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We analyse risk and its possible consequences on all our activities



Manuel Garrote Prieto

Manager of the Risk Management Department of the OHL Group

Much of the economic growth that Spain has been experiencing over the last few years is due to the expanding trend in construction, which makes a 9.1% contribution to GDP. Spanish companies in the sector, such as OHL, are at a fascinating period in time and working hard inside and outside Spain, both in housing construction together with civil engineering and infrastructures.

This drive is at all times accompanied by adequate risk management and its consequent transfer to the insurance market. The way in which OHL deals with its responsibilities and applies an efficient prevention policy can be extended to other companies in the market and is explained in this interview



Manuel Garrote born on 18th April 1959 in Castropodame, in the Bierzo region (León). He is a technical architect for the Escuela Politécnica in Madrid. He holds a Masters degree in Corporate Risks from the University of Columbia and a Masters in Architectural Restoration from the CED. He holds a Diploma in Construction Risks from the Instituto Agustín de Betancourt, part of the Escuela Técnica Superior de Ingenieros de Caminos. He has also attended a large number of advanced courses such as the engineering course at INESE.

His professional career began in 1980 when he joined Minerva Insurance Company. In 1981 he transferred to the holding company of Rumasa which had previously bought out that insurance company and in 1982 he moved to Hispano Alemana de Construcciones. From 1985 he ran his own insurance consultancy, Asespasa, before joining the construction company Huarte in 1988, which following the merger with Obrascon and Lain in 1999 became OHL.



Is Spain on a par with the best countries in Europe or the world in building and construction? Is the technology used in construction processes comparable to that of other advanced countries?

Actually yes. We are as good as they are, we are one of the most advanced countries and able to compete anywhere in the world. In fact, we are producing exemplary work with great determination and receiving very satisfactory feedback. We have really magnificent technical teams. And this combination of design capability and ease of execution that our companies have, puts us in a very elevated, very good position. We are seeing it abroad, especially in Latin America.

Has the perception of risk changed in the building industry?

I would say so, because before there was no true active prevention policy, perhaps because it was not necessary. We did not deal in very large insurable sums. Limits were not as high as they are now and there were no claims of the size and with the economic impact they can have at the present time. All this has changed, and today management starts with prevention. When I began working in risk management, we produced reports and designed forms. We were regarded as pen pushers, not very clear as to what we were doing.

Who does the risk management department report to? How and when did the need to set it up arise within the OHL Group?

For organisational purposes, we report to the finance department which in turn reports to the general management which consults us and to which we report directly. Much the same occurs with the rest of the

general management departments. I came to OHL from Huarte where there was a department of three people specialising in insurance and risk management. As well as identifying and analysing risks, we suggested solutions and transferred the risks to the insurance market. After the merger and setting up of OHL in 1999, the company was more concerned with risk identification and insurance management and as a result the insurance department was formed.

So, is risk transfer confined to insurance policies?

This is something that indeed happens in the majority of cases. We have however tried to replace this insurance based perception with a wider concept such as the financial reduction and transfer of the risk, regardless of the instrument used

To what extent does risk management form part of OHL's competitive strategy?

Obviously to a large extent. They can rely on us from the time we have access to all general management departments, in other words, in some way we are involved in the whole development of the deal. Our task is to ensure that the profit and loss account is not affected by any unforeseen event. There are seven people working in this department, and there is administrative work to be done as well as technical work involving risks, and there is even a lawyer who reviews policies, studies them, supervises claims, makes notes and suggestions, etc

Generally speaking, what work do you do?

We are involved in all aspects of the business, and in particular prevention. We act

OHL, a building group with diversified activities

The OHL Group was formed on 27th May 1999, as a result of the merger of three building companies: OBRASCON, Huarte and LAIN. The Group, which is chaired by Juan-Miguel Villar Mir, concentrates 89% of its business in construction and the rest in other activities. Its 2003 sales were EUR 2,112 million, 19% more than in 2002, and its profits stood at EUR 49 million, 15% higher than the previous year.

In 2003, construction in the domestic sector accounted for 69.1% of its activities and international construction 20%, where we have to highlight the acquisition in the Czech Republic of a controlling share in the ZPSV-ZSBrno Group, which has a turnover of EUR 290 million and has 3,000 employees. The OHL Group, which has a total of 9,000 employees, also has a presence in Mexico, Brazil, Chile, Argentina, Costa Rica and Turkey.

OHL Concesiones accounts for 6% of the group's activities. Service activities are carried out in the areas of urban services and infrastructures, environmental services and amenities.

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like an in-house insurance company: we identify and analyse risks, reduce them and transfer them. And that transfer is specifically to the insurance market, in which we have faith. This trust is reciprocated because we do not have a very high rate of losses and because we are a good client.

It follows that you will not have any problems when it comes to renewing your policies and getting good rates.

Yes. This is particularly noticeable in public liability where we can see that our prices have been falling gradually since 2001.

And how do you ensure that you do not have high losses?

We have an action plan which gives us very good results. It was not like this before, there was an extremely high rate of losses. After the merger, I had to take drastic measures and among other things we reached an agreement with Mapfre, our public liability insurer, to include them in our plans and we invited them to join our working party. In fact, we still meet on a quarterly basis to discuss a few matters.

This has resulted in a very good relationship. What do we do? Primarily prevent, and any works which do not comply with certain risk control standards we penalise, with the result that the person responsible for each project is concerned about its risks. The awareness work we have carried out with engineers, architects and site managers has been very important. We know we have a responsibility and that it has to be taken care of. We report what we have, what we want and what we propose at all times. We penalise works with a high rate of accidents. How? We increase the premium and take action in many other ways, in the end those responsible see that this is not in their best interests. Our loss ratio in employer's, contractual or cross public liability is in the region of 15 or 20% and comes to represent something like 60% of what we pay annually in premiums; our insurers are delighted with this and so are we.

How do you carry out the work of identifying and assessing the company's risks? With your own resources and methodology, or do you use outside advisors?

We maintain direct contact with all departments and in fact we study them, in other

words, we carry out an inspection of all their activities and see how they operate. At the moment we are developing a series of objectives in conjunction with the prevention department. We report on our claims experience and decide what the reduction is to be. We analyse risks and their possible consequences on all our activities and we assess the possibility of covering them by means of an insurance policy or by insuring the risk ourselves. In carrying out this work, as well as having direct assistance from our main insurance provider, and depending on the type of risk, we also rely on various insurance brokers and several insurance companies.

How is the cost of your risks divided in terms of percentage between prevention, insurance transfer and other alternatives?

Our company is one of those which assigns more of its budget to prevention and in fact the work we carry out is important and has borne fruit. The insurance department assigns approximately 10% of its budget to prevention and 90% to risk transfer. That 10% represents a large sum of money. For every euro we invest in prevention we can be saving EUR 5 or 6





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euros in losses. We do not use alternative methods of protecting balance sheets because we are well enough covered with what we have.

Is there any difference between the risk management of a construction company and that carried out in any other type of business?

I am sure there is no difference. Especially conceptually and I have the experience I have accumulated since 1985 in my consultancy, Asespasa, which provided risk management for

a range of companies in very different sectors. The essence is to identify, analyse and channel the risks so that they do not have a negative impact on the company's results.

Are you encountering any problems when it comes to placing risks, bearing in mind that after 2001 underwriting became very strict?

There have always been problems in finding capacity for a few risks, but it is true that since 9/11 things have got much more complicated. Perhaps the market is

beginning to open up now, although there are still problems, for example in terrorism risks reinsurance capacity is very low, and there is the disadvantage that they can cancel the policy by giving notice of anything between six and fifteen days.

When there is a new job, is the first thing they ask you for engineering insurance and comprehensive buildings cover?

Yes, but we have the major construction companies fairly well sorted out, because we use programmes where we have insured practically all the works, except those

Business overseas

How do you operate abroad?

The need to deal with foreign risks arose at the same time that we began to work in other markets. Now there is a high enough volume of business done abroad, we can set up a global programme providing cover to all those countries in which we are present. This is managed from Spain, especially reinsurance, because we can work with local companies for small risks, which although they are very limited, will be sufficient for that market, without the need to have to involve the capacity of other policies. We transfer reinsurance so that local insurance companies cover those risks and we generate that

reinsurance of the local policy from our building policy that we have placed in the London market.

When a job commences in a country other than Spain, in respect of which you have won a tender, have you calculated how much the insurance could come to?

Yes, this is done the same way as in Spain. It is included in the project and they consult us during the engineering and study phase because our department receives and gives information to all areas of the company. One risk which concerns us in these cases is the political risk. There are countries where you have no alternative but to insure it. In that case, we study the country

exhaustively: its economy, its culture, its customs. It is true that the principal programme gives you overall cover for all countries to a greater or lesser extent but it is virtually always necessary to take out additional cover when you are going to build.

Is OHL currently doing any work in the USA?

We are about to start a major project involving water treatment in Massachusetts and we have used a local policy to insure it with the conditions that Spanish legislation demands. Our global programmes do not have cover in the USA and Canada and so we have to use local policies with the invaluable assistance of our brokers.



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which are difficult to cover or which have a very high exposure. We co-operate in drafting these policies, because although we are used to working with very large volumes, there are additional conditions which may be very important or essential.

In a group with such diversified activities as OHL, what other risks do you transfer to the insurance market?

There are a few activities relating to the environment, such as the construction of wind farms, composting or slurry treatment plants. We have been working on these for several years and have a fair amount of knowledge on these matters. On other occasions, when faced with new risks, we have to seek outside advice. All departments are involved when it

comes to matters of environmental responsibility and in-house quality and environment committees have been set up to which we have access and can make suggestions.

Do you recall any unusual policy or claim?

One strange one occurred with the refurbishment of the Theatre Royal in Madrid. A symbolic job which began with a small budget and was then expanded. It was an attractive risk in the sense that we touched all aspects of the policy which was drawn up with a comprehensive buildings cover including public liability and pre-existing property. There was a claim which gave us one or two problems because the crystal chandelier which was in the centre of the

theatre's stalls lobby fell down. Its eight fixing points failed one after the other. It had to be sent to the Royal Glass Factory of La Granja de San Ildefonso and cost us EUR 72,000. Fortunately it was well insured. The additional problem was that the repair had to be carried out in record time because the theatre was about to re-opened. It did not arrive in time and the opening went ahead with another more modest chandelier which was for every day use, but the occasion was so splendid that nobody noticed the difference. ■



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