

Slow but sure change in risk management culture

The introduction of safety law Decree No. 81 in April has brought many changes to Italian insurance buyers, many of whom work for small to medium-sized companies where insurance traditionally has not been a priority. Business Insurance Europe talks to industry experts about what lies in store for buyers, large and small

Participants included:

Roberto Bosco, corporate risk manager at media company Mediaset Group Rti. S.p.A. in Milan and chairman of the Associazione Nazionale dei Risk Manager e Responsabili Assicurazioni Aziendali, or ANRA, Italy's risk management association

Paolo Rubini, director of risk management at telecommunications company Telecom Italia S.p.A. in Milan and vice chairman of ANRA

Marco Maraccani, general manager, Italy, at insurer AIG Europe in Milan, a unit of New York-based American International Group, Inc.

Benito Pagnanelli, president of risk management services company Pagnanelli Risk Solutions Ltd. in Milan

Giovanni Celeri, director, risk consulting at Marsh S.p.A. in Milan, a unit of New York-based brokerage Marsh Inc.

Maurizio Castelli, Milan, Italy-based managing director of the Italian branch of XL Insurance, a unit of XL Capital Ltd.



Q. How have risk managers responded to Decree No. 81, that creates penalties for employers who are responsible for accidents?

Roberto Bosco, corporate risk manager at media company Mediaset Group Rti. S.p.A. in Milan and chairman of the Associazione Nazionale dei Risk Manager e Responsabili Assicurazioni Aziendali, or ANRA, Italy's risk management association: The main changes do not affect risk managers because—and I speak from my experience—safety is charged to another officer. Risk management in my company is not really involved in the safety of workers.

Paolo Rubini, director of risk management at telecommunications company Telecom Italia S.p.A. in Milan and vice chairman of ANRA: I largely agree, but I would add that the risk manager is involved in the coordination of activities. The new law affects different company operations and risk managers have to coordinate the activity of each of them. For example, relationships with outsourced contractors; the main risks come from the outside of our workplace. Because the vendors are not controlled to the same degree as the internal staff, the responsibility of risk managers is to make sure all the suppliers in the chain comply with all the steps taken inside the company.

Q. How do you know that the risks from vendors are greater than the internal workplace safety risks?

Paolo Rubini: This is backed up by the figures. We have very good indices, both in terms of severity and frequency. The severity index—based on the number of working days lost to injuries in a year for every thousand hours worked—was on average 1.31 days in Italy between 2004 and 2006. Telecom Italia's index was 0.26 in 2006 and was 0.24 in 2007. In terms of frequency, for every million hours worked, the average number of hours lost to injuries in Italy between 2004 and 2006 was 41.83. Telecom Italia's index in 2006 was 10.97 and for 2007 was 10.28. This means we are far below the average and this is because of the internal rules that we constantly apply. This also has an influence on insurance, because of the good loss ratio.

Q. So you are rewarded for the figures by insurers?

Paolo Rubini: We have not been penalized, which is different. Another thing I must say is that in general, we do not see the involvement of insurers in Italy. They do not appear to be interested in what companies are doing in terms of reducing the risks in the field of workers compensation or employers liability. Loss prevention is done for other reasons. Not because of the interest or involvement of insurers.

Q. Why are insurers uninterested?

Paolo Rubini: Because we have mandatory insurance which takes care of all accidents at work. And we have Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro, or INAIL, the Italian workers compensation authority, which pays first while insurers just pay on top of this mandatory insurance in a sort of 'difference in conditions, difference in limits' form of coverage. This is peculiar to the Italian market and is a reason why the insurers are not motivated.

Q: Italy has had some recent high-profile losses, such as the fire at a ThyssenKrupp A.G. facility in Turin in 2007. How has that focused attention on workplace safety?

Paolo Rubini: We have Decree No. 81, which was issued in April as a result of these accidents. This law is worrying because it defines punitive damages, even if they are not officially called that. So the cost to companies with an accident at work is likely to increase. And not only because of the law, but also because of the new attitudes of the courts, which are now willing to hear claims.

Marco Maraccani, general manager, Italy, at insurer AIG Europe in Milan, a unit of New York-based American International Group, Inc: We see in our portfolio, a reduced frequency in employers liability claims, but higher severity. What you say about INAIL is true—we provide cover on top of INAIL. But INAIL is changing. It is getting more and more professional in the way it checks claims, and it is getting more aggressive in the way it subrogates. There is a lot of sensitivity about this issue. Mediaset and Telecom Italia are very well-structured companies, but they do not represent the reality of most Italian firms.

Benito Pagnanelli, president of risk management services company Pagnanelli Risk Solutions Ltd. in Milan: From my experience as a consultant, the ThyssenKrupp case and the new legislation have generated more interest in workplace safety. As a matter of fact, there are people calling me every day asking me to evaluate their insurance coverage and establish whether they are fully covered for employers liability.

The big companies are already aware of the risk of workplace safety. But the majority of businesses are small to medium-sized companies that are not fully aware of the risks. There is no campaign by the insurance industry or other players to clarify the new situation created by Decree No. 81.

Q: What drives interest in risk management and workplace safety?

Benito Pagnanelli: These days, I think there is much more concern [over workplace safety] because of cases like the fire at ThyssenKrupp.

Giovanni Celeri, director, risk consulting at Marsh S.p.A. in Milan, a unit of New York-based brokerage Marsh Inc.: There are consequences far beyond workers compensation that are of concern to the chief executive of a company. A significant change brought about by the new legislation is the link between corporate governance and corporate administrative liability and safety. That is a great concern because it goes beyond the specialist, beyond the safety officer. Now safety issues can reach the C-suite (CEOs, CFOs, etc.). That is the big difference. It is a sort of a tide, but it is coming. It has not yet arrived, but the concern is there. And this threat for the CEO is significant.

If we look at the penalties, what is of concern is not only the amount of the financial penalties but the possibility that the company could be ordered to cease operations. This, of course, is a concern of the CEO. In the past, when we were providing risk consulting, risk analysis, loss control and advisory activities to our clients, our typical contact was the safety director or the safety officer—the specialist. Now at the meeting, there are also people from the C-suite who are interested in understanding the situation in the company.

Benito Pagnanelli: Some of my clients are doing something I never would have thought possible. They are arguing over the regulations and suggestions given by the fire brigade. In the past, they would say that what comes from the fire brigade is good enough. Now they are saying it is not sufficient.

Marco Maraccani: Loss prevention is what is really sold today. As an insurer we now offer loss prevention services for employers liability and environmental risks—we used to offer it only on property risks. And those companies that accept inspections and the advice that we provide will have better terms and conditions in their policies. This is something that would not have happened a few years ago.

Roberto Bosco: I think the main problem with risk management is the lack of a safety culture. As Mr. Maraccani said before, it is not a great problem for companies such as Telecom Italia or Mediaset. The great problem is the medium and small companies, where there never is a concern about risk and safety. You have many construction companies with five or 10 people working for them and no kind of safety culture.

Giovanni Celeri: I agree. I can give you the statistics from INAIL. In 2007, there were 1,260 [work related] fatalities. Twenty-four percent was in the construction industry. Sixty percent of the fatalities were at operations with less than 15 employees. Thirty percent were in southern Italy and 21% of the fatalities were during commutes. This gives you an idea where the big problem stands. Since it is a cultural problem, there is not an easy way to solve it. It takes time.

The next step is to change the behavior of people, which is not easy. But we have requests from companies to help them and their employees to identify unsafe behavior and try to change it. The problem is, how do we do this effectively when the big problem exists in small companies?

Paolo Rubini: Large companies have a big responsibility. If they required at least some standard safety from supplier companies, this may cause small enterprises to change their attitudes. This is exactly what we are doing. We require information about the internal procedures of our suppliers and we put value to that. They become part of an internal vendor rating so that those that comply are much more likely to have a contract with us. This may cause small enterprises to behave more sensibly. We have to be the teachers.

Marco Maraccani: In Italy, we do not have a governmental entity like the Occupational Safety and Health Administration in the United States, which conducts loss prevention through company inspections.

Q: Is it possible that ANRA could work with business associations to teach them how risk management could help them?

Roberto Bosco: We have tried. Paolo Rubini and I went to a seminar organized by the National Industries Confederation for small and medium-sized companies. We discussed and explained what risk management means and Mr. Rubini presented a case history from Telecom Italia. There were only 15 or 20 people in attendance.

Paolo Rubini: Seminars are not efficient in creating consciousness about risk management and this is because of a problem with the relationship between associations and their members. Companies only expect political advantages from associations, and not cultural changes.

Maurizio Castelli, Milan, Italy-based managing director of the Italian branch of XL Insurance, a unit of XL Capital Ltd.: In Italy, [cultural change] happens extremely slowly, although I am still optimistic. I have been in the risk management and insurance business for 20 years and I have seen changes. Very slow and gradual, but still significant. Either it happens very slowly, or by revolution if there is a major loss or a new law. We are a country of extremes.

Benito Pagnanelli: In Italy, risk management is, unfortunately, a concept that is more academic rather than something put into practice in most companies. When you look at the organizational chart with a medium or small company, there is normally no mention of risk management responsibility. In most big companies, when you look at the risk management definition, it varies a lot. Loss prevention is normally a function of technicians and it is sometimes not correlated with pure risk management.

Q: Should risk managers have responsibility for safety at Italian companies?

Roberto Bosco: I think so. Risk management is growing because of Decree 81, but we have to be compliant with many laws, and I hope that risk management departments will be involved in this. If we had a common risk management framework for other business units like legal and engineering, we could communicate with the legal department, the chief financial officer and the officer responsible for that framework.

Paolo Rubini: We are more than compliance officers—we are the ones who measure and evaluate the risk. The compliance officer does not have anything like our risk management tools, because we are able to measure the consequences of a claim on the balance sheet. Because we are able to reason in terms of severity and frequency, we support those who have to make decisions.

Giovanni Celeri: Risk management and safety is a top-down process, there is no doubt about that. That could be a problem in Italy. We have few big companies. We have a lot of medium-sized and small companies where the owner takes responsibility for the risk management, focusing on strategic and financial risks, which normally do not include safety. Only at bigger companies—or at least at companies where there is a highly developed delegation scheme—will the risk manager take care of risk, analyze risks and propose solutions to control risks.

Q: Is the new legislation passed earlier this year—that broadens plaintiffs' rights to file class action lawsuits—a concern?

Paolo Rubini: Implementation of the legislation has been postponed by the new government from July 1 until Jan. 1, 2009, because of the potential cost to companies. And the legislation ended up as something different to what was originally proposed. It was [originally proposed as] a collection of rules from the United States and the United Kingdom, put together with no real insight into what a class action should be, or how the circumstances of Italian people differed from other countries.

Marco Maraccani: I doubt implementation will even occur in January 2009. I think class actions were conceived as something beneficial for consumers, but they are a potential great threat to the industrial and financial sectors.

Q: How will the Italian Antitrust Authority's investigation into links between rival insurers impact the industry?

Benito Pagnanelli: There is a lot of concern about this, but in practice, there is little that can be done.

Q: Is there enough competition in the Italian market?

Paolo Rubini: For big insurance buyers, there is not enough competition.

Roberto Bosco: Sixty-eight percent of the premiums for life and nonlife are handled by Italian companies. And only 22% is handled by non-European insurance companies. So I agree with Mr. Rubini, that there is not enough competition, especially from Italian companies.

Q: Is that lack of competition for large corporate risks or across the board in Italy?

Marco Maraccani: For a big buyer, there are not many providers. But from the point of view of a small buyer competition is there. We have a fragmented market with a number of small insurance companies with agency networks reaching all over the country. But when you talk about big risks and sophisticated products, I agree that there are very few carriers in the market that can meet our needs.

Maurizio Castelli: In that respect, the situation in Italy is not all that different to any other country. There is an issue with carriers that are able to provide sophisticated service and global networks. The number of providers is very limited in that category because it is a complex business and the know-how is limited.

Benito Pagnanelli: The statement that there is not sufficient competition reflects just areas of risk where you need the support of the international market. But for smaller risks, from the rates I see, there is too much competition.

Maurizio Castelli: And the competition is too often just on price.

Benito Pagnanelli: For risks that exceed €100 million—up to €1.5 billion, for example—competition is limited. Look at the airlines. When the limit is more than €1.5 billion, it is difficult to find two competitors. For the rest, I think the capacity in Italy is more than sufficient. Unfortunately, there is also unprofessional capacity. We have around 300 companies providing insurance.

Maurizio Castelli: The real issue goes back to the lack of a risk management culture, particularly in the middle market sector where there is no competition on quality or services. There tends to be competition on price, but as Mr. Pagnanelli was saying, the amount of capacity and the number of companies that provide the capacity is more than sufficient.

Particularly in Italy, there is a group of medium-sized companies that should look at their exposures in a more professional way, a more risk management-oriented way. And mostly they have not done this so far, but this is where I think we are slowly seeing some change.

Marco Maracani: The role of the distribution agent is important, because in Italy insurance is often distributed by agents with a very limited level of professionalism. Brokers are trying to find a role in the market. They are growing, but the level of professionalism from agents in Italy does not support the development of a risk management culture at all.

Roberto Bosco: I agree. The traditional agents that sell products from an insurance company are not so professional. They don't give out much risk management advice, while the brokers are developing in this type of risk management culture.

Paolo Rubini: The agents do not know what they are selling and the small buyers do not know what they are buying.

Giovanni Celeri: The question could be where does the fault lie? With the agent or with the buyer? It is also a culture of companies asking for insurance coverage at the lowest price.

Marco Maracani: I think the insurance industry is responsible because it has presented itself not as a value-provider, but merely as a better-price provider.

Q: Have the laws introduced in 2007 to allow policyholders to break long-term insurance contracts—traditionally written in Italy—made a difference in the Italian insurance market?

Marco Maracani: For a long time the problem for brokers has been how to compete for [accounts locked into] these 10-year agreements [with local agents of the insurer]—now they can compete for that business. I think this is a trend that will be confirmed over the years, with brokers gaining more and more market share. There is also a challenge for agents to show their real value to their customers. It's easy to buy the customers for 10 years and forget about them. Now you have to prove what you can provide.

Maurizio Castelli: This was a legacy of the old-fashioned Italian insurance culture and, therefore, I see this ban as one of the signs of the change I was speaking about earlier. I think that selling 10-year contracts really made it even more evident that the local market has been selling a commodity and not selling an added-value service.

Benito Pagnanelli: There are a few clients who will argue that they were happy doing nothing or little for 10 years until renewal. But there is much appreciation from agents and brokers. I think this is one of the few beneficial initiatives that have been taken.

Maurizio Castelli: I would not confuse the 10-year policies with long-term agreements such as three-year policies that are offered sometimes to major companies. They can be seen as risk management tools to manage expectations about changes in the market. A three-year structured agreement is very different from a 10-year block.

Q: Another change in Italy allows tied agents to work with more than one insurer. Has that created any marketplace issues?

Roberto Bosco: Sometimes it increases the price.

Marco Maraccani: It increases the cost structure of agency-based insurance companies because the acquisition costs have now increased. To retain the agents, you have to pay them more. Acquisition costs are going up and they will continue to go up as long as insurers continue to fight to retain their agency networks, and pay them more and more. What happens? It is reflected in the price to the customer.

Q: Has the attitude towards terrorism insurance changed in the past year?

Marco Maraccani: Prices have gone down and we have managed to sell a few more policies, but certainly there is no sensitivity towards it, except with sophisticated buyers. Also, terrorism coverage is given away in property policies. It is with small limits, but that is market practice so there are really very few incentives to buy it.

Q: Are there any capacity issues or other market trends that concern risk managers and insurers in Italy?

Roberto Bosco: One of the risks that could be a problem is nanotechnology. We do not know what happens during the process of creating nano products. International insurers are closer to these kinds of risk management needs. They are more flexible, offer more capacity and are more innovative. Major Italian insurance companies are less innovative and more traditional.

Maurizio Castelli: Once again, it goes back to risk management culture. When you ask if there are any areas with a lack of capacity, the actual answer tends to be no. However, if there were more sophisticated buyers who looked at their exposures in a more holistic way, there would be more requests for capacity, both in terms of how much capacity would be needed for individual exposures and in terms of how many different exposures would be addressed.

Marco Maraccani: We could say that without the role of the international insurance companies, there would probably be no directors and officers insurance, no professional indemnity and maybe not even business interruption or product liability.

Benito Pagnanelli: There is another aspect. Italian buyers are not so prepared to move from an Italian insurer. In France and Germany, there are buyers who purchase coverage in London. But in London, you are unlikely to find an Italian insurance buyer who is willing to move outside the Italian border.