

RISK MANAGEMENT IN RUSSIA

In June, Swiss reinsurance broker Reunion held its third round table discussion in Montreux, Switzerland, discussing the coverage of engineering and construction risks in Russia. What follows is a snapshot of a part of the discussion focused on risk management.

Risk management practices in Russia are improving quickly driven by regulatory changes and better education among senior managers in corporations. But the insurance industry has a big role to play in helping companies get up to speed in this regard.

That was one of the main points to come out of the first session of this round table on engineering and construction risks organised by Swiss reinsurance broker Reunion in Montreux, Switzerland in June.

Aleksey Shtanko, first deputy general director of ISLAB LLC (RusSurvey), opened the discussion with a presentation that looked at the assessment of construction risks in Russia, the international risk management practices of companies and the way insurance coverages and insurers themselves can help develop standards in this field.

He said risk assessment is usually made in a number of steps. Once the preliminary information is collected, a physical integration programme is set by the surveyors. Not only is the construction site inspected but also the materials warehouses, which often hold high value goods.

The surveyors often make recommendations around how risk management on such sites could be improved. "To fully exclude potential hazardous situations is impossible. But the assessment of insurance and compliance with an expert's recommendations will not only enable you to categorise your insurance items but also to prevent dangerous events and losses," Shtanko said.

Several participants said it can be hard to convince companies to fully implement such recommendations around risk management and delegates discussed ways in which businesses could be incentivised and persuaded to do so.

Simon Marshall, global construction practice leader at Navigators Underwriting Agency within Lloyd's, said that the incentive should be the better premiums that can be achieved while insurers should also consider limiting coverage if suggestions are ignored.

"We can amend coverage if we observe something is not what we believe it should be and reconsider the limit of what we offer the insured. But I would hope that any insured would be open to assistance in improving their risks, because at the end of the day insurance should be a last resort."

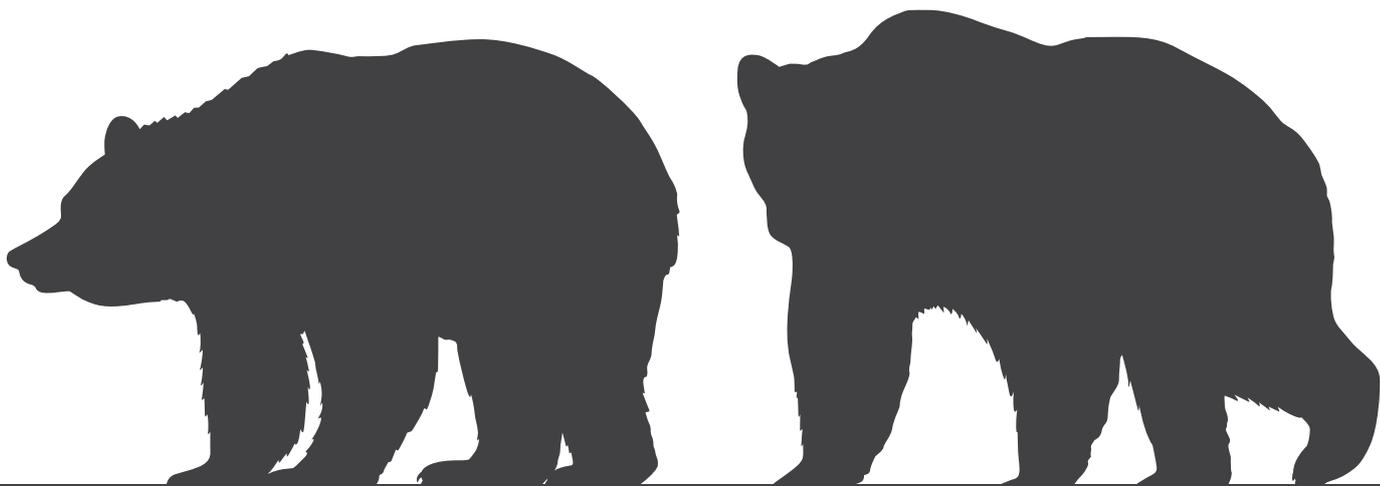
Mariya Morozova, head of client management at Russian Re, said some aspects of legislation in Russia stipulate some elements of health and safety procedures that must be complied with but she also said that insurers should try to track whether recommendations have been implemented.

"We should create an actual record covering exactly what needs to be done at a specific construction site. So when a risk is accepted for insurance you can identify what needs to be done according to the law, according to general practice norms and what needs to be done on the particular construction site," she said. "From this we should be able to see what is actually being done on a construction site and if it complies with existing requirements."

Eric Bentz, engineering claims manager at SCOR, made the point that clauses can be used in insurance and reinsurance contracts that can state that if recommendations are not followed then coverage can be stopped. But he also acknowledged that competition and market forces mean this is rarely applied. "I have seen it twice maybe in 10 years but this is something I feel we can be stronger on," he said.

Mikhail Ermishkin, head of the engineering underwriting department, at Pomosch, said that although he agrees that this is a leverage insurers should be tougher on, Russian courts will often fail to back the insurer. "Russian courts take the side of the insured because there is a negative attitude to the insurance business within Russia," he said.

Pavel Smirnov-Nebosklonov, the deputy director of the engineering insurance department in Allianz Moscow, however, took a softer approach. He said that the most important thing was communication with the client, having a strong two-way relationship and understanding the politics involved in such large organisations.



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“Another way to make implementation of these regulations more effective is by changing your attitude towards the client. It is important not to see the client as a single entity: they have different departments and individual managers. The risk manager for a department could be fired in the worst-case scenario.

“In this case people who are personally interested in safety could be a major source of internal influence—maybe more than the surveyor or risk managers. We have visited facilities with our clients and they have asked us to detail many possible recommendations, even the smallest ones. Improving a culture of cooperation allows you to get the best results.”

Summing up this part of the session, Igor Prandetsky, the chief executive of Reunion AG and also the session’s moderator, said the understanding of risk and risk management in Russian companies had improved greatly in the past 10 years and many more companies now have a risk manager. He said insurers and reinsurers had already played a big role in improving things and would continue to do so in the future.

Dr Andreas Shell, global head of claims at Allianz, agreed that education was vital. He said that the effectiveness of laws and regulations are limited compared with helping the insured gain a better understanding of risk.

“With risks, you have to be aware,” he said. “One study showed that even if an insurance contract pays out in full, it still only covers about 40 percent of the actual economic loss sustained.

“That should tell you that insurance is not the only solution, it’s only a tool. It seems to me that some insurance buyers, or the majority of insurance buyers in Russia, need to understand that being aware of risk and dealing with risk is far more important than anything.

“That needs to be not only a perception at the top but something that needs to be carried through the organisation. Rules and regulations do not work unless the culture in a company educates people around what risk is, how to deal with it and that it is important to address risks. Otherwise, you will put yourself in financial jeopardy.”

THE CONSTRUCTION CODE

In the second part of the presentation, Igor Ryzhkin, head of engineering at Rosgosstrakh, discussed the implications of the amended construction code in Russia, which came into force in July, and what it means for the industry.

The debate again turned to the topic of risk management and the tools re/insurers are able to use to persuade clients to comply with better risk management practices.

Michal Zelaskiewicz, product manager of property & engineering at Polish Re, reminded delegates of the importance of trust and appreciating the expertise inherent within construction organisations.

“We have to keep in mind that an insurance policy is an agreement of a great trust,” he said. “We, as insurers or reinsurers, are able to cooperate with a client but in the end, it’s the chief officer of the construction site or the manager of the whole construction project, who is the specialist and has the greatest knowledge of the issues related to the construction.

“The final realisation of the contract is done by these specialists. Our influence is still limited. That’s why an insurance policy it is an agreement of trust. The cooperation of all parties is important and can lead to prevention.”

Marshall from Navigators countered: “But ultimately it is a contract and places certain obligations on the insured and insurer. The insured has an obligation to act in safe and proper manner. It is all about risk, risk control and coverage.” □

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This is just a snapshot of the full discussion. Subsequent sessions covered the issues of claims handling in regards to engineering and construction risks in Russia, which will be covered in the next issue of Intelligent Insurer.

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For a full transcript of the round table, visit the website of Reunion AG in October at: www.reunion.ch/publications