



Going *the* Distance

*Around the World with
Philip Morris International*

With 50 insurance policies issued in 75 countries and an intricate network of production facilities, subsidiaries, transportation and warehousing sites, customers and suppliers around the world, the consumer products giant Philip Morris International (PMI) is a formidable entity—one that certainly poses a complex challenge from a property insurance perspective. But thanks to a detailed approach to risk, effective communication among risk management, brokerage and client service teams, and an agile global brokerage and insurance services network, it's indeed a welcome challenge.

The operations center of Philip Morris International sits quietly on a hill, a stone's throw from the edge of Lake Geneva, Switzerland. The building—modern, geometric and constructed largely of glass—climbs diagonally up a gentle embankment in such a way that the bulk of the building hides

behind its street entrance. Employees enjoy picture-perfect views of a crystal clear alpine lake encircled by jagged, snow-capped mountains.

A New York-based underwriting account, PMI was spun off as an independent company from its parent, Altria, in 2008. But its recent history—successful as it is—is a small chapter in the long and legendary story of a cultural icon, a story that goes back to 1847, when one Mr. Philip Morris opened a single shop on London's Bond Street, selling tobacco and ready-made cigarettes.

In time, Philip Morris International oversees the manufacturing and marketing of seven of the world's 15 top international tobacco brands, jump-starting decades of commercial success. In 2012, PMI held an estimated 16.3 percent share of the total international market outside of the United States. It was also the fifth consecutive year

that PMI met or exceeded its mid- to long-term diluted earnings per share growth target of 10 – 12 percent. This consistent level of double-digit growth puts PMI in an enviable place: at the forefront of nearly all major global consumer products companies.

With a global workforce of more than 100,000 employees, speaking 80 languages and hailing from all corners of the globe, PMI is a leading international firm with a far-reaching network of wholly owned sites, subsidiaries and suppliers.

FM Global's vast engineering and claims networks, as well as its *WorldReach*® partnerships with leading carriers in local markets, matches PMI's global presence stride for stride at both the corporate and local levels—and has done so since the 2008 spin-off. The support FM Global has provided since then has evolved, as PMI's own needs have evolved. In 2011, PMI began a 100 percent insurance program with FM Global, which involved the full use of FM Global capacity, the PMI captive, and in-depth utilization of FM Global's *WorldReach* partner network. This lockstep support comes in many forms, including contract certainty and a cost-competitive, locally compliant insurance program that suits a global entity like PMI and its multi-national risk management plan.

PMI's risk management team opened its doors for a candid discussion about its approach, philosophy and relationship with its insurance partner. The team included Fabrice Fuentes, director, treasury pension and insurance; Pawel Pietrucha, director, global risk management and insurance; Jonathan (Jon) King, manager, risk control and loss prevention; and Elizabeth (Liz) Beaudet, manager, risk management and insurance.

What are PMI's biggest challenges in maintaining its global program?

Jon: From an engineering standpoint, FM Global has been doing an exceptional job surveying our facilities. Where we see challenges is with resident engineering, particularly when we're undertaking projects.

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Jon, Philip Morris International

Our projects can't wait, and they won't wait.

The underwriting challenges are different. We comply with all local regulations, currency regulations; billing and paying premium can be a challenge. We consider compliance to be nonnegotiable. There are so many regulations in place all over the world. But that can be resolved by working with your *WorldReach* partners. Local issues come from having a global program.

Pawel: In my mind, there are two key issues. We demand 100 percent compliance. This is our philosophy. So every single territory needs to be compliant with local regulations, have contract certainty, and a policy issued on time, not three or four months down the line. It has to be done ahead of renewal date. We're talking about servicing a global program that includes 100 or more jurisdictions.

The second thing is about relationships. We see that cooperation and communication are completely different when there's a resident engineer doing the work. These engineers speak the same language, and they can report quickly to the location. It's a completely different level of cooperation than if an engineer from outside the area has to do the work. You can't compare. You certainly can't replace FM Global's resident engineers.

Fabrice: In essence, we share the same goal as FM Global's underwriters. Our common goal is to mitigate losses and make the process as smooth and cost-efficient as possible. It's easier to convey that message within the

organization, to ensure that a risk control program is in place. We want to engage the entire organization, not just the engineering group, or safety and security, but general management, local management as well as finance—because ultimately an event will have financial ramifications and impact across our organization.

We want to make sure that when we undertake a big project the entire organization is engaged. This is our role in risk management: It's about educating our entire organization, not about perusing a single engineering report. If there is a loss, the whole business will suffer. We must have continuous product in the pipeline. Insurance in this case is a business matter.

Felipe: We have one main objective, to ensure we understand our exposures so that they can be adequately managed. One challenge is to ensure we use a uniform yardstick, while recognizing local constraints. Circumstances vary from big markets to small markets, high-volume production to specialized production, highly automated to largely manual processes. The same solution cannot necessarily be applied everywhere. That means everyone has to have the same awareness of risk in order to drive continuous risk improvement. To deal with this challenge we need to constantly communicate. We've created a training program, supported by FM Global, to share fundamental risk engineering and methodologies to a broad audience across PMI. We've been very pleased with the outcome of those trainings,

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Fabrice, Philip Morris International

with high satisfaction rates from the attendees. We also see increased activity to implement risk recommendations in areas where we have presented our seminar.

What are some of the strengths of PMI's global program?

Felipe: The global property program is very well structured. Although it is centrally controlled, our program is not structured in a silo. Central control gives the program focus and continuous attention; it also provides a simple, single point of contact for all our affiliates to come to for support. Likewise, we use the FM Global Risk Reports to communicate potential issues throughout our operations. We team with safety, security, engineering, supply chain, operations, procurement and legal to devise solutions that are effective for PMI, and the answer isn't always more sprinklers.

How do you benchmark your facilities if they haven't had a loss?

Fabrice: You can really only measure them if they've had a loss, and see how fast they can put product back in the pipeline. Then you can measure yourself against the competition: 'So what competitive advantage can I gain?' This is a real-life case study, not some intellectual analysis on paper.

How do you manage your supply chain concerns and your third-party facilities?

Liz: From a risk control perspective, we treat our third-party facilities the same way we

treat our own facilities. That's the general rule for risk management purposes. We do understand the nature of some territories where you can't replicate the laws and standards. But we go into these facilities and really work with the provider. It's something that is practiced in reality. It's our goal to implement our standards in all of our third-party warehouses. It could take six months, a year or more before we get there; but eventually we get there and implement all of our training and education. We believe in what we do, and that philosophy flows out to these facilities.

Talk about the partnership you have with your client service team.

Jon: The program at PMI wouldn't be as successful without the support of our client service team. We have a tremendous engineer in Rocky Pacheco, and excellent underwriting and overall management with Pat Duus. They are supported by a very large FM Global team that allows Pat and Rocky to be extremely responsive to us. They know us very well and know our needs very well, and they move heaven and earth to get us services when we need them. It's not always easy. FM Global also provides comprehensive training to their people. I always give Rocky a hard time when he can't be where I need him to be because he's in training! I tease him, but he's making himself better at what he does, which is also good for us.

Over the last few years, you've given your field engineers more and more authority.

Fortunately, I think we have a strong account team that takes a very practical and pragmatic approach to assessing risk, identifying what's important to work on, and not trying to get the last little nail hammered down. It's a great team, and it's also a very committed team. They're quite important to us.

Pawel: The FM Global team has more years with this company than I have! I started to know them at the time of the spin-off. I have been amazed at our recent stewardship meetings, when Rocky and Jon were going over some recommendations with Pat. She knew them by heart! This was shocking, that in this specific aspect somebody knows more about this company than I do! We have contact with New York operations manager Vincent Reyda, too, and what we hear from him is constant support. The relationships are great and are what allow us to function so effectively as business partners.

Jon: When you get to the account level, Rocky and Pat have a broader picture; their relationship with PMI is not with one facility, but with all of them. For example, in terms of a specific recommendation put forth by a field engineer, they may say: 'Yeah, that might be a critical issue, but for the account, it's not. An event or a loss might disrupt production at this facility for a month, but I know that if something does happen, PMI has a business continuity plan in place at this facility.' We appreciate this broad view of the account. One of the most interesting and fascinating aspects of this job is when you're sitting around the table looking at a new project, a factory or site, and you go through that negotiation over the best way to protect it.

Pawel: A global account like PMI requires consistency. We try to apply a single solution across the globe. It has to be fine-tuned according to local regulations of course, but the engineering function has to be empowered to look across 40 or 50 factories, not just be restricted to one. When I read the engineering reports, I can sense that the field

engineer is concerned about a particular location. However, when viewed in the context of a global organization, the risk priority evaluation can change.

Jon: There was an interesting scenario that arose while we were building a new factory. The roof design we wanted to use didn't include an FM Approved roof. But I reviewed the design with an engineer: All the components were noncombustible; there were no adhesives, nothing combustible, so we were fine with the roof. We just had to make sure the wind uplift was acceptable. The client service team signed off on it because the safety elements were resolved.

What keeps you awake? What are you concerned about?

Fabrice: Mitigating losses, ensuring business continuity and running cost-efficient programs. There's a tendency to feel at ease, to be complacent. You need that spark to stay abreast of changes, constantly improving processes, and better uses of our resources. It's a complex environment, so we need to keep pace with those changes and make sure we can respond in a most effective manner.

Pawel: Whatever you can't control is what keeps me awake. Natural disasters. Thai Flooding. Earthquakes in Japan. The rest we can control, and I'm comfortable with how we operate. With locations below sea level, all you can do is have a business continuity plan in place. Of course, it's one thing to have a BCP on paper, another to test it.

Jon: I'm comfortable that we're well-protected from everything we can think of. There might be something out there we don't know about, or haven't seen. That's the part that keeps me awake and the part that keeps us on constant alert.

Looking Good on Paper

PMI Engineers Discuss Best Practices

A loss prevention document that sets forth agreed-upon building, engineering and architectural guidelines has simplified PMI's approach to construction.

Amir Nikraves and Venancio Neiva represent the engineering division at Philip Morris International (PMI). Together, they oversee the construction of new facilities as well as major renovations. With the assistance and interaction of FM Global engineering and the benefit of a proven standard for new and existing facilities, Amir and Venancio have the capacity and confidence to tackle major industrial projects.

"We succeed because we work together," says Jon King, manager of risk control and loss prevention at PMI. "We have a great group of people who talk to each other and solve problems together."

It helps that Amir also has a background in facility protection, loss prevention and sprinkler design. "For a time, we had major activity building a lot

of facilities all over the world," he says. "Up until then, we had interaction with FM Global on an ad hoc basis. But with the new business need, I thought it was important for us to focus together with Jon's risk control team and work with FM Global to come up with standards to follow."

The engineering group, risk management team and FM Global engineers convened to produce a joint paper—essentially a loss prevention document—that provided a solid foundation for a uniform, worldwide approach at PMI. "With all the new projects on the horizon, we thought it was important to get everyone around the table," says Amir. "We wanted to ensure there were no surprises, that we could learn from our past. At the same time it was a great way to cure the disconnect between our central engineering function and our field engineers."

Venancio appreciates that this PMI loss prevention document allows

the company to enter into discussions about a project earlier than ever. "The document makes it so easy to come to a project! If we're in a new country, we can say, 'Here's what we need to know!' This is so much better than having to research all these local standards. Now we can follow our own guidelines and be satisfied in knowing that they're top-notch."

There are always local regulations to comply with, but this document contains the whole array of FM Global's guidelines. "When local representatives see what we've done on paper, it even impresses them," says Venancio. "We even heard someone say, 'OK, let's do it this way!' It's a solid foundation."

Since producing the document, construction and renovations have gone much more smoothly and surprises have been virtually eliminated. "We wanted to challenge the status quo," says Amir. "There's always the question to FM Global of, 'Do we need all this coverage?' Now, we have agreed on a middle ground that has managed to satisfy both parties." Amir and Venancio are content not to be spending on things they feel are unnecessary. "There has been a lot of improvement," says Amir. "Sure, there were certain requirements we had to meet, but dialogue with FM Global has worked to our advantage. Communication was the key."

In construction there are always obstacles, typically with renovations. "If I have a facility with no sprinklers,"

says Amir, "the requirement is to have sprinklers. But it's not always straightforward in many cases. We have very rigorous EHS [Environmental Health and Safety] procedures in place for this reason. A failure can always happen, but we are confident that what we have in place is good for major renovations. Many of our affiliates are more focused on safety than loss prevention, which is not unusual."

Many PMI affiliates are now undergoing renovations and expansions, so they approach the PMI engineering team for design and architectural recommendations. Amir and Venancio get involved in fire protection, architecture and other utilities. "Our facility in Poland is expanding," says Amir. "We had fire protection systems already in place. So as they expand we didn't have to start from scratch. We have the MFL [maximum foreseeable loss] issue, so we needed to look at adding protection to go along with the expansion."

Matters become interesting for the engineering team when there's talk about satisfying requirements for different territories. "When you have to deal with requirements in Russia," says Venancio, "where there is something in place locally, it's tricky to overlay that with Western initiatives about how to protect a location."

Often that means working closely with local authorities. "Most of the time we have someone assigned to work with them. This would happen in places where we know nothing about

the turf. Typically, we'd hire engineering companies with a solid base in that country, and if that doesn't work, we have our own people do it."

The PMI engineering team has noticed a universal change in safety standards. "The evolution we have seen," says Amir, "is one where we go into territories where a sprinkler was once foreign, where no one knew anything about sprinklers, and now you have a different attitude. You go to facilities in Russia or Asia, and they all know now. You can tap into city water. That's a massive change. And we believe that most of the countries we're in have adapted these prevention concepts from FM Global."

PMI has been pleased with FM Global's ability to work with local authorities in different territories. "FM Global can come in with PMI's historical background to educate local authorities," says Venancio. "When these locals see an authority like FM Global come in, they see they have the know-how and experience. Then their attitude towards our project changes. It's a big positive for PMI."

