study the coverage for such risks, which are known and identified but where we have no specific experience.

Generally, wind farms of this kind operate with general framework policies that cover all phases of the farm's construction and the activities undertaken by each contractor and the chain of subcontractors. Sometimes, playing the



deductibles game, a risk that is not fully identified requires you to protect yourself and study independent protection. We are also working in this regard and, although we do not have a project up and running at the moment, we have some proposals on the table.

Navantia offers global solutions including ship design and construction, the manufacture and integration of systems of on-board equipment, team and crew training, maintenance and modernization of the ship throughout its life, etc. Which of

«INTERNATIONALIZATION IS A CORE CONCEPT FOR THE COMPANY AND ONE OF OUR GOALS IS TO ORGANIZE AN INTERNATIONAL INSURANCE PROGRAM»

these activities is the most complex from the point of view of risk management?

The easiest part is the one where we have ample experience: construction. Nobody can question Navantia's experience in building civil and military vessels. That's where we feel more comfortable, and I have to say that we've had very good insurance partners to cover this situation for us.

Other novelty areas to us are more difficult. For example, the systems area is very complicated because it's quite a highly classified activity, requiring not only a reasonable assessment of the risk –which is not always easy– but also an attempt to find coverage for operations for which the insurance market does not always have a clear answer, because anything that sounds like weapon systems and combat tends to be met with a «gasp of horror.» Even so, we have been able to find solutions so far. This year, for example, we introduced systems activity, including firing control and other components, in our corporate assembly policy, where we have obtained reasonable coverage. We will definitely be reviewing and improving this, but for now we feel confident that we have obtained a satisfactory umbrella cover.

Lifecycles are another challenge. The insurance market in this type of operation is strictly limited to the very reliable coverage Navantia has for all the activities it performs in its own yards and those of the Spanish Navy, but now we are almost always obliged to provide service in remote shipyards where the fleet we are attending is located. So far, we have obtained a temporary solution for the lifecycle contracts we have already signed, as in the

case of the Norwegian frigates, and we are working to achieve the same for fleet maintenance of the Australian and Venezuela navies with whom we are currently negotiating.

INTANGIBLE RISK

Another difficulty is the so-called intangible risk: patents, intellectual property, image, brand, reputation, etc. How have you managed to control these?

This is another issue we are working on. In particular, with regard to patents we are trying to improve our coverage for professional third-party liability. It is very important for contracts to have clear protection clauses for these areas, and we also need to protect ourselves with appropriate policies and require the same of our contractors and subcontractors. They are very expensive policies and the intangible nature of the risk involved makes them very difficult to «sell» internally because the need for them only becomes visible in cases where a claim is made.

Which risks currently concern you the most?

One that concerns us a great deal right now is the posting of staff overseas, which is increasingly common. Another is the threat of cyber attacks. As a company in the defense sector, it would be very dangerous if anyone were to break through our security measures. Our IT Division believes we have the sufficient means and efficiency to prevent any intrusion, and I am sure that is so, but it is our duty to look for a way of minimizing the impact on the

«WE HAVE FOCUSED ON THE NEWEST TYPES OF RISKS BECAUSE WE FEEL CONFIDENT ABOUT THE ONES WE HAVE EXPERIENCE WITH»

company's image if any of our technical or engineering information were to be destroyed, or if the military secrecy of our navy programs were to be breached.

As I said before, one of our concerns is to improve the protection of patents and property rights in our professional third-party liability coverage, because what we have now is really not appropriate for a company with Navantia's profile and aims, which are focused increasingly on the sale of engineering.



How do the company's employees contribute to the goals of risk prevention and protecting the environment?

It's not an easy task. We are facing a problem all industrial companies have, and that is the high volume of outsourced staff. We control and train our own staff directly, but in the case of outsourcing, although we do not relinquish these controls and the same standards are required by contract, monitoring becomes more complicated. Nevertheless, we do try.

Every two years we make an inspection of company risk, traveling to all industrial and production areas and taking the opportunity to meet with all managers and departments involved in risk and industrial management, and also in the management of fixed assets, commercial areas, etc. In addition to explaining the various kinds of policies on risk management and insurance, we review the management methods for naval programs and the occupational and environmental risk prevention programs in each industrial

«INTERNALLY, WE STILL HAVE TO ADDRESS THE ISSUE OF GREATER COORDINATION IN ALL AREAS DIRECTLY RELATED TO RISK MANAGEMENT»

area... In other words, we are trying to inculcate this doctrine and we believe it is taking hold.

But obviously there is the added difficulty of controlling outsourced staff. You only have to look at accidents, which fortunately are fewer than in the past, to see how in most cases they involve subcontractors.

TRANSFER OF INSURER

What is Navantia's policy on transferring and retaining risks? What role do you assign to the insurer?

Insurance is a crucial partner and collaborator in successful risk management and the viability of the company. Personally, I value very highly the cooperation that insurers have always offered us, a situation that was passed on to us from the previous period and that continues in the present.

We have to manage threats in a way that guarantees the company's solvency and viability with minimal risk to the balance sheet. However, our resources are limited, and that means we have to find insurance policies and risk retention margins that allow us to balance these two ideas.

Sometimes, in our business operations, we find ourselves confronted with requirements in contract clauses that were previously unknown to us, especially in the English-speaking world. This forces you to adjust to a particular client's circumstances and provide yourself with coverage to win the contract or the award of works. In our case, this is mainly because a large proportion of our clients are public administrations, where the margin for negotiation is more restricted.



Do you have any captive entity?

No, because we are a company currently running at a loss, so right now it would not be feasible. Perhaps in the near future, if the situation improves, this could be considered, but with the company's current financial and assets situation the project does not make sense. However, it is not ruled out for the future.

What are the characteristics of your insurance program?

It is a comprehensive program that aims to cover, with reasonable cost and retention margins, the risks to which the company is exposed in all of its activities. We have focused on the newest types of risk that required immediate action, because we are already confident with the ones we have experience with. For example, we are concentrating on internationalization, which is forcing us to design new coverage and change our work ethic. Our program has to adapt to this circumstance and move toward an international system in the short-medium term.

Are you finding difficulties in the market for some risks?

To answer this, we need to define the market. The insurance market does not present any coverage problems, but in the case of professional third-party liability, in the context of insurers operating in the Spanish market, we have not found any set of clauses that fully satisfies our needs.

Are you working on this coverage? And any others?

Yes, we've had meetings and have offers from several companies to adjust the



cover to meet our needs. I understand that insurers also have limitations on their reinsurance contracts and sometimes cannot go as far as the client asks.

And, as less immediate goals, we are focusing on designing an international program, contingency policies for expatriates and staff posted overseas in general, and cyber risks.

RISK MANAGEMENT

How has risk management evolved in recent years? Has the crisis influenced the way risk is managed?

I don't have an overview on how other companies have reacted, but at Navantia I have to say that risk management has improved tremendously in recent years, both in terms of prevention policy –as our claims ratio figures demonstrate– and the structure of our operational programs.

We have designed a comprehensive program with coverage to match the company's needs, which gives us great satisfaction. Internally, we still have to address the issue of greater coordination in all areas directly related to risk management.

How has the crisis affected us? Well, we have been forced to cut costs, but this has been done not by lowering our compensation limits or removing any coverage but by increasing deductibles. However, I should mention that this year not only have we not increased deductibles but we have actually achieved some reductions, without an increase in cost.

Since 2005 Navantia has reduced its insurance cost by 35-37 per cent while also achieving many improvements for the company in terms of compensation limits, coverage and manageable deductibles.

In your opinion, is risk aversion in companies improving?

Companies are very concerned about this in general. I imagine they are also forced to react because of external factors, such as major weather disasters against which nobody is exempt, and this is causing a change in company mindsets when dealing with risk. It's also a question of culture. Companies have come to realize

**«RISK
MANAGEMENT IS
GOING TO BECOME
A KEY ASPECT OF
BUSINESS
ORGANIZATION»**

that one of the best ways to protect their balance sheet is to protect themselves from the risks that may impact on it. Navantia is working toward this and I believe it to be a general trend.

How is risk management adapting to such a changing and complex world?

Risk management is evolving fast. Perhaps this is less noticeable in the public sector, but more and more public organizations now incorporate risk management. In the private sector, it is set to become a key aspect of business organization and I hope the same will happen at Navantia and in the public sector in general. In fact, the interest shown by SEPI's new management team in starting to organize insurance at corporate level could take us in this direction.

What does the insurance industry contribute to companies like Navantia?

Insurers are necessary partners and collaborators and, in most cases, we feel very comfortable with them. The market is in a situation of reasonable cost margins, and the companies we have worked with have always responded very positively to reach the coverage and limits required by our clients when executing a contract.

In the coming years, what place will risk managers have in companies?

Their growing importance will mean they will climb in the company's organizational system, especially if they aim –as of course I do– to make risk management comprehensive. **I**

«FINDING SOLUTIONS THAT BRING PEACE OF MIND AND CONFIDENCE TO THE COMPANY'S BALANCE SHEET IS CRITICAL»



Born in Madrid, married with one child, Eduardo de Sancha has a degree in law but has never had a legal role at Navantia. «I have always worked in the financial-economic area, with responsibilities in foreign trade and supplier management, etc. More recently, after the company's reorganization, when Musini disappeared, I came to the insurance area with the aim of organizing a risk management system, something which did not exist at that

time at Navantia and in fact was quite rare in public companies in general.»

Although he had not initially planned to work in risk management and insurance, he likes the sector. «It's a field that is changing considerably. The demands of industrial activities and new approaches for companies to survive, etc, mean that I have to be updated to meet these demands. The need to find solutions that bring peace of mind and confidence to the company's balance sheet is a stimulus. It's an activity that gets you in its grip and where it's clearly possible to see the financial results of your efficient management reflected in a better economic position for the company.»

At Navantia industrial insurance management is the responsibility of the Administration and Finance Division, which is part of the company's Executive Committee. However, the management of insurance related to retirement planning is carried out in the Human Resources Department.

In his job, «no day is the same, but I usually get to the office at 8 am and the first thing I do is read the digital news to see if there are any interesting news not just in the world of insurance. Then I usually get down to my daily dealings, meetings with different areas, daily insurance operations management, risk control, claims and so on.»

His greatest challenge is «making risk management at Navantia comprehensive and less compartmentalized than it was before, because we don't always coordinate as effectively as we would like. We are working in this direction, but it's not easy.»

On the personal side, de Sancha has been a keen sportsman. «I was an international basketball referee for many years, in the ACB league. This experience shapes your character and, in some way, helps you to make decisions, sometimes with very little time to ponder the outcome, and to manage teams and become their leader.»